AFTER ENTRY, THEN WHAT?: AN EXAMINATION OF THE STRATEGY AND PERFORMANCE OF MINORITY-OWNED VENTURES IN THE U.S. CONSTRUCTION INDUSTRY

by

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DEDICATION

I dedicate this work to six women who have blessed me throughout my life: my mother, the late Mrs. Sarah Cox Mckey, Mrs. Valdena Deas, Mrs. Roberta Palmer, Mrs. Catherine Walker, Mrs. Marcie Daniels, and Mrs. Peggy Molden.

God bless you all!

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First, I give honor to my Lord and Savior, Jesus Christ who strengthens me. This work would not have been possible without His love and peace.

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(Under the direction of MICHAEL J. DOWLING)

Entry barriers can prevent or hinder new ventures from penetrating new and existing industries. Minority business enterprises are often undercapitalized and must overcome entry barriers in order to compete. The federal government has assisted the development of minority business enterprises by using its power as a large buyer to encourage the business sector to help implement a variety of social policies, as well as, helping to break the barrier of the "good-ole boy network," which often prevents minorities and other outsiders from taking advantage of opportunities enjoyed by the majority group.

Although the amount of research on minority business enterprises has increased in recent years, the strategies they use to compete and factors affecting their performance have been largely overlooked. This dissertation treats minority business enterprises as a special case of small businesses and entrepreneurial ventures in an attempt to examine the relationships between the strategy and performance of minority-owned businesses. The questions under investigation are:

(1) Which strategies are used most often by minority business enterprises?

(2) Which strategies are the most successful?

(3) How effective are minority set-aside programs as a gateway to entry?

A typology of strategies of entrepreneurial ventures and small businesses is set forth to examine these questions. This typology identifies the types of strategies that minority business enterprises use as: Anchors, Adventurers, Adaptors, and Amateurs.

A mail survey was used to collect data from a sample of minority (MBEs) and nonminority business enterprise (NMBEs) owners in the U.S. construction industry. The results indicate that most minority-owned firms use the Adaptor strategy, followed by the Anchor strategy, followed by the Amateur strategy, followed by the Adventurer strategy.

Although most minority-owned businesses use one of the aforementioned strategies, some firms have sufficient capital and access to credit. Thus, a revised typology is offered that includes this group of firms called Amplers. The study does not find that the use of a particular strategy resulted in superior performance relative to the others. Finally, minorities and nonminorities disagree on the effectiveness of set-asides as a gateway to entry. While most minorities perceived set-asides to be useful in getting their businesses started, they expressed frustration with how they are administered by local, state, and federal governments. Moreover, the MBEs and NMBEs disagreed on whether or not these entry barriers exist.

INDEX WORDS: Strategy, Performance, Entry barriers, Minority business enterprises, Entrepreneurship, Small businesses, Family businesses, Minority set-asides, Public policy, Construction industry

CHAPTER I

THE PROBLEM of ENTRY BARRIERS for MINORITY-OWNED VENTURES

The first chapter of this dissertation presents the issue or problem to be studied and provides a rationale for the research. This research is important for two reasons. First, it examines the fate of minority business enterprises in overcoming entry barriers. Second, it examines the strategy - performance relationship of minority-owned ventures.

Introduction

Entry barriers can prevent or hinder firms from penetrating industries (Bain, 1954; Stigler, 1968; Porter, 1980). This dissertation adopts Porter's (1980) definition of entry barriers which states they are all factors that hinder the entry of new firms into an industry as entry barriers. Examples include: economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale, and government policy (Porter, 1980). Firms outside of an industry that have the capability and the desire to enter must successfully overcome the industry's entry barriers in order to take advantage of the profit potential in that industry. These new entrants are not always welcomed by the firms that are already in the industry, since their entry may result in the further division of the industry's profits. Generally, the economic theory on entry barriers predicts that the existence of barriers to entry results in fewer entries, and, therefore, allows those firms that are already in the industry to enjoy above-average profitability (Yip, 1982b).

Yip (1982a) introduced the concept "gateways to entry" to argue that the same factors that can hinder new firms from penetrating industries might be turned to a new entrant's advantage. Dowling and Ruefli (1992) asserted that technological innovation can be an entry barrier, but can also serve as a gateway to entry. Their findings suggested that on average the new entrants to the telecommunications industry invested relatively more resources in innovation than the established firms. Therefore, a factor that had often been perceived as a barrier to entry proved to be a gateway for these new entrants.

Although the U.S. government generally takes a laissez-faire approach to new business opportunities in this country, in some cases it erects entry barriers in the form of requirements or restrictions on firms in certain industries (Porter, 1980). In other cases, it attempts to provide gateways to entry. In particular, evidence exists that the development of one type of new venture--minority business enterprises (MBEs)-- is an important objective of the national government (MBDA, 1988; MBDA, 1992; Pearson et al., 1993). The federal government has assisted the development of minority business enterprises by using its power as a large buyer to compel the business sector to help implement a variety of social policies. These policies include increasing employment opportunities for the handicapped and minorities, raising wage rates in some specific industries, and stimulating small business creation (Dung & Premus, 1990). The government has also been helpful in breaking the barrier of the "good-ole boy network" (hereafter referred to as the Network), which keeps minorities and other outsiders from taking advantage of opportunities enjoyed by the majority group. Executive Order 109255 requires companies with, or seeking, contracts with the federal government to use "affirmative action" to ensure that minority and female workers are considered for all jobs (Anderson, 1991). Consequently, government policies (particularly those in support of minority business enterprises) may be considered a gateway to entry for minorities.

The Definition of Minority Business Enterprises

Executive Order 11625 defines a minority business as follows:

> Minority business enterprises are business enterprises that are owned or controlled by one or more socially or economically disadvantaged persons. Such disadvantage may arise from cultural, racial, chronic economic circumstances or background or similar cause. Such persons include, but are not limited to, Black Americans (Blacks), Puerto Ricans, Spanish-speaking Americans, American Indians, Eskimos, and Aluets. (MBDA, 1988)

Socially disadvantaged persons are those persons who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their qualities as individuals. Economically disadvantaged persons are socially disadvantaged persons whose ability to compete in the free-enterprise system has been impaired due to diminished opportunities to obtain capital and credit as compared to others in the same line of business who are not socially disadvantaged (MBDA, 1988). A public-opinion survey commissioned by *The Wall Street Journal* found that lack of access to credit and capital is the number one problem that Black business owners face on a daily basis (Carlson, 1992). Approximately 35 percent of minority business enterprises are owned by Blacks[1] (MBDA, 1992) and they currently comprise the largest minority-ownership group.

Distinctive Characteristics of Minority Business Enterprises

Although most minority business enterprises are small (MBDA, 1992), minority-owned and nonminority-owned small businesses differ significantly. According to a study conducted by Olivas (1986) that compared minority-owned firms and nonminority-owned firms, owners of minority businesses tended to be older and to have less formal

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[1] This researcher would like to stress that many of the examples used in this dissertation focus on the performance of Blacks. This is due to the amount of research available on this group as opposed to other minority groups. Attempts are made to include other groups whenever relevant data are available.

education and less business experience than nonminority business owners. The study revealed that nonminority business owners averaged 14 years in their current business, compared to an average of two years for minority owners. Previous research in entrepreneurship has stressed the importance of work experience and education in the success of new ventures (Hofer & Sandberg, 1987). On the other hand, Olivas (1986) also found that minority owners are more likely to have established company goals and to have policy and procedure manuals. In order to compete as a minority-owned firm, owners must register the firm with an approved agency and certify that the firm is operated and controlled by a minority. These firms can then get professional assistance from government-funded agencies that focus on the development of minority business enterprises. Services, which are offered on a subsidized-fee basis, include strategic planning and the preparation of business plans.

These differences may be narrowing according to a more recent study of Black entrepreneurship conducted by Bates (1994). He found that today's Black business owners are better educated than their predecessors. Although Black businesses are small like other MBEs, Bates revealed that, in the past decade, many Black-owned companies are larger than they have been.

Should MBEs be classified as small businesses or entrepreneurial ventures? The small business firm has been described as "independently owned and operated, not dominant in its field, and does not engage in innovative practices" (Carland et al., 1984: 358). In contrast, entrepreneurial ventures have been described as "any business whose primary goals are profitability and growth and that can be characterized by innovative strategic practices" (Carland et al., 1984: 358). Such separation of the two types of firms has been described as "elitist" (Light & Rosenstein, 1995: 2). Light and Rosenstein (1995) argue that, given the difficulty of measuring innovativeness and the numerous dimensions of the concept, it is useless to distinguish entrepreneurs from the self-employed on the grounds that only entrepreneurs innovate. Not surprisingly, MBEs fit both categories.

Although most minority-owned firms are independently owned and operated and are not dominant in their industry, their survival and success have been traced to their innovativeness (Woodson, 1987). Because of the lack of capital and credit available to minority business enterprises, it is often necessary for their owners to extend the use of or "make the most of" the resources they have. Also, minorities, most of whom do not have adequate contacts or resources, have to be innovative in dealing with the Network, since many of the relationships that lead to greater business opportunities are not formed in the business arena but in social forums such as golfing events and private functions.

Importance of Minority-Owned New Ventures

Former President Jimmy Carter stated, "Building minority business enterprises is in the national interest because they contribute to our efforts to reduce unemployment and to stimulate community development" (Dingle, 1990: 164). Twenty percent of minority-owned firms have paid employees (MBDA, 1992) and they usually employ workers who are minorities (McKee & Nelton, 1992). Bates (1994) argues that there is a new community of Black business owners emerging, reflecting the entrepreneurial aspirations of a prosperous Black middle class. He goes on to argue that they are more likely to employ African-Americans than their White counterparts (Bates, 1994). Furthermore, the nation's 100 largest Black-owned industrial/service companies and 100 largest Black-owned automobile dealers experienced a 20 percent increase in employment in 1993. Although this was the first major increase in employment since 1988 for Black-owned firms (Edmond, 1994), it is further evidence of MBEs' ability to create jobs.

There is the belief that the creation and growth of minority-owned companies will lead to a strong minority business class, thus narrowing the income gap between nonminorities and minorities (Woodson, 1987; Dingle, 1990; McKee & Nelton, 1992).

However, despite the recent increase in the number of minority-owned businesses, the income gap between nonminorities and minorities in the U.S. has actually been getting larger. As shown in Table 1, a recent Bureau of the Census report shows that median household income for Blacks, when adjusted for inflation, steadily declined to $21,542 in 1993 from $22,253 in 1980 while it rose for Whites to $39,300 from $38,458. During this same period, median incomes for Hispanic households declined to $23,654 in 1993 from $25,838 in 1980 (Frank & De Lisser, 1995). No comparisons of other minority groups were reported. If the growth rates of MBEs are indicative of a growing minority business class, one would expect the data to show just the opposite.

Table 1. Median Incomes for Whites, Blacks, and Hispanics

		Median Incomes	
		1980	**1993**
Race	Whites	$38,458	$39,300
	Blacks	$22,253	$21,542
	Hispanics	$25,838	$23,654

Source: Bureau of the Census

Minority-Owned Firms in Viable Industries

Minorities have historically had little involvement in lines of business with potential for growth (Chen & Stevens, 1984). The most recent count, taken in 1987 by the Census Bureau, revealed that fewer than one percent of minority business enterprises had receipts of $1 million or more. Moreover, 29 percent of these firms had receipts of less than $5000 (USDC, 1987).

Industries that have the potential for significant earnings and profits for minority business persons include business services, wholesale trade, construction, and manufacturing (Chen & Stevens, 1984). Because these industries are mature, the Network is well established and overcoming this barrier is usually difficult. Establishing and owning a firm in these industries require a considerably larger amount of capital than establishing and owning personal services such as restaurants, food stores, beauty salons, and taxicab operations. As shown in Table 2, 46 percent of minority-owned firms were concentrated in service industries (USDC, 1987). Along with retail trade, personal services has been the traditional line of business pursued by minorities, followed by construction.

Table 2. Industry Breakdown of Minority-Owned Firms: 1987

Industry	Minority-Owned Firms	
	Number of Firms	Sales and Receipts ($1,000,000s)
All Industries	1,213,750	77,840
Agricultural Services, Forestry, and Fishing	36,864	1,372
Mining	1,614	103
Construction	**107,650**	**6,903**
Manufacturing	29,879	3,961
Transportation and Public Utilities	76,229	3,666
Wholesale Trade	26,432	7,950
Retail Trade	**226,140**	**26,904**
Finance, Insurance, and Real Estate	76,442	2,760
Personal Services	**562,559**	**21,991**
Industries Not Classified	69,942	2,230

Source: Bureau of the Census

Government Assistance to Minority-owned Businesses

The federal government is committed to the development of minority businesses. The primary government agency responsible for promoting MBE growth and development is the Minority Business Development Agency (MBDA). In 1969, the U.S. government created the MBDA in the Department of Commerce to establish policies and programs to develop our nation's minority business community (MBDA, 1988; Rice, 1991). The primary goals of the director of the MBDA are: (1) creating greater access to capital and (2) eliminating barriers to the full participation of minorities in the U.S. economy (Jones, 1995).

Congress explicitly found that businesses owned by minorities have particular difficulty in obtaining capital and that problems encountered by minorities in this regard are "extraordinary" (FCC, 1995). A number of studies also amply support the existence of widespread discrimination against minorities in lending practices. For example, in 1992, the Federal Reserve Bank of Boston released an important study demonstrating that a Black or Hispanic applicant in the Boston area is roughly 60 percent more likely to be denied a mortgage loan than a similarly situated White applicant (FCC, 1995). The researchers found that minority applicants are more likely to be denied mortgages when they have the same obligation ratios, credit history, loan to value, and property characteristics as White applicants. Based on the Boston study, it is reasonable to expect that race would affect business loans that are based on more subjective criteria to an even greater extent than the mortgage loan process, which uses more standard rules. Importantly, the Boston study also found that, because most loan applicants have some negative attributes, most loans denials will appear to be legitimate by some objective standard.

Similar evidence presented in testimony before the House Minority Enterprise Subcommittee on May 20, 1994, indicates that Black business borrowers have difficulty raising capital mainly because they have less equity to invest, they receive fewer loan dollars per dollar of equity investment, and they are less likely to have alternate loan sources, such as affluent family or friends (FCC, 1995: 343). Congress created the Community Reinvestment Act to ensure that banks and thrifts provide equal access to capital (McCoy, 1994). The attainment of these goals will greatly benefit minority business enterprises.

In addition, the Small Business Administration offers MBEs a number of services including minority business development and assistance in procuring federal contracts. Moreover, since 1969, the SBA has managed the minority entrepreneurship program called Specialized Small-Business Investment Companies (SSBIC) that consists of privately owned venture capital funds. For every dollar that the SSBIC invests in a business, the government provides up to $4 in loans (Gupta, 1995). Furthermore, SBA loans guaranteed to small businesses in 1992 amounted to roughly $6.4 billion (Financial World, 1993). Approximately 100 Minority Business Development Centers are located throughout the country in areas with the largest minority populations, seeking to increase the formation of minority-owned firms, expand existing minority-owned enterprises, and minimize minority business failures (MBDA, 1992). In addition, the government requires that 5 percent of federal contracts be awarded to minorities.

Recently, minority business assistance efforts have increasingly come under attack. Some politicians have indicated that they would like to end racial preferences, such as affirmative action and minority set-aside programs (Lowery, 1995; Lacayo, 1995; Frank & De Lisser, 1995; Roberts, 1995). Legislation has led to the suspension of the Defense Department's Rule of Two policy which reserved contracts for minority-owned firms whenever two or more MBEs are available to do the work and are deemed qualified. Instead the Department will press nonminority-owned firms to award more sub-contracting work to minority-owned firms (Barrett, 1995). The passing of such legislation has many minority business persons and leaders concerned about the future of minority businesses (Lowery, 1995). While not all minority-owned businesses pursue governmental opportunities, many of them rely on set-aside programs for their livelihood (Gallman, 1991).

The elimination of these programs may force many minority business owners to find ways to compete without government assistance. While minority set-asides encourage nonminority-owned firms and the public sector to engage in business activity with minority-owned firms, they were not intended to be the primary basis of a minority firm's business activity. Moreover, those firms that place an emphasis on the public sector must operate within limitations set by the government and therefore they lose some of their strategic flexibility. The identification of a strategy that is more successful than the use of government set-aside programs would be good for management practice and would have important public policy implications.

Lack of Minority Business Enterprise Research

Academic research in the field of entrepreneurship and new ventures has shown that new venture performance is a function of more than the characteristics of the entrepreneur (Sandberg, 1984; McDougall, 1987; Hall, 1989; Kunkel, 1991). Moreover, those researchers that focus on the characteristics of the entrepreneur fail to consider the disadvantages faced by minority business owners as one of the characteristics of the entrepreneur. Their emphasis has been on such characteristics as behavior, orientations, intuition, and the learning curve (Greenberger & Sexton, 1988; Duchesneau & Gartner, 1990; Stumpf, 1992; Birley, 1994).

Although the amount of research on minority business enterprises has increased in recent years, factors affecting the performance of these firms have been largely overlooked. As revealed by Pearson and colleagues, "Recent studies regarding MBEs focus on three primary themes: discussions of public policy, comparisons between MBE and non-MBE firms, and reviews of corporate purchasing practices" (Pearson et al., 1993: 73). However, very little research has been conducted which examines the relationship between strategy and performance in minority-owned businesses.

Questions Under Investigation

This study will examine three questions regarding the strategy-performance relationships of MBEs. Those questions are presented in this section of this chapter, as well as an extension of the rationale for the research.

Research Questions

This dissertation treats minority business enterprises as a special case of small businesses and entrepreneurial ventures. One could argue about which group they belong to, but the primary objective of this dissertation is to examine the strategies of MBEs. To classify them as either an entrepreneurial venture or a small business in this study would result in the loss of key information because that would automatically eliminate many of them from the investigation.

This dissertation focuses on how they compete with other firms -- both minority-owned and nonminority-owned -- to examine which strategies entrepreneurs in minority-owned firms use most often to overcome barriers to entry and which strategies are the most successful. Lastly, given their current importance in the public policy debate about affirmative action, the effectiveness of minority set-aside programs is explored. The questions under investigation are:

(1) Which strategies are used most often by minority business enterprises?

(2) Which strategies are the most successful?

(3) How effective are minority set-aside programs as a gateway to entry?

Why Study The Strategy - Performance Relationship of MBEs

As shown in Table 3, from 1982 to 1987 (the last year for which data are available), the number of minority-owned firms in the U.S. grew by 63.7 percent. They currently comprise the fastest growing sector of small business activity in this country (MBDA, 1992; Banking World, 1992). Although Blacks currently make up the largest group of minority business owners, they are losing this status. The growth rates of Hispanic, Asian and Pacific Islander, American Indian, and Alaska Native businesses are much higher than for Blacks, and it is expected that the number of firms owned by one of these other groups will outnumber the number of Black-owned firms by the next census count (O'Hare, 1992) which is expected to be available in 1996.

Table 3. Comparison of Business Ownership By Minority Group

Minority Ownership or Control	Number of Firms		Growth Rate
	1982	1987	
Overall	843,022	1,213,750	63.7%
Blacks	308,260	424,165	37.6%
Hispanics	233,975	422,373	80.5%
Asian and Pacific Islander	187,691	355,331	89.3%
American Indian and Alaska Native	13,573	21,380	57.5%

Source: Bureau of the Census

What could account for the difference in the growth rates among the minority groups? Bates, Furino, and Wadsworth (1983) and Woodson (1987) maintain that this difference might be the result of low business formation rates for Blacks, since failure rates are almost identical among the groups. Moreover, Woodson (1987) asserts that the Black business formation rate is "palsied by lack of capital" (Woodson, 1987: x). A closer examination of the amount of capital used to start a business in 1987 reveals that most MBEs were started with minimum of cash (USDC, 1987). Acquiring and saving the resources needed to start a business may be an even greater challenge for Black entrepreneurs since, during this same period, 67 percent of Black-owned firms were begun with less than $5000 (USDC, 1987). Owners of other non-Black minority businesses started with the most capital; six percent of them began their businesses with $100,000 or more. Forty percent of the owners did not borrow their starting capital, but used money or assets of their own or from their families (USDC, 1987). Moreover, Light and Rosenstein (1995) argue that a group's values, motivations, and skills can encourage business enterprise, therefore those groups who perceive starting a business as a valuable alternative to working for others are more inclined to do so and to support others in their business endeavors by lending them the money to start businesses.

To sustain and accelerate this growth, minority-owned businesses must penetrate additional markets with growth potential in the private, public, consumer, domestic, and international marketplaces (MBDA, 1992). Government set-aside programs that require minority business participation have been created to provide a gateway to entry for minority business owners. Two types of set-asides exist: (1) those that require a certain percentage of the total number of government contracts to be allotted to minority-owned businesses and (2) those that require the prime contractor to use minority-owned businesses as subcontractors (Rice, 1991). Although about 75 percent of Fortune 500 companies actively seek out opportunities to work with minority-owned firms as suppliers and customers, about 80 percent of all work performed by minority-owned businesses comes from the public sector (Gallman, 1991; Watts, 1995).

Reasons for this Study

Due to the lack of research on the strategy-performance relationship of minority business enterprises, no empirical evidence exists to suggest that MBEs compete differently than other small businesses. An empirical study that examines the strategies used by minority business enterprises would provide valuable insight to practitioners and the makers of public policy who often maintain that minorities need special treatment to overcome the obstacles they face.

This study examines how minority-owned firms compete in spite of the lack of capital and access to credit and the obstacle of the Network. As a result of this research, minority entrepreneurs will be able to identify those strategies that are used most often, and therefore this issue is of major importance to successful management practice. They will also be able to determine if they should follow similar strategies or if there is a strategy that may not be used as often, but could lead to greater success in pursuing new opportunities. This effort can prove especially helpful when the strategy they use might not be as fruitful in the attainment of their goals as another strategy might be.

As previously discussed, it is believed that MBEs compete differently than nonminority-owned firms and, therefore, the frameworks that have been used to study those types of businesses should not be used to describe the ways that minority businesses compete. This dissertation sets forth a theoretical framework that serves as the basis for the detailed examination of the strategies used by entrepreneurial ventures and small businesses and the success of those strategies. If the results of this examination reveal that there are no significant differences between the strategies used by minority-owned ventures and nonminority-owned small ventures, or if the study reveals that the performance of MBEs and other small firms does not differ significantly, then the special attention given to MBEs or minority-owned ventures may not be warranted.[2] However, if the results reveal that minority-owned ventures compete differently and that minority set-aside programs are vital to the success of these firms, then the elimination of such programs could have a serious negative impact for those minority business enterprises that depend on them.

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[2] This researcher is aware that there are set-aside programs for small businesses. However, minority business enterprises are a subset of small businesses and they can pursue set-asides directed toward small businesses.

CHAPTER II

THE LITERATURE ON MINORITY BUSINESS ENTERPRISES

The amount of empirical research on MBEs has increased in recent years. Chapter 2 presents a literature review. First, it discusses how the early research on minority businesses was conducted by the U.S. government and the fact that much of that research was not empirical. Next, it presents some of the more recent scholarly research conducted on minority businesses, including discussions of public policy regarding minority-set-aside programs, comparisons of minority and nonminority businesses, and discussions of purchasing practices. However, in order to gain a better understanding of the owners of these firms, it is necessary not only to review the literature on MBEs, but also to examine the roles that ethnicity and the psychology of minorities play in the business enterprise. Therefore, this chapter also it outlines the role of ethnicity and psychology on minority business enterprises. Because of a lack of empirical evidence in the area of ethnicity in business, this portion of the literature review is based on some of the writings by scholars who have studied minorities' economic development.

Studies on Minority Business Enterprises Based on Census Data

First, much of the research on minority-owned businesses (both early and recent studies) has been through the efforts of the U.S. government or one of its agencies. The Census Bureau has collected statistical data on minority business enterprises for nearly 25 years, and since 1972 has included data on the number of firms, total employment, gross receipts, and annual payroll for MBEs in its *Survey of Minority-Owned Business*

Enterprises. Much of the government's research emphasis has been on the development of businesses in certain racial and ethnic groups, particularly Blacks who, as a group, lag behind other groups in reaping the economic benefits of entrepreneurship.

A number of practitioner writings exists about the need for and the success of minority-owned businesses. Many of these authors, who are usually members of minority groups, trace the development and success of minority economic development and offer advice on how minorities can become self-reliant (Cummings, 1980; Woodson, 1987; Kunjufu, 1991). A substantial number of these writings have been in the area of Black entrepreneurial and business development. However, most studies completed on minority business enterprises before 1980 have been based on the researcher's opinion (anecdotal data), without the use of an accepted methodology and appropriate data. Since that time, a concerted effort has been made to carefully research the characteristics and problems of minority businesses (Chen & Stevens, 1984).

Early Empirical Studies on Minority Business Enterprises

Scholarly research on minority business enterprises has been conducted in such fields as entrepreneurship, public administration, political science, and economics. Not surprisingly, some of the first scholarly studies were conducted by economists on the topic of Black entrepreneurship. Bates (1983) provided a historical perspective on minority business development. Using sample data from the 1960, 1970, and 1980 decennial Census of the Population, he traced the changes in minority entrepreneurship. These early findings suggested that the minority business sector had little promise for making a significant economic impact. Business owners had relatively low education and earning levels. In fact, earnings of self-employed minorities were below those in wage and salary occupations.

Stevens (1984) examined minority business development using Census data to assess the number of minority-owned businesses that started and failed from 1972 to 1977. His findings suggested that more minority-owned firms were formed than failed. However, his research was limited, in that he did not compare the results to the formation and failure rates of nonminority-owned firms. Without this comparison, it cannot be determined if the number of minority-owned firms that were started or failed during this time period was disproportionate to those of their nonminority counterparts.

More Recent Studies on Minority Business Enterprises

A concerted effort to carefully research the characteristics and problems of minority businesses can be seen in the most recent studies regarding MBEs. These studies focused on three primary themes: discussions of public policy that address minority set-asides, comparisons between MBE and non-MBE firms, and reviews of corporate purchasing practices (Pearson et al., 1993: 76). Unlike the studies conducted by Bates (1983) and Stevens (1984), these studies did not rely on census data.

Discussions of Public Policy

Researchers from the fields of public administration and political science, such as Levinson (1980), Bates (1985), Gray and Peery (1990), and Rice (1993), have conducted studies that discuss public policy issues surrounding the use of minority set-aside programs. Levinson (1980) used a historical approach to evaluate the evolution of MBE assistance programs. He found that the new statutory programs that focus on "social and economic disadvantage" were viewed more favorably than previous programs based on race and ethnicity. Bates (1985) examined the impact of preferential procurement policies on MBEs and concluded that efforts to aid minority-owned firms should be directed toward the stronger and better managed minority-owned firms instead of marginal ones. He also maintained that preferential policies are beneficial in removing traditional barriers to minority business participation in the economy and reducing the cost of transition to a less discriminatory economy.

Gray and Peery (1990) examined minority set-aside programs based on recent court decisions and concluded that set-asides are warranted when they are used to correct past discriminatory behavior. Likewise, Rice (1991) examined the constitutionality of government set-aside programs by surveying three U.S. Supreme Court decisions: Fullilove v. Klutznick (1980), the City of Richmond v. J. A. Croson Co. (1989), and Metro Broadcasting v. Federal Communications Commission (1990). These cases involved legal actions against federal, state, and local governments because of their use of set-asides to help minority-owned businesses. Rice concluded that it will be easier for Whites to challenge *non-federal* set aside programs and that "Lawful adoption or continuation of state and local government set-aside programs will be more difficult after the Supreme Court's decision in Croson" (Rice, 1991: 120). The Croson case challenged Richmond County, Virginia's, use of set-asides to promote minority business enterprises in the construction industry. Summarizing these discussions on public policy, research has shown that minority set-aside programs have had a positive economic impact on minority businesses, but will be more closely scrutinized in the future.

Comparisons of MBE and Non-MBE Firms

Studies that have compared nonminority-owned firms to minority-owned firms include Giunipero (1980), Scott (1983), and Bates and Furino (1985). These researchers also examined minority firms' economic performance. Giunipero (1980) attempted to identify those variables most highly related to minority purchasing activity. Minority purchasing activity includes those efforts made by major corporations to purchase goods and services from minority-owned firms (vendors). Surveying minority purchasing program coordinators in manufacturing firms, Giunipero found that the coordinators felt that problems encountered in purchasing from minority vendors were all significantly greater than those faced by purchasing from nonminority vendors. Coordinators believed that these problems could be corrected by obtaining more technical assistance for minority business enterprises, breaking large purchases into smaller quantities, and allowing longer lead times for minority vendors to respond to quotations and to deliver materials and services. The study did not reveal any areas in which nonminority-owned firms could improve.

Scott (1983) and Bates and Furino (1985) compared the financial performance of minority business enterprises and nonminority business enterprises. Scott (1983) found that the two did not differ in terms of profitability, liquidity, and level of debt. Bates and Furino (1985) further found that minority businesses were thriving in many industries and that access to credit markets has been beneficial to their development. In summary, the financial performance of minority business enterprises is similar to those of nonminority-owned firms. However, MBEs could improve in the area of customer satisfaction by working more closely with their customers to ensure that they can handle their operational needs.

Reviews of Corporate Purchasing Practices

Studies that have focused on corporate purchasing practices without necessarily comparing minority and nonminority-owned firms include Spratlen (1979), Dollinger and Daily (1991), and Pearson, Fawcett, and Cooper (1993). Spratlen (1979) presented a framework for an effective minority purchasing program that ties in purchasing and corporate social responsibility. He asserted that this link is an important source of competitive advantage. It can attract minority customers (who generally have proven to be loyal customers (*Black Enterprise*, 1994: 282), thus increasing the corporation's market share. Dollinger and Daily examined the buyer and supplier relationship from the perspectives of the corporate buyer and the minority business supplier using a transaction-cost economics view. They found that the greatest hurdles to strong relationships between corporations and minority businesses are the costs of a "hostile" environment and opportunism. Finally, Pearson and colleagues (1993) also presented a transaction cost economics view of the relationship between buyers and suppliers and concluded that:

> Overall, the general agreement on the approaches to better buyer/supplier relations suggests that despite the tendency to blame the other group for the historic lack of cooperation, corporate purchasing programs (CPPs) and MBEs believe that both sides must change their practices to overcome existing impediments. A combination of education and an emphasis on solutions, especially those that involve information creation and sharing, appears to represent the foundation on which future successful relationships will be built. (Pearson et. al, 1993: 86)

All in all, the relationship between corporations and their minority-owned suppliers can be described as intense but necessary, due to the current government policy that drives the relationship. If this policy changes, some corporations will continue to use minority suppliers because of their corporate social responsibility.

Although a review of the literature on MBEs could be concluded at this point, strategy researchers assert that personal values and beliefs influence strategy (Guth & Tagiuri, 1965; Andrew, 1987; Vancil, 1986) and help the organization members define the organization. Therefore, in order to increase our understanding of why minority owners may compete differently from nonminority owners, it would be beneficial to examine the literature that addresses the role of ethnicity or culture in business enterprise.

The Role of Ethnicity in Business Enterprise

Race is not the only factor that separates MBEs from NonMBEs. Ethnicity and culture play important roles in how firms compete. Following are some of the assertions made by researchers who have addressed the issue of ethnicity in business enterprise.

Light (1986) argued that ethnicity confers resources that facilitate entrepreneurship. He identified two styles of entrepreneurs: collective and individualistic. The collective style stresses the importance of the relationship among entrepreneurs in the same ethnic group. Light maintained that when minority entrepreneurs are linked to one another, they strengthen their capabilities. On the other hand, the individualistic approach views entrepreneurs as socially detached individualists who find economic success by just being in the right place at the right time, thus defying the odds. Light argued against public intervention, such as loans from the government that provide the whole basis of firm success. He asserted that the best risks (in appropriating funds to minorities) are those people who have access to informal resources to supplement anything they may be granted by public policy. In other words, the owners of minority businesses need access to resources through informal channels such as their family, friends, and other business associates.

Miller (1986) argued that social values, customs, and public policy, among many other noneconomic factors, influence the forms and performances of business organizations. He maintained that for some ethnic groups, success might be determined by something other than profits, such as familial bonds and service to God and the community. He took issue with Light's support of community connections by suggesting that some minority entrepreneurs choose not to join those organizations due to their distrust of them. Miller asserted that "one man's chance is another man's danger" (Stolarik & Friedman, 1986: 36). He went on to argue that ethnicity might be a means of locating interstitial opportunities (small jobs) and exploiting them, but that jobs based on ethnicity will provide only limited opportunities in an economy and society undergoing significant and rapid change.

Kusmer (1986) also took issue with Light's (1986) views on the collective style of entrepreneurship. He argued that it is the minority entrepreneur's relationship to his community, not merely to his follow entrepreneurs, that is important. He maintained that any theory that fails to recognize the difference between those owners who are motivated by economy and profit and those owners who are motivated by community and kinship would be invalid. In summing up the discussions, Stolarik and Friedman (1986) quoted Michael Novak (1986) who asserted that different cultures tend to prepare their members differently for various social achievements and that group membership may produce skills that have economic consequences.

Several observations can be drawn from these discussions. First, not all minorities are alike in their beliefs or attitudes and it is dangerous to lump them into one category. Based on this review, it is clear that some minorities form alliances, others do not. Although Light (1986) focuses on alliances among entrepreneurs and Kusmer (1986) emphasizes alliances between entrepreneurs and their communities, what is evident is that those owners who identify and work with another entity believe that they function better and can improve their chances for success. In this case, the entity may be the Network, the government, a major corporation, or the minority community. An ongoing alliance with another entity provides a sense of stability and security in their business endeavors.

Moreover, it is also evident that some minorities do not collaborate with other organizations. Nevertheless, they achieve success. They compete based on a skill or resource that can be better exploited outside of an alliance. The underlying characteristic of these minorities is their need for autonomy and liberty and perhaps their attitude toward risk. Furthermore, Light (1986) emphasizes minorities' attempts to identify more than one source of revenue, which indicates that minorities desire to hedge their bets against financial loss. Also implied is that some minority entrepreneurs are successful due to luck or despite the fact that they do not plan for their success.

In a recent examination of race, ethnicity, and entrepreneurship in urban America, Light and Rosenstein (1995) used a supply and demand perspective to argue that the renaissance of entrepreneurship in the last two decades requires more focus on the subject of entrepreneurship within minority communities. These authors examined self-employment for Whites, African-Americans, Asians, and Hispanics in the 272 largest metropolitan areas in the U.S. In doing so, they defined the self-employed as those who reported income gain or loss from self-employment. They included those persons who supplement their incomes with part-time self-employment as well as those workers who are working full time as self-employed. Light and Rosenstein found that many minorities use entrepreneurship as an alternative to working for others and as a way to supplement their income. They endorsed entrepreneurship as a means for minorities to overcome poverty, to overcome being disadvantaged in the labor market, and even to rehabilitate criminals.

The Psychology of Minorities Toward Business Enterprise

To help further the examination of the role of ethnicity in business enterprise, it is necessary to examine the impact of culture on performance. Sowell (1983) asserted that the cultural advantages that enable some groups to advance faster need not be specific skills, but attitudes and work habits. He also noted that not all members of a particular race or ethnic group think and behave alike. Sowell quoted Alvin Rabushka to argue that "Although political competition requires the aggregation of individuals into winning coalitions, markets do not," and maintains that minimizing the need for consensus is one of the advantages of economic processes over political processes (Sowell, 1983: 246).

Sowell's (1983) arguments are supported by Kunjufu (1991), who listed four reasons some people fail and others succeed: lack of goals, lack of information, procrastination, and attitude. Kunjufu argues that minorities, Blacks in particular, prefer "guarantees" to risk. In other words, they are inclined to be risk averse. He goes on to say that an effective business owner is a risk taker and has a high level of self-esteem. "Many people who have a moderate or low level of self-esteem play by the odds and are very concerned about what other people would think of their failure. Consequently, their personal goals, desires, and dreams are seldom fulfilled because they are afraid of taking a risk" (Kunjufu, 1991: 122). Kunjufu set forth six objectives for Blacks:

(1) Blacks need to increase their number of businesses.

(2) Blacks need their talented "10th" starting businesses, rather than working for the government or Fortune 500 corporations.

(3) Blacks need a community that will encourage entrepreneurship and parents who promote a "good business" versus a "good job" to their children.

(4) Black institutions should emphasize economic over political development.

(5) Blacks need to resist racism, and advocate governmental assistance and responsibility, but not become dependent on its amelioration.

(6) Blacks need business owners to provide quality products and service, who contribute back to the community, because they value liberation, not self-aggrandizement.

One could argue that similar objectives have already been set in other minority communities as evidenced by the increase in growth rates of MBEs for other ethnic group. To conclude the literature review, Table 4 lists the studies and writings that have been included in it.

Table 4. Literature Reviewed

Early Studies (Census Data)	**Public Policy**	**MBE vs NMBE**	**Corporate Purchasing**	**Role of Ethnicity and Psychology**
Bates (1983)	Levinson (1980)	Giunipero (1980)	Spratlen (1979)	Light (1986)
Stevens (1984)	Bates (1985)	Scott (1983)	Dollinger & Daily (1991)	Miller (1986)
	Gray & Peery (1990)	Bates & Furino (1985)	Pearson et. al, (1993)	Kusmer (1986)
	Rice (1993)			Sowell (1983)
				Kunjufu (1991)
				Light & Rosenstein (1995)

Need for Research on the Relationship Between Strategy and Performance

While the literature in these three areas (minority business enterprises, the role of ethnicity on business enterprise, and the psychology of minorities) has advanced our knowledge about minority business enterprises, these authors have made no attempt to identify the strategies most often used by owners of minority businesses to compete in an industry. Consequently, they do not inform us about which strategies have led to the best firm performance.

In the following chapter, a Typology of Strategies for Entrepreneurial Ventures and Small Businesses is introduced which is used to describe the different strategies that these firms, minority-owned, in particular use to compete. This integrative theoretical framework attempts to differentiate the strategies that entrepreneurial ventures and small businesses use to compete. Although this typology was used to examine which strategy is used most often in minority-owned firms and which strategies are the most successful, it was also used to study nonminority-owned firms in order to reveal significant differences, if any, in the way they compete, as compared to minority-owned firms.

CHAPTER III

A TYPOLOGY OF STRATEGIES

Three types of strategies offered by practitioners for minority business to overcome entry barriers will be discussed in Chapter 3. A typology of strategies for entrepreneurial ventures and small businesses is set forth as a theoretical framework that describes the strategies used in entrepreneurial ventures and small businesses. As asserted by Hambrick (1984), the development of this typology was aided by the researcher's insight, intuition, and experience with entrepreneurial ventures and small businesses (particularly, minority-owned ventures). Hypotheses developed from this framework will be explicitly presented in this chapter.

Theoretical Underpinnings

All entrepreneurs can exercise the strategic management process to improve firm performance. Since the entrepreneur in a small business is usually the individual that both formulates and implements the strategy, this endeavor is usually not as formal as the process that is often used by large corporations (Pearce & Robinson, 1985). Some small firms choose not to perform this process at all, due to lack of time, unfamiliarity with strategic planning, lack of skills, and lack of trust and openness (Shrader et al., 1989). However, some degree of planning for success would be valuable for both large and small firms (Pearce & Randolph, 1980), and for minority-owned firms in particular. The undertaking of the strategic management process will better the owners' understanding of what it takes to succeed in business. Owners will be better able to attain their goals by identifying and developing a business strategy that details how the firm will compete in its chosen industry based on an analysis of the firm's internal strengths and weaknesses and its external opportunities and threats (Andrews, 1987).

One important barrier associated with minority business enterprises that is of particular interest is their lack of capital and access to credit. While one could argue that most small firms suffer from this obstacle, it is a particular problem for minority business enterprises because their owners are often penalized to a greater degree based on the racial or ethnic characteristics of the owners rather than on business-related or economic factors. This process results in poor access to credit, money that is often necessary for minority business enterprises to compete for opportunities that require substantial financial resources. Another important barrier is the Network, to which it is extremely hard to gain access. Many of the relationships that exist in the Network are formed outside of the business arena, and minorities often do not have the contacts or resources needed to participate in these activities.

Both of these factors can hinder minority business enterprises' pursuit of opportunities in certain industries. Minorities must overcome these barriers in order to compete. Consideration should be given to how significant these two barriers are to the success of the firm and to how they can be overcome; if necessary. Once entry barriers have been overcome, firms must determine which type of strategy to use to compete. A variety of strategy typologies have been proposed but none fit the special circumstances of MBEs as well as the one that will be discussed below. One typology listed four types of small businesses: (1) start-up firms, (2) early growth firms, (3) later growth firms, and (4) underachieving firms (Thomas, 1991). While minority-owned firms can easily be classified into one of these four categories, this typology classifies small businesses based their life cycle and on their use of the techniques of strategic management. The new typology presented in this dissertation expands the practitioners' perspective designed specifically for MBEs and integrates two generally accepted academic typologies to identify actual strategies MBEs use to compete and to overcome entry barriers.

Three typologies served as the foundation of a new typology for entrepreneurial ventures and small businesses. First, practitioners (Gallman, 1991) have identified three types of strategies used by minorities to compete: (1) competitive strategies, (2) collaborative strategies, and (3) strategies that combine collaborative and competitive strategies (hereafter referred to as the Practitioners' Typology). Additionally, two other existing typologies were used to expand the Practitioners' Typology. One typology that has been widely used to examine competitive strategies is Miles and Snow's (1978) Typology of Strategy Types. The other, Astley and Fombrun's (1983) typology, has been used to examine the collaborative strategies that small businesses use. The integration of these three typologies and the inclusion of some of the characteristics that differentiate minority-owned firms from nonminority-firms provided the theoretical framework needed to examine the research questions under investigation. Each of the three typologies will be described in turn.

Practitioners' Typology

In an attempt to identify strategies that minority-owned firms pursue, *Black Enterprise*, a national magazine for Black entrepreneurs and business persons, cites such practitioners as Harriet R. Michel, president of the National Minority Supplier Development Council; Josie Bass, owner of J. Bass Inc. (a government affairs consulting firm); Oscar J. Coffey, Jr., president of the National Association of Black and Minority Chambers of Commerce; Audrey Gilbreath, owner of Gilbreath Communications (a Houston-based communications firm); and Emmit J. McHenry, president and CEO of Network Solutions (a Herndon, VA, systems integration company) (Gallman, 1991). These practitioners identified three types of strategies that can be used to help minority businesses overcome entry barriers: (1) competitive strategies, (2) collaborative strategies, and (3) combinations of competitive and competitive strategies. Table 5 shows some of the possible relationships this typology espouses.

Table 5. Strategies Recommended by Practitioners

Type of Strategies	**Competitive (Customer Service and Quality)**	**Minority vs. Minority**
		Minority vs. Nonminority
	Collaborative (Set-Asides and Joint ventures)	**Minority w/ Minority**
		Minority w/ Nonminority
	Competitive and Collaborative (Combination)	**Minority vs. Minority**
		Minority vs. Nonminority
		Minority w/ Minority
		Minority w/ Nonminority

Competitive Strategies

Competitive strategies include focusing on minority customer needs, providing good customer service, striving for high quality, and targeting government contracts and large corporations (Allen, 1993; Gite, 1994). These strategies are basically the same strategies used by nonminority-owned firms.

Collaborative Strategies

Collaborative strategies include (1) pursuing government set-asides as either the prime contractor (the contractor with overall responsibility of the project) or the subcontractor (the contractor responsible for only a portion of the project) and working with the same firm on multiple projects, (2) forming joint ventures (two firms form a distinct company with profit and loss shared by the partners), (3) entering strategic alliances (two firms collaborate on a given project but do not form a distinct company with profit and loss shared by the partners), and (4) becoming a supplier for major corporations with minority purchasing programs. These firms that pursue collaborative strategies are more collective and realize the importance of the relationship among entrepreneurs.

Combinations of Competitive and Collaborative Strategies

An example of the use of a combination of competitive and collaborative strategies is provided by Emmit McHenry, who adheres to this type of strategy:

> Our orientation has been to focus on and develop in-depth expertise and a niche in the market. Then we go after the strategic alliances with the players in the market. I mean, there are things that we can't win independently, so sometimes we're competing against a company on one day, and then we're teamed with another division of that same company on another project. (*Black Enterprise*, 1991: 226)

Firms that pursue the combination strategy are able to hedge their bets and improve their chances of success.

Implementing these strategies can be difficult. Each of them has a certain level of risk involved. Many small firms are afraid to take unnecessary risks because of their lack of resources, both human and financial. This risk averseness should also hold true for minority business enterprises, based on the literature review. Many minority-owned firms consist of one or two persons. Because of their lack of resources, minority entrepreneurs have few if any people that they can depend on to salvage the business (Jamison, 1994). Therefore, the less uncertainty and risk a strategy offers the more likely it is that a minority business enterprise will follow that strategy.

Academic Typologies

Academic research on small businesses should also be useful in studying the strategies used by minority-owned firms. Miles and Snow's (1978) typology has been used in this way and Astley and Fombrun's (1983) typology should also prove to be useful. Each will be described in turn.

Miles and Snows' Typology

One typology that has been widely used to study the strategies used by firms in various industries is Miles and Snow's Typology of Strategy Types (1978). Based on their strategic posture in an industry, this typology classifies organizations into one of four categories: Defenders, Prospectors, Analyzers, and Reactors.

Defenders choose a position in the environment and attempt to maintain (or defend) that position (Miles & Snow, 1978). Defenders are characterized as engaging in limited new product/market development, and competing primarily on the basis of pricing or high quality production standards (quality, delivery, service) to protect existing markets. Prospectors are organizations that are in a constant state of change, which requires high product and R&D expenses. Analyzers maintain a nucleus of established products and customers while developing new products and adopting new technology. Reactors have no clearly articulated mission and fail to develop strategies, plans, and policies needed to implement mission statements.

Moreover, Miles and Snow (1978) contend that Defenders, Analyzers, and Prospectors can be equally effective in an industry, with proper implementation. They maintain that Reactors will fail. Although the results of studies using this typology have varied, the results regarding Reactors have been consistent. For example, Miles and Snow's contentions hold true for studies conducted by researchers including Conant and et. al, (1989) and Smith and et. al, (1989), whose findings suggested that Prospectors, Defenders, and Analyzers all did well, but Reactors performed poorly. However, some studies have found performance differences including Davis (1986), whose findings revealed that Prospectors and Defenders outperformed Analyzers and that Reactors were "major losers." Yet, the findings of Hambrick (1983), Parnell and Wright (1993), and Floyd and Woodridge (1992) revealed that Prospectors outperformed Analyzers and Defenders. Some of these researchers chose not to include Reactors (Floyd and Woodridge, 1992) because they are known to perform poorly. These issues further exemplify why Miles and Snow's typology alone should not be used to study MBEs.

Astley and Fombrun's Typology

The second type of strategies identified in the Practitoner Model is collective strategies. Collective strategy has been defined as "a systematic response by a set of organizations that collaborate in order to absorb the variation present in their environment" (Astley & Fombrun, 1983: 580). Bresser (1988) provides a closely related definition in which he describes collective strategy as "attempts by sets of organizations to manage their mutual environment" (Bresser, 1988: 375). Dollinger and Golden substitute the phrase "pairs of organizations" for "sets of organizations" to define interorganizational strategy (Dollinger & Golden, 1992: 697).

Astley and Fombrun (1983) typology of collective strategies is based on two variables: type of association (direct or indirect) and type of interdependence (symbiotic and commensal). As shown in Table 6, Astley and Fombrun's typology has four categories: Conjugate, Organic, Confederate, and Agglomerate. A Conjugate strategy is used when there is a direct association between organizations that do not compete against each other, e.g., a supplier and buyer relationship. An Organic strategy is used when there is an indirect association between organizations that do not compete against each other; e.g., an MBE seeks assistance from the Small Business Administration. A Confederate strategy is used when there is a direct association between firms that compete against each other, e.g., two minority firms in the same industry form a strategic alliance. An Agglomerate strategy is used when there is an indirect association between firms that compete against each other in the same industry, e.g., cartels and trade associations with firms that do not collude with one another, but that stay close to the industry standard. Dollinger and Golden (1992) used the Astley and Fombrun (1983) typology in a study that examines how small firms use collective and interorganizational strategies to compete in fragmented industries. They found that small firms use Agglomerate and Organic strategies followed by Conjugate, followed by Confederate strategies.

Table 6. Model Set Forth by Astley and Fombrun (1983)

		Type of Association	
Type of Interdependence		**Direct**	**Indirect**
	Symbiotic	Conjugate	Organic
	Commensal	Confederate	Agglomerate

Table 7 gives a clearer picture of the relationships among the industry participants.

Table 7. Key Relationships in the Astley and Fombrun Typology

		Type of Association	
		Direct	**Indirect**
Type of Interdependence	**Symbiotic**	*Conjugate* Supplier-Buyer	*Organic* Competitor-SBA
	Commensal	*Confederate* Competitor-Competitor	*Agglomerate* Industry Cooperation

The Need for an Exhaustive Theoretical Framework

The Practitioners' Typology discussed above identifies specific ways that minority firms compete. It is a good start to understanding how minority business enterprises compete, but it is lacking in two important ways: (1) it is not detailed enough, and (2) it does not identify all of the strategies that can be used to classify MBEs. First, the Practitioners' Typology does not accurately describe the key interactions between MBEs and other organizations. This problem could possibly be overcome by adding the works of Miles and Snow (1978) and Astley and Fombrun (1983) to describe the interactions that occur when a firm chooses to follow a competitive strategy or when a firm collaborates with another firm. But, what are the key interactions of those firms that follow the combination strategy? Neither of these typologies addresses this issue.

The other problem the Practitioners' Typology poses is that one prevalent strategy for minority-owned businesses has been omitted. While this informal, not-well-thought-out, perhaps imitative strategy is not prescriptive of how business should compete, it is nevertheless descriptive of how many small firms (not just minority-owned) in fact conduct business. This strategy is primarily used by minorities who are in business for themselves, not solely for profit but because they do not want to work for the dominant culture.

Could Miles and Snow's (1978) and Astley and Fombrun's (1983) typologies be used to examine the informal strategy? It appears as though firms that pursue the informal strategy type would fall into Miles and Snow's (1978) Reactors category, but they do not. Reactors are expected to perform poorly, whereas firms using the informal strategy type may meet or exceed their objectives. Furthermore, researchers often overlook Reactors because they are more inclined to fail than the other strategy types set forth by Miles and Snow. The informal strategy may be so common in the minority community that its elimination would prove detrimental in any study that claims to examine the strategy-performance relationship of minority businesses.

It could also be argued that the minority firms that pursue the informal strategy type could be classified into Astley and Fombrun's (1983) Agglomerate category because they basically follow what others are doing in the industry, as opposed to formulating a strategy that could differentiate them from other firms in the industry. However, classifying the firms as Agglomerates would misrepresent these owners' objectives. Agglomerates follow the industry standard because many of them are members of a trade organization that sets the prices for their members and they agree to price their products and services accordingly. Although they carefully watch what other firms are doing in their industry, owners of MBEs that pursue the informal strategy type do not belong to such organizations. With a watchful eye on similar firms, owners of these firms typically compete on price and set their own prices for their products and services.

Like the Practitioners' Typology, neither academic typology alone accurately depicts all of the strategies used by minorities. An exhaustive typology would allow researchers to classify all MBEs based on the different strategies used to meet their owners' objectives. While Schein (1995) argues that those owners who want freedom and economic security should not be lumped with those business owners who are called entrepreneurs, Light and Rosenstein (1995) argue that the scorn directed at entrepreneurial imitation is unjustified. What is needed is a theoretical framework that integrates the three typologies, includes the informal strategy, yet differentiates it from the others, so that a further examination and an outline of each type of strategy used by minorities can be made.

Toward a Theoretical Framework

The remainder of this chapter develops an integrative and exhaustive framework to examine which strategies are used most often by entrepreneurial ventures and small businesses, minority-owned firms in particular, and to identify those strategies that have been the most successful. Finally, the research in this proposed dissertation used the Typology of Strategies for Entrepreneurial Ventures and Small Businesses to examine the effectiveness of set asides as a gateway to entry for minority-owned firms.

The Four Dimensions of the Strategy Types

The strategies differ along four important dimensions: (1) the aim or objective of the owners, (2) the key relationships the firm has with other players in the industry, (3) the kinds of opportunities pursued, and (4) the owners' attitude toward risk. Based on the review of the literature, one could anticipate how the dimensions might affect the strategies minorities use to compete. Before proceeding to the strategy types, these dimensions will be discussed.

The Aim or Objective of the Owners

The importance of linking strategy to the personal objectives of the owners is well documented in the literature (Guth & Tagiuri, 1965; Andrews, 1987; Vancil, 1986). While MBEs are a special case of entrepreneurial ventures and small businesses, there is a key underlying difference in the owners of these firms: their aim or business objective. Schein (1978, 1985a, 1985b) classified business owners into one of two categories: (1) those who want autonomy, and (2) those who are entrepreneurs. Katz (1995) provided this summarization of the differences in the two types of owners.

Those owners who want autonomy:

(1) There is little status change in wage-or-salaried employment moves.

(2) There is typically no firm growth as shown in firms sales, especially after start-up.

(3) They have low-to-moderate income for the industry.

(4) They are typically a sole-proprietorship.

(5) They have a low-to-moderate number of employees for the industry.

(6) They own firms serially.

(7) They typically do not have multiple business sites.

Those owners who would be considered entrepreneurs:

(1) There are frequent status changes to higher wage-or-salaried employment.

(2) There is typically firm growth as shown in firms sales.

(3) They have high income for the industry.

(4) They are not typically a sole-proprietorship.

(5) They have a high number of employees for the industry.

(6) They own multiple firms simultaneously.

(7) They typically have multiple business sites.

Those minority owners who want autonomy are not as concerned with profits and firm growth as they are with maintaining control over their destiny or working for themselves and survival. On the other hand, those minority owners who would be called entrepreneurs are definitely concerned with profitability and firm growth.

Although the aim of three of the four strategies pursued by MBEs is to improve firm performance in terms of profits and growth, one would expect more minority businessowners to be motivated by community and kinship than nonminority-owned firms.

The Kinds of Business Opportunities Pursued

Again, we must separate the two kinds of owners. Those owners who are entrepreneurs will pursue different kinds of business opportunities than those who want autonomy. For example, the profit-oriented entrepreneurs pursue business opportunities that will improve their ability to reap above-average profits. To assist in answering the question, "What kinds of business opportunities do these owners pursue?" one must ask how the company defines its business. It can target a certain market, develop a name for the firm in that market, and therefore have basically no diversification. Alternatively, it can concentrate on a particular market, pursue those opportunities that are related to their core business and that can easily adopt their products and services. Still, it can tailor its products and services to pursue those opportunities that are not related to its core business.

On the other hand, those owners who are primarily interested in autonomy or survival will not aggressively pursue the same customer as a firm owned by someone who is profit-oriented. Because many of these owners operate on a cash basis, they, instead, will focus mainly on small jobs that are based on their skills and training.

The Key Relationships the Firm has with Other Players in the Industry

Porter (1980) identified five basic competitive forces, which collectively determine the ultimate profit potential in an industry. They are: (1) rivalry among existing firms, (2) the threat of new entrants, (3) the bargaining power of suppliers, (4) the bargaining power of buyers, and (5) the threat of substitute products. These forces are referred to as "players" to coincide with terms used by minority-owned firms. While careful thought and analysis should be given to each, three of these forces embody relationships that have a special impact on MBEs: (1) rivalry among existing firms, (2) the bargaining power of suppliers, and (3) the bargaining power of buyers.

In most industries in which MBEs compete, a great deal of rivalry exists among firms. The strategies included in the Practitioners' Typology are directed toward managing this rivalry. Because of the power that the Network has in most industries, MBEs have very little bargaining power as buyers or suppliers. Therefore, those MBEs that are owned or controlled by people who are considered entrepreneurs must strive to develop key relationships with their competitors and/or other MBEs. These relationships help to improve their bargaining power.

In contrast, those owners who seek autonomy are not as inclined to develop key relationships with other competitors or MBEs. Instead, they are inclined to form relationships with customers that can result in the repeat and referral business necessary to ensure their survival.

The Owners' Attitude toward Risk

Although entrepreneurs are basically considered to be risk takers, they differ on the amount of risk they are willing to undertake. Evidence exists that the more risk people are willing to take the more profits they can expect (Buzzell & Gale, 1987). This difference can affect strategic decision-making.

> Risk-takers lean more toward opportunistic strategies where visionary moves can produce a big payoff over the long term. Risk takers prefer innovation to imitation and bold strategic offensives to defensive moves to protect the status quo. (Thompson & Strickland, 1995: 50)

Those MBEs that are able to develop and implement strategies that exploit these dimensions will be the most successful. Now each strategy type will be described in turn based on the four dimensions listed above.

A Typology of Strategies for Entrepreneurial Ventures and Small Businesses

The follow typology is set forth to describe how entrepreneurial ventures and small businesses compete. There are four categories in which these firms may be classified: Anchors, Adventurers, Adaptors, and Amateurs. Each will be described in turn.

The Anchors

The first group of firms will be identified as Anchors. Following is a brief description of this group among the four dimensions.

The Aim or Objective of the Owners

The owners of firms classified as Anchors are in business to make a profit and are interested in firm growth. These owners compete by differentiating their firms from other firms in an industry.

The Kinds of Business Opportunities Pursued

Firms that are able to differentiate themselves effectively can choose a position in the industry and maintain or defend that position. These firms typically penetrate the market by targeting a certain type of customer and guarding that market. For example, once they have chosen which market to target (only minority customers, or opportunities through minority set-asides, or companies with minority purchasing programs), they are able to specialize. They use their kinship (Kusmer, 1986) with their respective minority communities as a means of making money. Because they know their customers well, they are better able to meet their customers' needs by focusing on customer service, or emphasizing quality, or other competitive advantages. Those minority-owned firms that do business with certain markets know the needs of the communities they serve. Often this includes extending a service that meets the need of the community that outside firms may not offer. Outside firms may not be aware of the customers' needs or they may be unwilling to accommodate the customers in order to obtain their business. Similarly, those minority-owned firms in pursuit of government contracts learn how to complete the forms required for bidding and where to go for assistance. Likewise, MBEs that pursue opportunities with corporations that have minority purchasing programs know the procedures for each company.

The Key Relationships the Firm has with Other Players in the Industry

Whether one is examining the relationships an Anchor firm has with its buyers or its suppliers, the key relationship is vertical. As a buyer, Anchor firms strive to develop strong relationships with their suppliers so that they can improve their bargaining power over time. As a supplier, Anchor firms strive to develop customer loyalty so that their customers will primarily buy from them, thus providing a steady revenue flow.

The Owners' Attitude toward Risk

Anchors are owned by people who are somewhat risk averse. They prefer relying on a steady buyer or supplier as a source of income rather than seeking out new customer bases.

In summary, the Anchor category integrates the Competitive strategy from the Practitioner's typology, the Defenders strategy from Miles and Snow's (1978) typology and the Conjugate strategy from Astley and Fombrun (1983). It is a competitive strategy because the owners are attempting to differentiate themselves from other firms by focusing on minority customer needs, providing good customer service, targeting large corporations, or striving for quality. These firms are closely related to Defenders, because they choose a position in the environment and attempt to maintain (or defend) that position. Furthermore, some evidence of collaboration might be seen in the form of a Conjugate strategy: strong buyer-supplier relationships exist between the firm and its customers or competitors.

The Adventurers

The next group of firms will be identified as Adventurers. Following is a brief description of this group among the four dimensions.

The Aim or Objective of the Owners

Like Anchors, the owners of firms classified as Adventurers are also in business to make a profit and are interested in firm growth. These minority owners pursue opportunities that they deem to have above-average profit potential, but that they are unable to pursue without the help of another firm or organization.

The Kinds of Opportunities Pursued

The owners of these firms do not target a particular market, but are willing to venture into different markets. Although they primarily pursue a certain type of customer, they actively seek new opportunities that may not be closely related to their core businesses (unrelated diversification). These firms link to one another in order to strengthen their capabilities (Light, 1986).

The Key Relationships the Firm has with Other Players in the Industry

What sets Adventurers apart from other owners is their willingness to join forces with firms who have similar management goals. These relationships between MBEs and other firms (competitors working together) enable these firms to compete for business that they could not otherwise handle, due to their lack of capital or access to credit.

The Owners' Attitude toward Risk

Of all the strategy types set forth, Adventurers are the most willing to take risks. They take more risk, and expect a higher payoff for their investment.

The Adventurer strategy type integrates the Collaborative strategy from the Practitioner's typology, Prospectors strategy from Miles and Snow's (1978) typology, and Confederate strategy from Astley and Fombrun's (1983) typology. Their Collaborative nature can be seen in their efforts to pursue government set-asides as either the prime contractor or the subcontractor, form joint ventures or strategic alliances with other firms, and take part in minority purchasing programs as a supplier for a major corporation with which they are not in direct competition. They are closely identifiable with Prospectors because they often seek business opportunities that *may not be closely related* to their core business. Finally, they are also closely identifiable with the Confederate collective strategy because, although they may compete against another firm, they are willing to form strategic alliances or another collaborative efforts with other MBEs or nonMBEs.

The Adaptors

Another group of firms will be identified as Adaptors. Firms that are managed or owned by persons who like the stability of working with a few buyers or customers, but are sometimes willing to take risks are more likely to use than strategy than the other strategies. Following is a brief description of this group among the four dimensions.

The Aim or Objective of the Owners

In addition to the owners of Anchors and Adventurers, the owners of firms classified as Adaptors are in business to make a profit and are interested in firm growth. These owners want to improve their chances of success, or to "hedge their bets" (Light, 1986).

The Kinds of Business Opportunities Pursued

Adaptors, too, penetrate and develop a particular market, but these firms are willing to pursue additional opportunities *that are closely related to what they do well.* For example, minority-owned firms that are suppliers to major corporations may spend most of their efforts meeting the needs of these corporations. However when opportunities beyond their control force the firm to seek customers from the minority community, they are well positioned to shift their focus from the corporation to the minority community. Overall, these firms adapt easily.

The Key Relationships the Firm has with Other Players in the Industry

This dimension of the Adaptor strategy is probably the most challenging aspect in following this strategy. Adaptors must have both key vertical and horizontal relationships in order for their strategy to work. For example, the scenario that Emmit McHenry described in which his firm competes against a company on one project and then teams up with it on another mandates that he pay close attention to the relationships he has with this company as both a competitor and a partner. If either relationship is threatened, it could result in the loss of business opportunities for the firm.

The Owners' Attitude toward Risk

The owners of firms classified as Adaptors are also risk averse, but not as much as those owners of firms classified as Anchors. While Anchors use only competitive strategies, Adaptors use competitive strategies and collaborative strategies when necessary.

The Adaptor strategy type integrates the Combination of Collaborative and Competitive strategy from the Practitioner's typology, Analyzers strategy from Miles and Snow's (1978) typology, and Confederate and Conjugate strategies from Astley and Fombrun's (1983) typology. Their use of a combination of collaborative and competitive strategies can be seen in their willingness to pursue opportunities with other firms that have similar management goals when it would benefit both companies, yet to compete against them when it would not. They are closely identifiable to Analyzers because they try to maintain a nucleus of established products and customers while diversifying into closely related areas. Notwithstanding, they are also identifiable with those firms that collaborate using both Confederate and Conjugate strategies because they might join forces with other firms that they compete with (competitor-competitor), as well as with those firms that they do not compete with, in addition to pursuing government set-asides (buyer-supplier). Again, these firms are quite adaptable.

The Amateurs

The final strategy type is for those firms that will be identified as Amateurs. Following is a brief description of this group among the four dimensions.

The Aim or Objective of the Owners

Unlike the other three strategy types, the owners of firms classified as Amateurs are not primarily in business to make a profit and are not interested in firm growth. These individuals are in business because they want to control their own destinies, they want to be their own bosses, and they do not want to work in Corporate America, which is often viewed by minorities as being controlled by the dominant culture. Survival of the firm will be a key objective.

These minority businessowners are individualistic and find success just by being in the right place at the right time (Light, 1986). These owners lack or do not develop strategies, plans, and policies. They may have a business plan but they do not use it to guide the business. Instead, their strategy is informal and evolves from day to day. Moreover, they often underbid their competitors to secure business.

The Kinds of Business Opportunities Pursued

Amateurs primarily operate on a cash basis which affects the type of opportunities they can pursue. Typically, Amateur pursue only opportunities for which they are skilled or trained. Although some of these firms market themselves as "jacks of all trades" capable of handling work in a general area, they primarily offer a basic service based on a specific skill. For example, persons who own a lawn care service may include tree cutting and removal as part of their service and charge the same or a slightly higher price than a competitor that would not provide the extra service. Or they might negotiate with their customers to provide a partial service, such as only cutting the grass and not trimming the hedges for a smaller fee. One should not expect these Amateurs to repair roofs. (See Appendix A and Appendix B).

The Key Relationships the Firm has with Other Players in the Industry

Owners of firms classified as Amateurs are knowledgeable about what similar firms are doing in the industry and they price their products or services accordingly, making little if any attempt to distinguish themselves from their competitors. Although they may have a minimum price that they will not reduce at the point of sale, they quote prices for their services primarily based on what their customers tell them other competitors charge to complete the project. Moreover, they tend to build relationships with customers rather than suppliers or competitors. These relationships lead to the referrals and repeat business that compose the majority of their business.

The Owners' Attitude toward Risk

Although it was stated earlier that risk takers prefer innovation to imitation, these owners are risk takers. They are willing to "barely get by" as a business owner rather than work for someone else and receive a steady paycheck. That decision involves a great deal of risk, especially when families are involved.

The Amateur strategy type was not identified by Practitioners. It resembles the Reactors strategy from Miles and Snow's (1978) typology and the Agglomerate strategy from Astley and Fombrun's (1983) typology.

Again, the Typology of Strategies for Entrepreneurial Ventures and Small Businesses is offered to identify the strategies used by small firms, especially minority businesses. As shown in Table 8, the new typology expands the three strategies recommended by Practitioners and identifies and explains the informal strategy.

Table 8. Comparison of the Strategies in the New Typology

Dimensions	Strategy Types			
	Anchors	**Adventurers**	**Adaptors**	**Amateurs**
Aim or Objectives	Profit/ Growth	Profit/ Growth	Profit/ Growth	Autonomy/ Survival
Key Relationships	Buyer-Supplier	Competitor-Competitor	Buyer-Supplier Competitor-Competitor	Competitor-Customer
Opportunities Pursued	Narrow Markets	Unrelated to Core Business	Related to Core Business	Skill Based
Attitude Toward Risk	Averse	Takers	Averse	Takers

Table 9 lists the categories of each of the typologies including the new typology which more accurately depicts the strategies used by entrepreneurial ventures and small businesses.

Table 9. Comparison of the New Typology and the Other Typologies

Practitioners' Typology	Astley & Fombrun	Miles & Snow	New Typology
Competitive	Conjugate	Defenders	**Anchors**
Collaborative	Confederate	Prospectors	**Adventurers**
Combination	Organic	Analyzers	**Adaptors**
----------------	Agglomerate	Reactors	**Amateurs**

To conclude this chapter, a set of hypotheses is presented to examine the research questions: (1) Which strategies are used most often by minority business enterprises to compete? (2) Which strategies are the most successful? and (3) How effective are minority set-aside programs as a gateway to entry?

Hypotheses

As evidenced in the literature review, ethnicity and culture play important roles in how firms compete. Although the same strategies are available to both types of small firms, social values and customs pose several limitations that promote the use of some strategies in minority-owned firms more than others. Miller (1986) argued that social values, customs, and public policy, among many other noneconomic factors, influence the forms and performances of business organizations. Therefore it is anticipated that minority-owned and nonminority-owned small businesses will differ significantly in the strategies they use to compete.

The strategy that was expected to be used most frequently by minority business enterprises was the Adaptor strategy. This strategy was expected to be used by those individuals who practice the collective style of entrepreneurship identified by Light

(1986). It is an attractive strategy for minorities because most minorities want some guarantee of success (Kunjufu, 1991). While there are no guarantees, following this strategy enables owners to increase their chances of survival and success by "hedging their bets"as asserted by Light (1986) to protect their financial performance. This combination strategy also enables the firm to adapt to environmental changes with ease. It can prove to be extremely useful in certain circumstances beyond the firm's control. For example, when legal action is taken against the government pertaining to the use of minority set-asides, Adaptors can compete for customers in the private sector. Or, if the firm encounters financial problems and is unable to serve its chosen markets, an Adaptor is prepared to increase its activity in other markets that do not require the same level of cash flow.

The next most frequently used strategy was expected to be the Anchor strategy. Because they know the needs of their communities well, these business owners can use their kinship to their respective communities to better serve their customers (Kusmer, 1986). Thus, they can benefit from the supplier-buyer relationship. Although this strategy is used as a way to get the business off to a good start, many Anchors will continue to use the strategy for years, failing to penetrate new markets because they get comfortable with the status quo. It will be used less frequently than the Adaptor strategy because the utilization of the Adaptor strategy provides an alternative source of income that the Anchor strategy does not. In contrast, those firms using the Anchor strategy depend on one customer or market for their success, which could lead to financial difficulty (often, if a particular market suffers, the suppliers to that market suffer too). The Anchor strategy does not have the built-in flexibility that allows the firms to adapt in poor economic times. Moreover, Anchors will outnumber Amateurs and Adventurers because of the security and stability the Anchor strategy affords to its users, as opposed to the risk involved in pursuing the other types of strategy.

The next most frequently used strategy was expected to be those firms classified as Amateurs. While Miller (1986) argued that familial bonds and service to God and the community were important to some minorities, the Amateurs is the only group of firms whose aim is not to make profits and growth. The aims of Amateurs are survival and self autonomy. Light (1986) argued that this kind of an individualistic approach to entrepreneurship is used by individuals who find economic success by just being in the right place at the right time, thus defying the odds. There will be fewer firms classified as Amateurs because of Kunjufu's (1991) argument that most minorities want some guarantee of success. Thus, more firms will be classified as Adaptors and Anchors than Amateurs because of the level of uncertainty involved in running a business without some type of strategic plan. However, more firms will be classified as Amateurs than as Adventurers. While both strategies types would be considered risk takers, the use of the Adventurer strategy involves resources that many minority-owned firms lack.

Finally, the strategy that was expected to be used the least is Adventurer. Fewer firms were expected to fall into in this category than in to any other because of the risks and resources necessary to pursue this strategy. First, minority owners will be reluctant to follow this strategy because there is a greater risk that the firm will lose money. Again, Kunjufu (1991) argues that minorities are risk averse. Second, in order to form joint ventures and strategic alliances to compete one firm usually has a resource that another firm needs. Often, among minority business enterprises, the resource is financial. Because of the lack of capital and access to credit, this strategy could be used to pursue business opportunities that either firm could not pursue on its own. However, many minority-owned firms are not positioned to take some of the risks that Adventurers must be willing to take.

According to the literature review, the owners of nonminority-owned small firms are not as risk averse, and have better access to capital and to credit than the owners of MBEs. Furthermore, they have greater access to the Network. Therefore, they will use strategies that will allow them to pursue the most business opportunities. These owners will be more inclined to work with other firms (including minority-owned ventures) to secure business opportunities. They are in a better position to take risks because they have stronger relationships with venture capitalists, and banks that are willing to fund their projects. Notwithstanding, their family members are also in a better position to lend money to fund projects than are the family members of minorities.

The Adaptor and Adventurer strategy types enable nonminority-owned firms to take advantage of their competitive strength. Of those two, the Adaptor strategy was expected to be used more frequently than the Adventurer strategy for two primary reasons. First, nonminority owned firms do not have unlimited resources and therefore, they will be more likely to want to improve their chances of success by "hedging their bets." Also, using the Adaptor strategy, nonminority-owned firms have the same opportunities that nonminority-owned firms have including the ability to adapt to environmental changes with ease and the ability to increase their activity in other markets when cash flow is a concern.

The Adventurer strategy was expected to be used less frequently by nonminority owned firms than the Adaptor strategy because not all nonminorities like to take risks. While they have access to more resources than minorities, they, too, must be concerned about loosing money and making profits.

The Anchor strategy was expected to follow the Adventurer strategy. It may be too limiting to nonminority-owned firms because by using this strategy owners may not take advantage of all the opportunities that are available to them. This strategy is used in firms where the owners are risk averse. Again, it is anticipated that more nonminorities are not risk averse and are willing to take some risks.

Amateurs were expected to be the least frequently used strategy because most of these owners do not have the ethnical characteristics associated with minority owners.

Moreover, nonminorities are perceived as being more profit oriented than minorities, thus their need for autonomy will not be as great.

Proposition 1

Minority-owned and nonminority-owned firms will differ in the number of firms (frequency) classified into each of the strategy types.

H_1: *Whereas minority-owned firms will be most often classified as Adaptors, followed by Anchors, followed by Amateurs, followed by Adventurers, nonminority-owned firms will be most often classified as Adaptors, followed by Adventurers, followed by Anchors, followed by Amateurs.*

Which strategies were expected to be the most successful?[3] While it is posited that minority- and nonminority-owned firms will differ in the number of firms (frequency) classified into each of the strategy types, no evidence exists that race or ethnicity will play any role in performance. Therefore, it cannot be argued here that the performance of minority-owned and nonminority- owned ventures will differ using the four strategy types.

Firms that are classified as Adventurers were expected to be the most financially successful. Although fewer firms were expected to be classified as Adventurers, they will have the highest financial performance based on the risk-return literature, which suggests that those firms that are willing to take risks reap higher profits than those firms that are

3

Although the financial information of all firms is important not only to the success of this study, but also in the attempts of minority-owners to get loans, procure contracts, and to do a quality job for their customers, this researcher acknowledges that many minority-owned firms are started for reasons other than pure profit. Therefore, it will be appropriate for owners to feel that their firm is "successful" when their financial situation may suggest otherwise.

risk averse (Buzzell & Gale, 1987). Of the four strategies, Adventurers take the most risk and therefore, are expected to have the best performance.

Firms that are classified as Adaptors will have the next highest financial performance. Their performance were expected to be lower than Adventurers' because they will not pursue as many viable opportunities as Adventurers. But, they will perform better than Anchors and Amateurs because they improve their chances for success by pursuing combinations of competitive and collaborative strategies, and they are willing to pursue opportunities outside of their target markets.

Firms that are classified as Anchors will have the next highest financial performance. Their performance were expected to be lower than Adventurers' and Adaptors' because they limit their firms to one market and therefore are at the mercy of their customers or their customers' industry. However, their performance were expected to be higher than Amateurs' because they have regular customers that result in steady income.

Firms that are classified as Amateurs will have the lowest financial performance. Because they fail to plan and formulate strategies, their firms suffer financially. They often do not have regular customers. Their lack of planning may also result in loss of business because they often do not have the funds necessary to perform services without requiring their customers to pay in advance.

Again, the strategies pursued should have the same impact on performance for both groups, e.g., Adventurers in minority- and nonminority-owned firms should do well. However, it is anticipated that a significant difference exists in the performance among the four strategy types.

Proposition 2

Minority-owned and nonminority-owned firms will not differ in their performance by pursuing their chosen strategy.

H_{2a}: Minority-owned firms that are classified as Adventurers will be the best performers, followed by those that are Adaptors, followed by those that are classified as Anchors, followed by those that are Amateurs.

H_{2b}: Nonminority-owned firms that are classified as Adventurers will be the best performers, followed by those that are Adaptors, followed by those that are classified as Anchors, followed by those that are Amateurs.

How effective are minority set-aside programs as a gateway to entry? This question is of major interest to public policy officials and could be important to small business owners. Those firms that are classified as Anchors, Adventurers, and Adaptors are all likely to use minority set-asides. Thus, it will be examined as a result of investigating the interaction of the use of minority set-asides and performance for each of the strategy types. The public policy implications will be discussed in Chapter 6.

To conclude this chapter, the theoretical underpinnings, typology, and hypotheses presented herein are based on a thorough literature review, interviews with minority and nonminority business owners and the researcher's own personal experience in dealing with the two types of businesses. It has been asserted that minority- and nonminority-owned business differ, thus they will use different strategies to compete and that the use of one of these strategies can result in superior performance relevant to the other strategy types. In this next chapter, the research methods used to validate these assertions are presented.

CHAPTER IV

RESEARCH DESIGN & METHODS

The objectives of this study were to determine which strategies are pursued most often by MBEs and to examine whether, and to what degree, a relationship exists between the strategy and performance of minority business enterprises. Also, determining the effectiveness of minority set-asides as a gateway to entry was of major interest. Chapter 4 describes the research design used to test the hypothesized relationship between strategy and performance. It provides a brief description of the construction industry, the sampling procedure, the data collection methods, measurements of variables, and the statistical analyses used in the research process.

The Research Process

This section outlines the research process used to conduct this study. Efforts have been made to be as accurate as possbile in describing these procedures to ensure the reliability of the findings.

Sample

This research used a sample of minority business enterprises and nonminority-owned small firms in the U.S. construction industry. The construction industry, a well established industry in the U.S., was chosen for several reasons. First, it is a fragmented industry in which many minority-owned firms compete. In 1987, 107,650 of the 1, 651,102 firms in the construction industry were classified as minority-owned firms. This represented approximately 9 percent of the total number of minority-owned firms in all industries. Second, competing in this industry requires capital and access to credit.

Firms must have enough resources to complete a construction project from start to finish. Third, in the construction industry, the Network has been extremely hard to break into, but it is one of a few industries that minority-owned businesses have been able to penetrate (Hoffer, 1987).

Sampling Procedure

Minority-owned firms in the construction industry were identified by using the Automatic Business Enterprise Locator Systems (ABELS) database used by Minority Business Development Centers throughout the country to register minority-owned firms. The Minority Business Development Centers are a part of the Minority Business Development Agency and provide assistance to minority-owned construction firms regarding contract opportunities, bid preparation, construction estimating, job scheduling, and construction management.

The Minority Business Development Agency's database listed approximately 1300 minority-owned firms. Firms that participated in Phase I and Phase II (both will be discussed later in this chapter), firms that did not have complete information such as firm name or addresses, and firms that were listed on the database more than once were eliminated from the list. Nine hundred eighty three firms were identified and included in the sample.

Nonminority-owned firmed in the construction industry were identified from the members list of the Associated Building Contractors of America (ABC). ABC has more than 15,000 members and prides itself as being the only national construction management association devoted exclusively to promoting and defending the open "merit" shop form of construction--the awarding of contracts based solely on the lowest responsible bid (ABC, 1995). A random sample of one thousand non-minority firms was selected from the organization's member list. Because MBEs can be found in both databases, those minority-owned firms that appear on both lists were sent only one survey and were included in the sample of MBEs. ABC provided a list of 987 firms with revenues from $0 to $100 million which included the ranges listed in ABELS.

To ensure that the sample was national in scope, the firms were grouped by state. Although not every state was represented in the database, firms from each region of the United States, including Alaska, were listed.

The advantage of this sampling technique was that owners registering with the Minority Business Development Center must certify that their company is at least 51-percent owned, controlled, and actively managed by minority person(s). Thus, it can be determined if the strategy pursued by minority business enterprises are different from the strategy pursued by other small firms in the construction industry.

This sampling technique was not without certain restrictions. Most notably, minority-owned firms that choose not to register with a Minority Business Development Center were excluded from the sample. Some minority owners find it difficult to decide whether to market their companies as minority-owned businesses. For instance, some minority business owners view set-aside minority contracts as too limiting, keeping minority businesses out of the wider business circle (Gallman, 1991). Additionally, some minority businesses may register with another agency such as their county or state or their office of contract compliance.

Data Collection

Data collection for this study took place in three phases. Phase I involved semi-structured interviews with the owners of several minority-owned construction companies (firms in the high sales range for small businesses and firms in the low range) and nonminority-owned construction companies of similar sales volumes. Semi-structured interviews were used because they enable researchers to gather similar kinds of data from different people, while allowing flexibility to follow up on areas of interest and ask qualifying questions (Goetz & LeCompte, 1984). This process gave valuable insight about the categories as well as the perceptions about how lack of capital and access to credit and the Network have affected different firms in the industry. See Appendix C and Appendix D for copies of the semi-structured interview questions. As a result of these semi-structured interviews, the survey that served as the primary instrument to collect the data was further refined.

Phase II involved a pilot study to clarify content and wording of the survey and to determine its ease of use and ease of coding. Any known problems with the survey and measurement were addressed during this phase and modifications to the survey instrument were made wherever necessary. This extensive survey development process was undertaken to provide further insight about the typology and to ensure the reliability of the survey results.

Phase III involved a mailed survey that was sent to the firms with instructions for the owners, CEOs, or some other knowledgeable person in the firm. The survey instrument consisted of five parts: (1) a series of questions designed to help describe the firms participating in the study, (2) a series of statements regarding views about the competitive nature of the construction industry and the two entry barriers that were of interest in this study, (3) a group of statements that were representative of the four strategies identified in the typology of small businesses and entrepreneurial ventures, (4) a set of questions regarding the companys' financial performance and the owners' perception of their firms' performance based on some factor other than financial performance (if appropriate), and (5) a series of statements about the dimensions presented earlier in this dissertation. The surveys given to minority- and nonminority-owned firms differed slightly -- in color and title. See Appendix E and Appendix F for copies of the survey instrument. Preceding the survey, in late December 1995, the owners received a postcard that introduced the researcher, announced the survey, and addressed the importance of the respondents' participation in the study.

The major disadvantage of using field surveys as a source of data is that the results are based on owners' perceptions which calls their reliability into question

(Babbie, 1992). Furthermore, due to the modest number of managers available in small firms, the preferred method of sending the survey to multiple managers in different key functions to test the reliability (absence of measurement error) of the first subject's responses would have proved fruitless in most cases. Therefore, convergent validity, which calls for multiple methods to measure the same construct was a concern.

Mailing and Response Rates

Ninteen hundred and seventy surveys were mailed on January 8, 1996. Responses were received and accepted through March 15, 1996. Almost 18 percent of the surveys mailed (173) to firms listed on the MBDA's list were returned as undeliverable, but only 4 (less than 1%) surveys were returned as undeliverable from the Associated Builder's list.

Eighteen surveys from the MBDA's list were returned with a note stating that the firm would not be able to participate in the survey, while only one similar response was received from the Associated Builder's list. Reasons cited included that the firm was no longer in business or that the owner was deceased. Of the remaining 1774 firms, 116 responses were received from the Minority Business Development Agency Database. Ten of them were eliminated based on their response to item 14 of Part I of the questionnaire, which revealed that none of the firm's sales were derived from the construction industry. Of the usable responses, 48 were Black or African-American-owned, 35 were Hispanic-owned, 6 were Asian/Pacific Islander-owned and 17 were Native American/Alaska Native-owned. In an attempt to increase the number of minority business enterprise responses, the National Association of Minority Contractors permitted surveys to be distributed during a conference for minority vendors held at the Civic Center in Atlanta, Georgia, on February 29, 1996. An examination of the promotional literature regarding this event revealed that the firm owners that would be present would be similar to the owners of the types of firm included in the initial mailing. As a result of attending this conference, 18 additional surveys were distributed, 7 were returned resulting in a total of 113 usable responses through minority-based organizations. Fifty three firms were Black or African-American-owned, 36 were Hispanic-owned, 7 were Asian/Pacific Islander-owned and were 17 Native American/Alaska Native-owned.

Of the remaining firms (those from the Associated Builders and Contractors' list), 240 responses were received, two of which were eliminated based on their statement that none of their sales was derived from the construction industry. The 238 remaining firms were from 235 White/non Hispanic-owned firms, one Black or African-American- owned firm, and two native American/Alaska native-owned firms. The three firms that were not White/non Hispanic-owned were transferred to the list of minority-owned firms resulting in a sample of 235 White/non Hispanic-owned firms, 54 Black or African-American-owned firms, 36 were Hispanic-owned, 7 were Asian/Pacific Islander-owned and 19 Native American/Alaska Native-owned firms.

Of the total sample of 1780 firms (1988 minus 208), 351 usable responses were received (19.7% response rate). As shown in Table 10, 67 percent of the respondents were White/non Hispanic-owned firms, 15.4 percent were Black or African-American-owned firms, 10.3 percent were Hispanic-owned, 2 percent were Asian/Pacific Islander-owned and 5.4 percent were Native American/Alaska Native-owned firms.

Table 10. Type of Business Ownership

Firm Type	Number of Firms Included In Sample	Percentage of Respondents
White/nonHispanic-Owned	235	67%
Black or African-American-Owned	54	15.4%
Hispanic-Owned	36	10.3%
Asian/Pacific Islander-Owned	7	2%
Native American/Alaska Native-Owned	19	5.4%
Total	351	100%

Table 11 provides a numerical account of the sample identification process.

Table 11. Sample Identification

	Minority-Owned Ventures	Nonminority-Owned Ventures	Total
Number of Firms Listed	1300	987	2287
Number of Firms Eliminated	317	0	317
Number of Surveys Mailed	983	987	1970
Number of Surveys Returned as Undeliverable	173	4	177
Number of Responses from Initial Mailing	134	241	375
Number of Responses Eliminated Due to Respondents Inability to Participate	18	1	19
Number of Responses Eliminated Due to Lack of Sales in the Construction Industry	10	2	12
Number of Additional Firms Contacted in Follow-up	18	0	18
Number of Responses from Follow-up	7	N/A	7
Number of Useable Responses	113	238	351
Number of Firms Transferred to Other List	0	3	3
Total Number of Firms	116	235	351

As shown in Table 12, a further analysis revealed that 24.3 percent of the firms listed on the Associated Builder's list (minus the undeliverables) responded to the survey, 14 percent of the firms listed on the MBDA's list (minus the undeliverable and unusable) responded and 38.8 percent of the firms from the conference responded. Although the overall response rate of 19.7 percent is low, it is within the acceptable range for small business and entrepreneurial research (Alpar and Spitzer, 1989). The lack of response to mail surveys by minorities is also typical (Bowman, 1991).

Table 12. Response Rate

	Source of Firms Identification		**Total**
	Minority Based Organizations	**Nonminority-Based Organizations**	
Total Number of Firms Contacted	1001	987	1988
Total Number of Unusable Responses (Undeliverables and the Like)	201	7	208
Total Number of Useable Responses	113	238	351
Response Rate	14.00%	24.3%	19.7%

Nonresponse bias is always a concern when response rates are low. The databases did not identify the minority group membership of each firm, therefore it was not possible to determine the number of surveys mailed to each of the minority groups. However, based on the numbers provided by the Bureau of the Census, Blacks and Hispanics comprised the largest groups of minority-owed businesses in 1987, followed by Asians and Pacific Islanders, followed by American Indians and Alaska Natives. For the respondents in this study, Blacks and Hispanics comprised the largest groups, followed by Native American/Alaska Natives, followed by Asians and Pacific Islanders. This apparent bias may limit the generalizability of the findings, especially for Asians and Pacific Islanders.

Firm Characteristics

Respondents were asked general information about their companies which ranged from questions about the number of years the firm has been in business to the number of minority employees in the firm. Noticeable differences between minority-owned and nonminority-owned businesses were found. These differences are presented and discussed in Chapter 5.

Variable Identification and Measurement

The variables used in this study were selected after a comprehensive review of the literature and interviews with business owners in the respective firms. In the examination of the relationship between strategy and performance on minority-owned businesses, performance served as the dependent variable. Strategy type served as the primary independent variable.

Criterion or Dependent Variable

Performance was measured two ways: (1) The owners were asked to provide financial information that determines their Return on Assets (Net Income/Total Assets) for 1992, 1993, and 1994. The following ranges provided by the ABELS database were used to record their performance due to the owners' sensitivity in providing precise financial information about their companies:

$0 to $49,999

$50,000 to $99,999

$100,000 to $299,999

$300,000 to $1,000,000

$1,000,001 to $2,999,999

$3,000,000 to $4,999,999

$5,000,000 to $24,999,999

$25,000,000 to $99,999,999

$100 million or more

These data were use to compute an average return on assets (AROA) for each firm.

(2) The owners were also asked if they perceive their firm as successful and to tell to what degree they are satisfied with their firm's success. This gave some indication about their profit motives, as well as their reasons for business ownership. Only the financial data were used in the data analysis. The perceptual data are used in the discussion of the results and findings. Although most researchers primarily use accounting or financial ratios as performance measures, Dess and Robinson (1984) argue for the use of both objective and perceptual data as a measure of firm performance. This study measured performance in both financial and perceptual terms.

Explanatory or Independent Variables

Two approaches were used to identify the firms' strategy: self-typing and cluster analysis. Owners were asked to check one of four descriptions of the category that most closely fit their strategies (self-typing). They were also asked to select the statements that match the strategies used by their firm from a list of statements that refer to the dimensions of each of the four strategies listed in the theoretical framework (as a reliability check). Their answers to these questions served as the basis for a cluster analysis among the dimensions.

Methods

Several statistical procedures were used to identify strategy types and to test the hypotheses. Those procedures are discussed in the remainder of this chapter. The results are also presented in Chapter 5.

Statistical Procedures to Identify the Strategy Types

Before the strategy-performance relationship could be studied, the use of all of the strategy types identified in the typology was confirmed. Respondents in this sample were given several opportunities to provide information about the strategy of their company. First, they were given four statements representative of the types of strategies that may be used to compete in the construction industry and were asked to indicate the *one that most closely represented* how their company competes by placing a check mark next to the statement (self typing). Secondly, they were asked to indicate the *most* important factor in determining their firm's success. Finally, they were presented with three categories of statements representing the remaining dimensions of each strategy type (kinds of business opportunities pursued, key relationships in order to secure business, and attitude toward risk) and were asked to check *one* statement from each of the categories that best expressed their position regarding each dimension. Some examples were also provided. The combination of the second and third opportunities to identify their strategies was used to cluster the firms.

The first statement was representative of an Anchor, the second statement was representative of an Amateur, the third statement was representative of an Adaptor and the fourth statement was representative of an Adventurer. The four statements representing the four strategy types were:

Anchor

Our company pursues business opportunities with only customers that are in our target market(s) -- residential customers, customers in a certain geographical area, government set-asides. Thus we are better able meet their needs by focusing on quality service, customer service, or some other aspect of our business that differentiates us from other companies in the industry. We do not team up with our competitors to secure business opportunities.

Amateur

Our company pursues all customers who are interested in our special skills or services. We make changes in our operation as often as necessary and price our products or services competitively in order to secure the business. Thus, our strategy is informal and allows for maximum flexibility.

Adaptor

Our company mainly pursues a certain type (or types) of customers or business opportunities. However, we pursue additional opportunities that are related to what to do well. This could include extending our services to customers outside of our target market when necessary, as well as teaming up with another company to pursue an opportunity that fits well with the other projects in which we are involved.

Adventurer

Our company pursues as many business opportunities as possible. This often means teaming up with other companies in the industry as either the prime contractor or the subcontractor on multiple projects, and forming joint ventures or strategic alliances. These business opportunities may be unrelated, but if the potential for profit is satisfactory, we are willing to team up with others to secure the business.

Frequency counts were taken for each of the strategy types and will be presented in the next chapter.

The other procedure used in this study to identify the strategies used by both minority and nonminority-owned firms was cluster analysis. There are two key steps involved in cluster analysis: (1) measuring similarity and (2) specifying a procedure for forming the clusters based on the similarity measures. The variables: AIM (Aim or Objective of the Owners), BUS (Kinds of Business Opportunities Pursued), KEY (Key Relationships the Firm has with Other Players in the Industry) and RISK (Owners Attitude Toward Risk) were used to classify the firms into four groups or clusters based on their strategy types (Anchors, Adventurers, Adaptors, and Amateurs). An explanation of how each variable was measured is provided below.

Aim or Business Objectives

Respondents were asked to check whether profit and growth or survival and ability to work for self was the most important factor in determining their firm's success. The owners of MBEs and NonMBEs differed significantly in what they stated as the aim of their firm. Almost 73 percent of the NonMBEs stated the most important factor in determining their firm's success was profit and/or growth. In contrast, 57 percent of the MBEs stated the same. It was not surprising that 43 percent of the owners of MBEs use survival and ability to work for self as the determining factor of their firm's success due to the high number of MBEs that fail yearly.

For purposes of the cluster analysis, those firms that checked profit or growth were assigned the number "1 and those firms that checked survival or ability to work for self were assigned the number 2." Firms that checked "other" were classified based on their reasons, which included: ability to provide good customer service and a quality product, ability to keep employees working, and the like. The first response revealed a profit motive and the aim for that firm was shown as "1 whereas the second response revealed a need for survival and the aim for that firm was shown as 2."

Likewise, each of the statements regarding the other three dimensions was assigned a number. The statements and examples representing the different dimensions were:

Kinds of Business Opportunities Pursued:

Anchors = We pursue opportunities that <u>only involve</u> our core business. (roofing projects only)

Amateurs = We pursue opportunities that involve our core business and although we do not actively pursue them, we are willing to accept projects that are <u>unrelated</u> to our core business. (roofing projects and garage door insulations)

Adaptors = We pursue opportunities that involve our core business and sometimes pursue those that are related to our core business. (roofing and vinyl siding projects)

Adventurers = We pursue all opportunities -- those that involve our core business, those that are related to our core business, and those that are unrelated to our core business. (roofing projects, siding projects, garage door insulations)

Key Relationships: In order to secure business:

Anchors = We concentrate on building strong relationships with other companies that we are not in competition with or on building strong relationships with our customers. (Relationships with our suppliers or our customers)

Adventurers = We concentrate on building strong relationships with companies that we are in competition with so we can work together when necessary and on building strong relationships with our customers.

Adaptors = We concentrate on building strong relationships with both companies that we are in competition with and those that we are not in competition with and our customers.

Amateurs = We concentrate on building strong relationships only with our customers instead of our competitors.

Attitude toward Risk:

Anchors and Adaptors = We lean toward conservative "safe" strategies that minimize risk and have reasonably high probable returns.

Amateurs and Adventurers = We lean toward aggressive "opportunistic" strategies that can produce a big payoff in the long term.

Indicator variables were used in the analysis and were represented by:

AIM (The Aim or Objective of the Owners) -- indicates the owners' personal objectives for the firm. 1 = profit and growth and 2 = autonomy/survival.

BUS (The Kinds of Business Opportunities Pursued) -- indicates the types of markets the firm pursues

1 = the pursuit of business opportunities that serve a single or narrow market

2 = the pursuit of business opportunities that skill based , '0' otherwise.

3 = the pursuit of business opportunities that would be described as those that are closely related to their core business

4 = the pursuit of business opportunities that would be described as those that are not closely related to their core business

KEY (The Key Relationships the Firm has with Other Players in the Industry) -- indicates what type of relationship is important to the firm success

1 = the firm seeks strong buyer-supplier relationships in the industry

2 = the firm seeks strong relationships with their customers

3 = the firm seeks both strong Buyer-Supplier relationships and strong relationships with other Competitors in the industry

4 = the firm seeks strong relationship with other competitors in the industry

RISK (The Owners' Attitude Toward Risk) -- indicates the owners attitude toward taking risks

1 = the owners of the firm are risk averse

2 = the owners of the firm are risk takers

The second step involved in cluster analysis is specifying a procedure for forming the clusters based on the similarity measures. The SAS FASTCLUS procedure was used to divide the firms into clusters based on the respondents' answers to the dimension statements. FASTCLUS ensured that every firm belonged to one and only one cluster. According to the SAS User's Guide (1988), the FASTCLUS procedure operated in three steps:

1. Cluster seeds (first guess of the means of the clusters) were selected.
2. Clusters were formed by assigning each observation to the nearest seed. After all observations were assigned, the cluster seeds were replaced by the cluster means.
3. Final clusters were formed by assigning each firm to the nearest seed.

Based on Euclidean distances computed from the four dimensions, firms that were very close to each other were assigned to the same cluster, while firms that were far apart were assigned to different clusters. Using four groups as the number of clusters, the strategy types would have the following numerical values:

Cluster	Aim	Bus	Key	Risk
Anchor	1	1	1	1
Amateurs	2	2	2	2
Adaptors	1	3	3	1
Adventurers	1	4	4	2

The results of the self-typing and cluster analysis were compared and are presented in Chapter 5.

Statistical Analyses to Test the Hypotheses

A set of hypotheses was presented to examine the research questions: (1) Which strategies are used most often by minority business enterprises to compete? (2) Which strategies are the most successful? First, the two hypotheses offered to test the proposition that minority-owned and nonminority-owned firms would differ in the number of firms (frequency) classified into each of the strategy types were:

H_1: *Wheras minority-owned firms will be most often classified as Adaptors, followed by Anchors, followed by Amateurs, followed by Adventurers, nonminority-owned firms will be most often classified as Adaptors, followed by Adventurers, followed by Anchors, followed by Amateurs.*

In order to test how frequently each categorical value of the variable occurred among the samples, this study used a very useful statistic known as the chi-squared statistic. The chi-squared statistic is used frequently to study categorical data that involve frequency counts made on nominally scaled qualitative data similar to the data that were collected in this study. The chi-squared statistic is defined as:

$$X^2 \text{ statistic} = \sum_{i=1}^{\kappa} \frac{(O_i - E_i)^2}{E_i}$$

where

O is the observed frequency in category i

E_i is the expected or hypothesized frequency in category i

κ is the total number of categories

The goodness of fit test of the Chi-square procedure allows the researcher to stipulate the expected frequencies. Based on theory, category frequencies were not expected to be equal to one another and this statistical procedure tests for such differences. The hypotheses did not explicitly state the frequencies, but stated the expected pattern of frequencies for the strategy types. The following percentages representative of the ordering of the strategy types as stated in the hypotheses were used in determining the expected frequencies : 40%, 30%, 20%, and 10%. These frequencies were multiplied by the number of firms in each group for the appropriate strategy type.

Relationship between Strategy Type and Performance

The relationship between strategy and performance was tested using analysis of variance (ANOVA). This statistical technique focuses on the difference between group means and compares that difference to the differences between individual firms within the groups. SAS's PROC GLM was used to analyze the data. This procedure was particular useful for this analysis because it uses a regression approach, substituting the average sample size associated with the difference groups as opposed to actual sample sizes (Tabachnick & Fidell, 1983), thus it can handle unequal sample sizes with greater ease than some other procedures.

Performance was measured based on average rate of return on assets (AROA) for 1992, 1993, and 1994. Firms that were not operating during these three years were excluded from this part of the study. Additionally, some firms failed to provide financial information on their firms, even with the guarantee of confidentiality.

Review of Basic Definitions for Factorial ANOVA

A factorial ANOVA usually has three questions under investigation: (1) are there significant differences between the overall row means (main effect of factor B)?, (2) are there significant differences between the overall column means (main effect of factor A)?, and (3) are the differences between mean responses for any two levels of factor B the same for all levels of factor A (interaction effect of A x B)? Factor A is type of strategy (Anchors, Adventurers, Adaptors, and Amateurs) and factor B is type of firm (MBE vs. NonMBE).

Main effects of a factor refer to the overall means or average effects of the independent variable, obtained by combining the entire set of component experiments involving that factor. Simple effects of an independent variable consist of the differences among the means for any one of these factors. That is, the differences associated with the single factor experiment involving factor A at a particular level of factor B. Interaction is defined in terms of a comparison among the set of simple effects. Interaction is present when the simple effects associated with one independent variable are not the same at all levels of the other independent variables (Keppel, 1991).

Neter, Wasserman, and Kutner (1990) propose the following basic strategy for analyzing factor results in two factor studies:

1. Examine whether the two factors interact.

2. If they do not interact, examine whether the main effects for factors A and B are important. For important A or B main effects, describe the nature of these effects in terms of factor level means $\mu_{i.}$ or $\mu_{.j}$, respectively. In some special cases, there may also be interest in the treatment means μ_{ij}.

3. If the factors interact, examine if the interactions are important or unimportant.

4. If the interactions are unimportant, proceed as in step 2.

5. If the interactions are important, consider whether they can be made unimportant by a meaningful simple transformation of scale. If so, make the transformation and proceed as in step 2.

6. For important interactions that cannot be made unimportant by a simple transformation, analyze the two factor effects jointly in terms of the treatment means μ_{ij}. In some special cases, there may also be an interest in the factor level means $\mu_{i.}$ or $\mu_{.j}$.

Because of the lack of research on minority-owned ventures, no evidence exits that the performance of minority-owned and nonminority-owned ventures would differ using these strategies, i.e., Adventurers should do well for both groups. Therefore, the issue was not whether minority-owned ventures would have the same performance level as nonminority-owned firms, but which strategies would be the most successful for each type of firm. Thus, this research was designed with the following directional (one-tailed) hypotheses in mind:

> *H_{2a}: Minority-owned firms that are classified as Adventurers will be the best performers, followed by those that are Adaptors, followed by those that are classified as Anchors, followed by those that are Amateurs.*

> *H_{2b}: Nonminority-owned firms that are classified as Adventurers will be the best performers, followed by those that are Adaptors, followed by those that are classified as Anchors, followed by those that are Amateurs.*

Planned comparisons were conducted to support or refute the hypotheses. To reflect the relevant importance of each of the strategy types, three (number of strategy types - 1) simple comparisons were done for each hypothesis. These results are also presented in the next chapter.

<u>Minority Set-Asides</u>

Finally, the third question under investigation was "How effective are minority set-aside programs as a gateway to entry?" It was asserted that minority-owned firms from all of the categories were likely to use minority set-asides. After a brief definition of the term "good-ole boy network," owners were asked to indicate their views ranging from strongly agree to strongly disagree about each of the barriers. The good ole boy network was defined as a close group of firms in an industry that have the ability to keep outsiders from fully participating in their industry.

Chapter 4 introduced the research process and several methods that were used to investigate the research questions. The results and findings to each of these statistical analyses is presented in the following chapter.

CHAPTER V

THE RESULTS

Four strategies that are believed to be used by small businesses were introduced in the Chapter 3: Anchors, Adaptors, Adventurers, and Amateurs. These strategies were identified based on theory supported by interviews with both minority- and nonminority-owned firms in the construction industry and on a pilot study that encouraged owners and industry informants to provide additional information if the survey instrument failed to adequately represent of their firm or industry. Chapter 5 begins with a presentation of the characteristics of the firms in the sample. Then a discussion that addresses the theoretical framework's ability to accurately reflect the strategies used by minority-owned new ventures is held. The interpretation of the results of the statistical analyses used in this study is also presented in this chapter. Table 13 presents the means, ranges, standard deviations, and correlations for all variables in the study.

Table 13. Descriptive Statistics and Correlation Matrix

Variable	N	M	SD	Min	Max	1	2	3	4	5	6	7
Aim	324	1.3	0.47	1	2	.						
Bus	308	2.6	1.06	1	4	-0.1	.					
Key	319	2	0.91	1	4	0.04	0.16***	.				
Risk	320	1.1	0.39	1	2	0.01	0.07	0.11***	.			
Cluster	324	2.1	0.96	1	4	-0.1	0	0.65*	0.17**	.		
Perform	293	6.5	8.56	0	62.2	0	0.71*	-0.06	0	0.6	.	
Satisfy	327	2.2	1.23	1	5	0.01	0.09	0.03	0.06	0	-0.15***	.

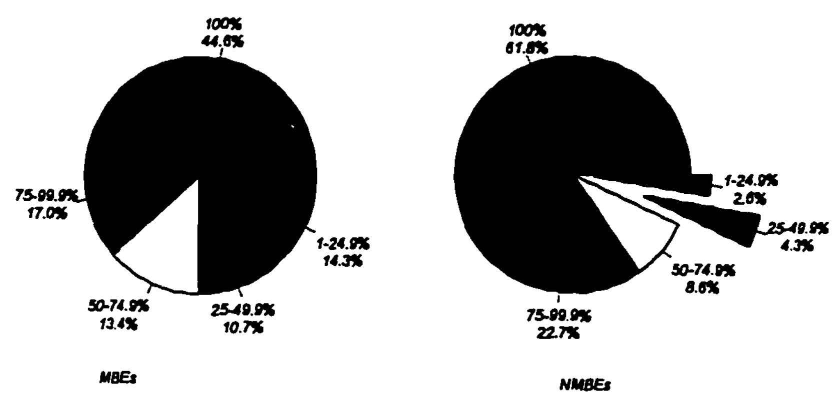
*p<.001 **p<.01 ***p<.05

Results and Findings

One of the objectives of this dissertation was to identify and assess the strategies minority-owned firms use to compete. Interpreting these results is the next step in this process.

Firm Characteristics

Almost 85 percent of the nonminority-owned firms reported that at least 75 percent of their sales were from the construction industry. However, only 61.6 percent of the minority-owned firms reported this much business in the industry. Some of them (14.3%) reported that only 1 to 24.9 percent of their business was derived from the construction industry. As shown in Figure 1, only 2.6 percent of nonminority-owned firms reported similar outcomes and minority-owned firms in the construction industry were more diversified than nonminority-owned firms ($X^2 = 30.332$).



*(Chi-Square = 30.332, p < .05)

Figure 1. Sales Derived from the Construction Industry

While the leading type of worked performed by minority-owned ventures in the construction industry is general contracting (38%), the leading type of worked performed by nonminority business enterprises is subcontracting (54.9%). Not surprisingly, 10.6 percent of the MBEs responded that they were both general and subcontractors, while less than one percent of the NonMBEs responded similarly. Another obvious difference was the amount of work performed in areas other than general and subcontracting (manufacturing, distribution and transporting, professional consulting services, and other) in which 22.3 percent of the MBEs were involved and only 8.1 percent of the NonMBES. Thus, as shown in Figure 2, MBEs and NMBEs differed significantly in the type of work performed (X^2 = 58.48) in the construction industry.

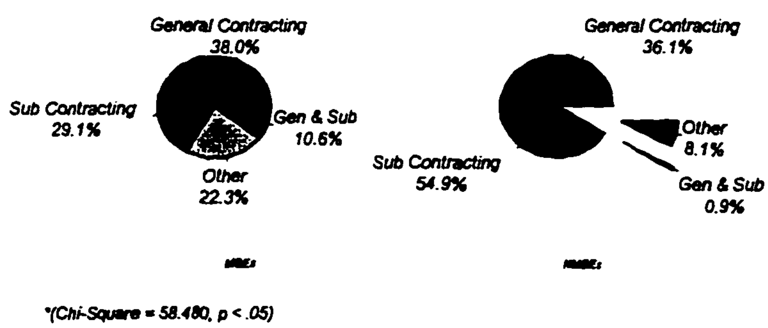


Figure 2. Type of Work Performed

Revenues for the two groups differed also. Almost 67 percent of the MBES indicated their revenues were less than $1 million in 1992, while almost 79 percent of the NMBES reported revenues of over $1 million in 1992. Similar results were reported for

1993 and 1994. As shown in Figures 3 and 4, profits for MBEs and NMBEs were significantly different and a greater percentage of MBEs than NMBEs lossed money during this period.

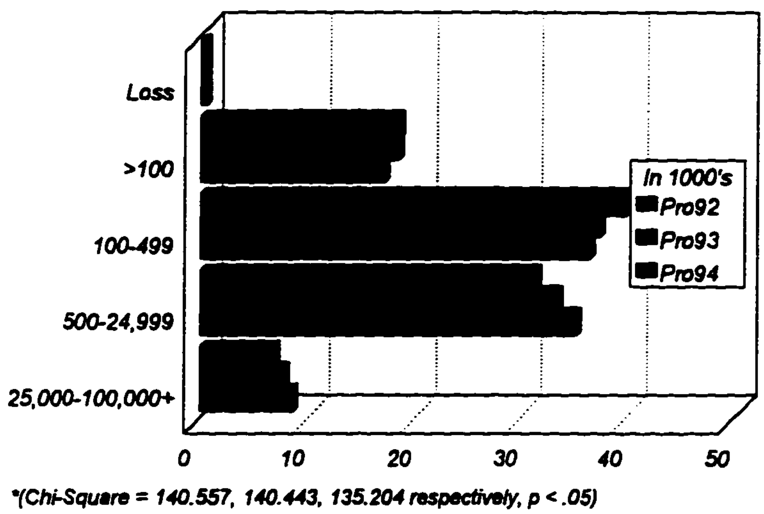


Figure 3. Profits for MBEs (1992-1994)

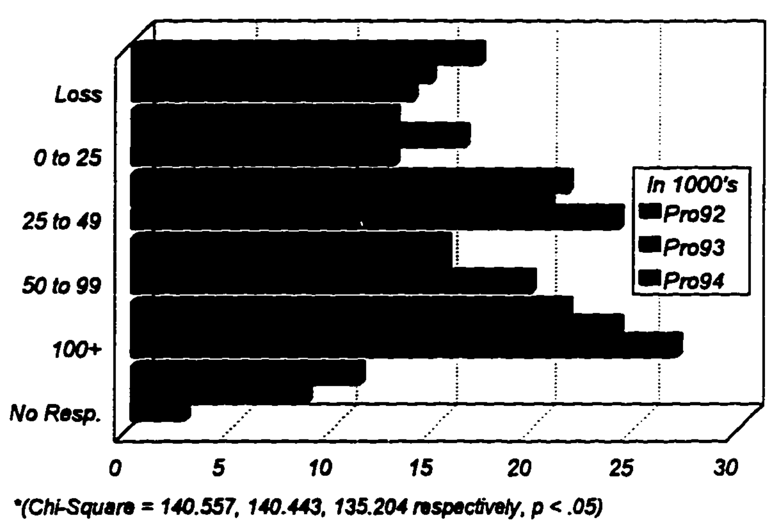


Figure 4. Profits for NMBEs (1992-1994)

Almost 80 percent of nonminority business enterprises reported that they pursue projects that had financial requirements of at least \$25,000 in capital and/or credit, while only 17.3 percent said they pursue projects that usually require less than \$25,000 in capital and/or credit. In contrast, 36 percent of the minority-owned firms reported they pursue projects that usually require less than \$25,000 in capital and/or credit and 54.4 percent of them stated they pursue projects that usually require at least \$25,000 in capital and/or credit ($X^2 = 27.828$). As shown in Figure 5 some respondents indicated a balance between the two.

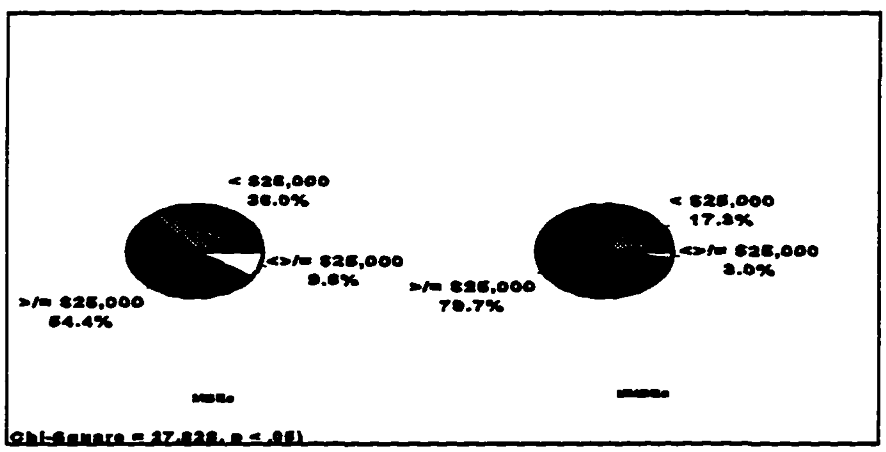


Figure 5. Capital Requirements of Projects Firms Typically Pursue

Likewise, as shown in Figure 6, the two types of ventures differed in the number of years that they had been in business ($X^2 = 115.567$) . Most of the respondents for nonminority-owned firms (more than 80%) reported their companies had been in business for 20 years or more. While most of the respondents from minority-owned businesses also reported that they had been in business for 20 years or more, quite a few more minority-owned businesses reported they had been in business less than 20 years (at least 60%).

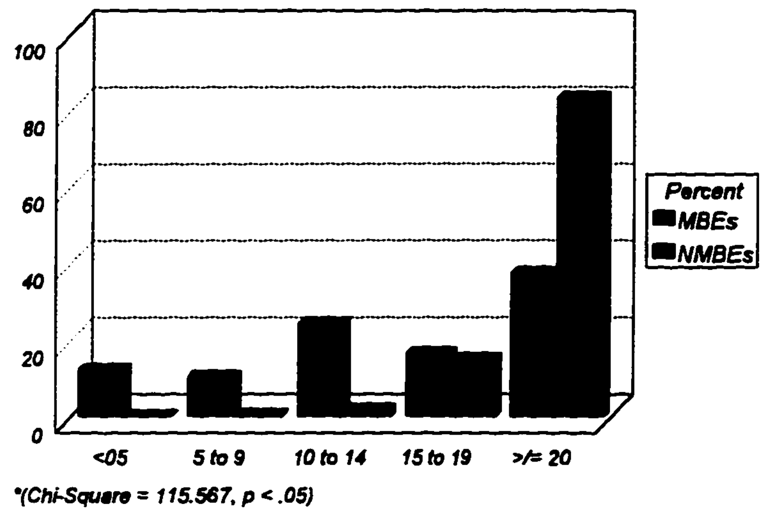


Figure 6. Years in Business

As shown in Table 14, the two groups also differed in the average number of full time employees (X^2 = 119.232). Almost 50 percent of the minority-owned firms reported that they had fewer than 5 employees, whereas less than 5 percent of the nonminority-owned firms reported they had fewer than 5 employees. Less than 5 percent of the minority-owned firms reported they had more than 100, as compared to 16.2 percent of nonminority-owned firms.

Table 14. Full time Employees

Average Number	MBEs	NMBEs
Less than 5	47.8%	4.3%
5 to 10	18.3%	13.2%
11 to 20	15.7%	16.6%
21 to 50	7.8%	29.4%
51 to 100	6.1%	20.4%
More than 100	4.3%	16.2%

Moreover as shown in Figure 7,62.3 percent of the respondents from minority-owned firms reported that 81 to 100 percent of their company's employees were minorities, as opposed to 2.6 percent of nonminority-owned ventures. Most nonminority-owned firms (83.9%) reported that 0 to 20 percent of their employees were minorities ($X^2 = 239.70$).

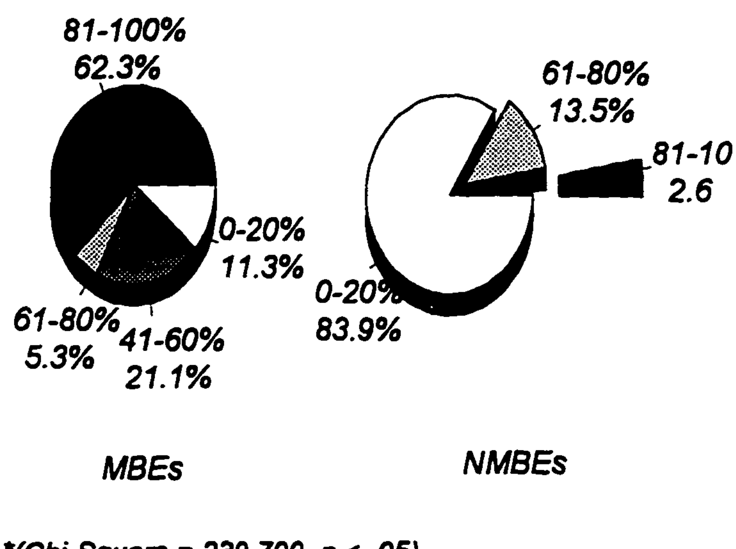


Figure 7. Percentage of Minority Employees

When asked about the different roles of the respondents, the leading reply for minority-owned firms was Founder and CEO (27.6%), and while only 6 percent reported that they played all five of the roles presented (Founder, CEO, Manager (Other than CEO), Staff Member (e.g., Accountant), or Field Employee (e.g., Brick Mason, Contractor)), 36.3 percent reported they played some combination fewer thatn five roles. In contrast, respondents from nonminority-owned ventures reported that they played the lone role of CEOs (29.6%) and managers (22.3%). Less than one percent of them reported that they played all five roles, but 35.4 percent stated that they played more than one role. ($X^2 = 85.62$). Table 15 presents these findings.

Table 15. Role(s) of the Respondents

Roles	MBEs (Percent)	NMBEs (Percent)
Founder	11.2	6.4
CEO	12.9	29.6
Manager	8.6	22.3
Staff Member	1.7	6
Field Employee	1.7	
Founder and CEO	27.6	16.3
Founder,CEO, and Mgr.	3.4	4.3
Founder and Mgr.	9.5	1.7
All 5 Roles	6	0.9
Other	17.4	12.5

*(Chi-Square = 85.620, $p < .05$)

Views on Entry Barriers

Two entry barriers, the Network and lack of capital and access to credit, have been recognized by many analysts, especially in the construction industry, as having the ability to hinder minority-owned firms from attaining above average industry profits. Owners were asked if an influential good-ole boy network existed in the industry and if belonging to it was important to succeed in their industry. Also, they were asked if lack of capital and access to credit was a problem particular to minority-owned firms. As shown in Figure 8, the two groups disagreed on the existence of both entry barriers ($X^2 = 33.493$, 42.454, 73.524, 88.770 respectively).

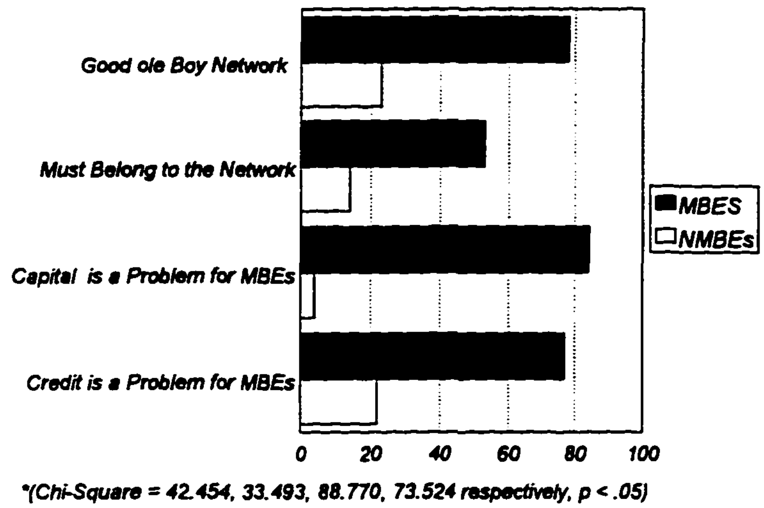


Figure 8. Percent of Firms that Strongly Agree and Agree that Entry Barriers Exist

In summary, minority-owned and nonminority-owned businesses differed in almost every aspect. Clearly nonminority-owned firms have greater revenues and profits, have more employees, and are less diversified than their minority-owned counterparts. On the other hand, minority-owned firms have fewer employees and the owners take on more roles in the firms. Moreover, they disagree on the existence of entry barriers for MBEs.

<u>Identification of the Strategy Types</u>

As shown in Table 16, while the frequencies differed for MBEs and NonMBEs, each of the four strategy types were represented in the self typing.

Table 16. Frequency Counts For Strategy Types (Self-Typing)

Strategy Type	Minority Business Enterprises		NonMinority Business Enterprises	
	Frequency	Percent	Frequency	Percent
Anchors	16	14	40	17
Amateurs	38	33	66	28
Adaptors	26	22	104	44
Adventurers	22	19	21	9
No Response	14	12	4	2

Likewise, FASTCLUS was able to identify all four strategy types from the data as shown in Table 17.

Table 17. Frequencies for MBEs and NMBEs (Cluster Analysis)

Strategy Types	Minority Business Enterprises		NonMinority Business Enterprises	
	Frequency	Percent	Frequency	Percent
Anchors	29	25	78	33
Amateurs	26	22	67	29
Adaptors	42	36	78	33
Adventurers	17	15	10	4
Missing	2	2	2	1

The results differed for the two procedures. Whereas the self-typing revealed that most minority-owned firms would be classified as Amateurs, followed by Adaptors, followed by Adventurers, followed by Anchors, the cluster analysis revealed that most minority-owned firms were classified as Adaptors, followed by Anchors, followed by Amateurs, followed by Adventurers. Most nonminority-owned firms were self -typed as Adaptors, followed by Amateurs, followed by Anchors, followed by Adventurers. But, the cluster analysis showed an almost equal number of Anchors, Amateurs, and Adaptors, followed by Adventurers for nonminority-owned firms.

Table 18. Comparison of the Findings for the Two Procedures

Self-Typing		**Cluster Analysis**	
MBEs	**NMBEs**	**MBEs**	**NMBEs**
Amateurs	Adaptors	Adaptors	Adaptors
Adaptors	Amateurs	Anchors	Anchors
Adventurers	Anchors	Amateurs	Amateurs
Anchors	Adventurers	Adventurers	Adventurers

As a result of the incongruent findings, the data-gathering instrument and data collected were further examined. First, the statement used to identify Amateurs may have been too broad, thus respondents who may not have read all of the statements before choosing a strategy could have easily selected this strategy. Furthermore, a preliminary count of the data revealed a common arrangement of the strategy dimensions that was not identified earlier. This arrangement suggested that using a five-group analysis could also prove to be enlightening. Therefore another analysis was performed in which the initial seeds were:

	Aim	Bus	Key	Risk
Anchor	1	1	1	1
Amateurs	2	2	2	2
Adaptors	1	3	3	1
Adventurers	1	4	4	2
"Data Suggested"	1	3	1	1

Below are the frequency counts for each of the five strategy types (based on the initial seeds provided).

Table 19. Frequencies for MBEs and NMBEs (Five-Cluster Analysis)

Strategy Types	**Minority Business Enterprises**		**NonMinority Business Enterprises**	
	Frequency	**Percent**	**Frequency**	**Percent**
Anchors	19	16	76	32
Amateurs	25	22	20	9
Adaptors	35	30	76	32
Adventurers	14	12	5	2
Data Suggested	21	18	56	24
Missing	2	2	2	1

The results of this analysis showed that most minority-owned firms would be classified as Adaptors, followed by Amateurs, followed by Anchors, followed by the strategy type that was suggested by the data, followed by Adventurers. Moreover, nonminority-owned firms were classified as Adaptors and Anchors, followed by the strategy type that was suggested by the data, followed by Amateurs, followed by Adventurers. These results differed from the two previous procedures and the results of the three procedures are compared in Table 20.

Table 20. Comparison of the Findings for the Three Procedures

Self-Typing		Four-Cluster Analysis		Five-Cluster Analysis	
MBEs	**NMBEs**	**MBEs**	**NMBEs**	**MBEs**	**NMBEs**
Amateurs	Adaptors	Adaptors	Adaptors	Adaptors	Adaptors
Adaptors	Amateurs	Anchors	Anchors	Amateurs	Anchors
Adventurers	Anchors	Amateurs	Amateurs	Data Suggested	Data Suggested
Anchors	Adventurers	Adventurers	Adventurers	Anchors	Amateurs
-----------	-----------	-----------	-----------	Adventurers	Adventurers

Although the results of the five-cluster analysis were based on the data and theory as opposed to theory alone, they could not be used to test the hypotheses presented in this study because of the additional strategy type. The results of the four-group cluster analysis were used to test the hypotheses. This procedure was able to classify more firms than the self-typing (there was fewer missing values or no responses) and the results of the four-cluster approach more closely resembled the results of the five-cluster solution.

The Most Often Used Strategies

The first question under investigation was "Which strategies are used most often by minority business enterprises?" Chi-square analysis was used to address this question.

The observed (actual) and expected frequencies (in percentages) for both minority-owned and nonminority-owned ventures are shown in Table 21.

Table 21. Observed and Expected Frequencies of Strategies According to Firm Type (in percentages)

Firm Type	Strategy Types: Anchors	Amateurs	Adaptors	Adventurers	Total
Actual MBEs	25	23	37	15	100
Expected	30	20	40	10	100
Actual NonMBEs	33	29	33	5	100
Expected	20	10	40	30	100

The goodness of fit test of the Chi-square procedure resulted in:

(For MBEs and NonMBEs)

$$X^2 = \frac{(25-30)^2}{30} + \frac{(23-20)^2}{20} + \frac{(37-40)^2}{40} + \frac{(15-10)^2}{10} + \frac{(33-20)^2}{20} + \frac{(29-10)^2}{10} + \frac{(33-40)^2}{40} + \frac{(5-30)^2}{30}$$

$$= (.833 + .45 + .225 + 2.5) + (8.45 + 36.1 + 1.225 + 20.833)$$

$$= 4.008 + 66.608$$

$$= 70.616$$

There was insufficient evidence to support H_1: *Whereas minority-owned firms will be most often classified as Adaptors, followed by Anchors, followed by Amateurs, followed by Adventurers, nonminority-owned firms will be most often classified as Adaptors, followed by Adventurers, followed by Anchors, followed by Amateurs.* Critical $X^2 = 7.81$ (df=3, α =0.05).

Comparing the actual and expected frequencies in Table 21 with the calculated X^2, revealed that the four values representing minority-owned ventures were close to zero indicating that the actual frequencies were very close to the expected frequencies. The calculated value of Chi-square for minority-owned firms was 4.008, therefore there was sufficient evidence to support the hypothesized pattern for minority-owned firms.

Three of the values representing nonminority-owned ventures were increasingly different from the expected frequencies. Unlike the calculation for the Adaptors, the calculations for the Anchors, Amateurs, and Adventurers were not close to zero and led to the rejection of the hypothesis. The calculated value of Chi-square for nonminority-owned firms was 66.608, therefore there was insufficient evidence to support the hypothesized pattern for nonminority-owned firms. The greatest difference was found in the Amateur strategy type which was anticipated to be the least used strategy type for nonminority-owned firms. While it was believed that this strategy type would be used more frequently by minority-owned firms, relatively more nonminority-owned firms used this strategy than minority-owned firms.

Likewise, although it was anticipated that more nonminority-owned firms would use the Adventurer strategy (another type with a large difference) than minorities would, a higher percentage of minority-owned firms used this strategy than nonminority-owned firms. While there was a difference in the actual and expected frequencies for the Anchor strategy, it was not as large as the differences found between the observed and actual frequencies for the Amateur and Adventurer strategy types. The difference for the Adaptor strategy was minimal. A moderate association exists between the strategies and the type of firm (Cramer's V = .451) indicating that there is some correlation between the two variables.

The Most Successful Strategies

The next question under investigation was "Which strategies are the most successful?" A factorial ANOVA was used to address this question. The marginal means, cell means, and standard deviations are presented in Table 22.

Table 22. ANOVA Marginal and Cell Means Along with Standard Deviations

Type of Firms	Type of Strategies				
	Anchors	**Amateurs**	**Adaptors**	**Adventurers**	**Row Means**
MBEs	$n_{11} = 25$ $\mu_{.11} = 7.2$ $\sigma_{11} = 12.9$	$n_{12} = 22$ $\mu_{.12} = 5.7$ $\sigma_{12} = 8.04$	$n_{13} = 32$ $\mu_{.13} = 3.8$ $\sigma_{13} = 3.58$	$n_{14} = 13$ $\mu_{.14} = 2.5$ $\sigma_{14} = 1.64$	$n_{1.} = 92$ $\mu_{.1.} = 4.8$
NonMBEs	$n_{21} = 71$ $\mu_{.21} = 6.2$ $\sigma_{21} = 8.31$	$n_{22} = 55$ $\mu_{.22} = 8.6$ $\sigma_{22} = 9.89$	$n_{23} = 66$ $\mu_{.23} = 7.3$ $\sigma_{23} = 8.26$	$n_{24} = 8$ $\mu_{.24} = 5.5$ $\sigma_{24} = 5.72$	$n_{2.} = 200$ $\mu_{.2.} = 6.9$
Column Means	$n_{.1} = 96$ $\mu_{..1} = 6.7$	$n_{.2} = 77$ $\mu_{..2} = 7.1$	$n_{.3} = 98$ $\mu_{..3} = 5.5$	$n_{.4} = 21$ $\mu_{..4} = 4$	$nn. = 292$ $\mu_{..} = 5.8$

The hypothesized relationship was that minority-owned firms that are classified as Adventurers would be the best performers, followed by those that were Adaptors, followed by those that were classified as Anchors, followed by those that were Amateurs. For nonminority-owned firms, it was predicted that Adventurers would be the best performers, followed by those that were Adaptors, followed by those that were classified as Anchors, followed by those that were Amateurs. The following tables summarize the results of the two-way ANOVA:

Table 23. Summary Table for Factorial ANOVA

Source	df	SS	MS	F
Strategy	3	206.36	68.78	.95 (NS)
Firm Type	1	197.91	197.91	2.73 (NS)
Interaction	3	233.43	77.81	1.07 (NS)
Error	284	20596.44	72.52	
Total	291	21372.73		

($p<.05$)

Table 24. Means For Testing Hypothesis 2

	Adventurers	Adaptors	Anchors	Amateurs
MBE	2.5	3.8	7.2	5.7
NonMBE	5.5	7.3	6.2	8.6

The results of three comparisons did not support the hypotheses ($p = .21$, $p = .16$, $p = .53$; $2\alpha = .05$, respectively for MBEs and $p = .55$, $p = .93$, $p = .11$; $2\alpha = .05$, respectively for NonMBEs). The results are also presented in Table 25 and Table 26.

Table 25. Contrasts for MBEs

Contrast	DF	Contrast SS	F Value	Pr > F
4vs3vs2vs1	1	104.55089630	1.59	0.2112
3vs2vs1	1	131.50432375	1.99	0.1614
1vs2	1	26.15047002	0.40	0.5305

Table 26. Contrasts for NonMBEs

Contrast	DF	Contrast SS	F Value	Pr > F
4vs3vs2vs1	1	25.82287040	0.34	0.5593
3vs2vs1	1	0.56720729	0.01	0.9310
1vs2	1	186.20969919	2.47	0.1179

The analysis of variance results supported the proposition that there was no significant interaction between the two variables ($p = .36$, $\alpha = .05$). Therefore following the guidance of Neter et al, (1990) the main effects for factors A and B were examined to determine whether they were important. No main effect was found for the two types of firms ($p = .09$, $\alpha = .05$). The results of the tests for a main effect for the four strategy types are presented in Table 27.

Table 27. Main Effect for Strategy Type

Contrast	Means	T value
1 vs 2	6.7 vs 7.18	.7437
1 vs 3	6.7 vs 5.57	.4017
1 vs 4	6.7 vs 4.04	.2165
2 vs 3	7.18 vs 5.57	.2548
2 vs 4	7.18 vs 4.04	.1527
3 vs 4	5.57 vs 4.04	.4700

The second measure of performance was based on the owners perception of how well their firm was doing. Owners were asked if they were satisfied with their firm's performance based on their aim or objective for the firm. Figures 9 and 10 reveal how owners of each strategy type perceive their firm's performance based on his/her objectives for the firm. At least 65 percent of the owners in seven out of eight categories were either very satisfied or satisfied with their performance.

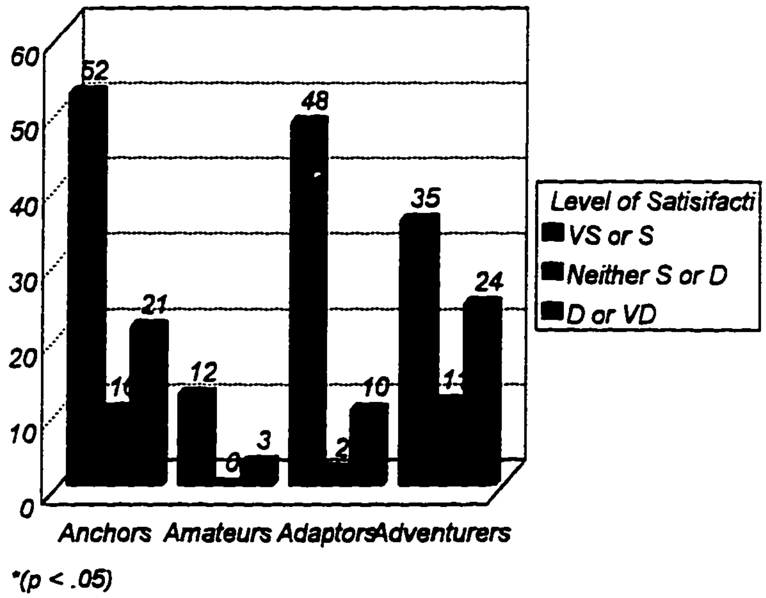


Figure 9. Owners of MBEs Perception of Firms Performance Aim is Profit or Growth

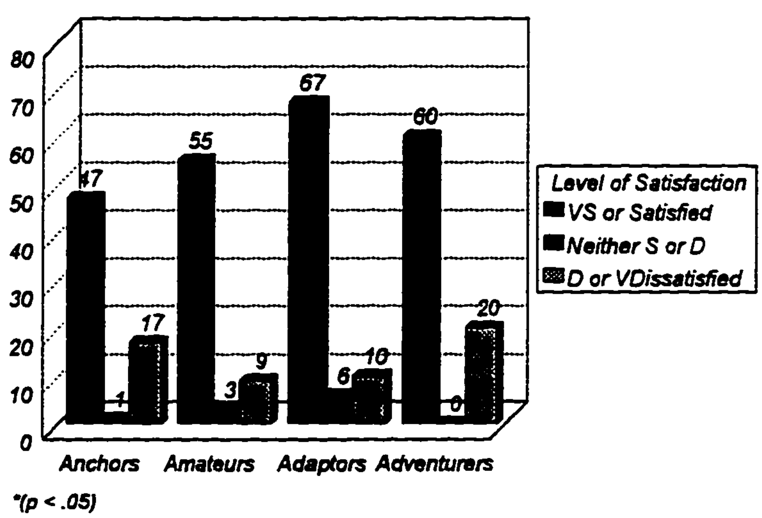


Figure 10. Owners of NMBEs Perception of Firms Performance Aim is Profit or Growth

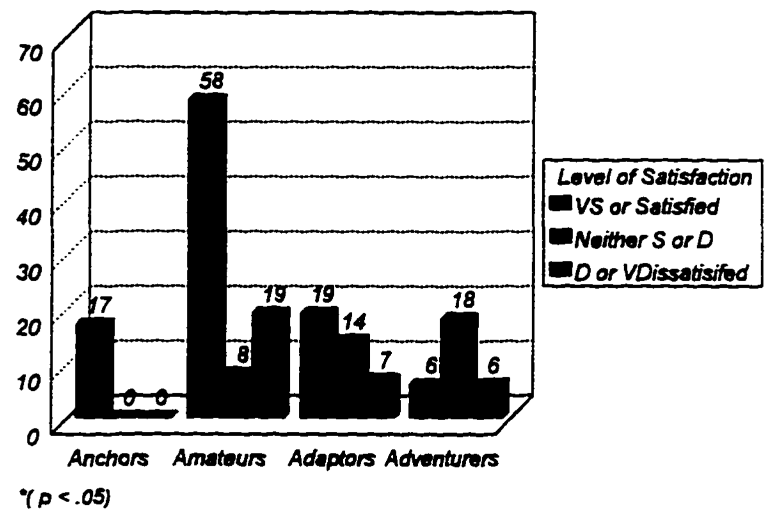


Figure 11. Owners of MBEs Perception of Firms Performance Aim As Self Autonomy or Survival

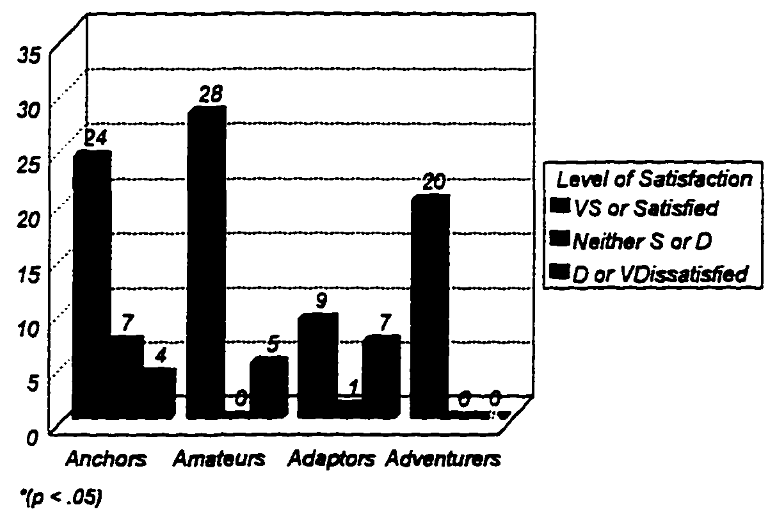


Figure 12. Owners of NMBEs Perception of Firms Performance Aim As Self Autonomy or Survival

The only group that had less than 50 percent satisfaction were owners of MBEs that followed the Adventurer strategy. This same group was also the only group whose scores were normally distributed among the three levels of satisfaction: 1) satisfied, 2) neither satisfied or dissatisfied, 3) dissatisfied. As expected, MBEs that were classified as Amateurs whose aim was survival or autonomy were very satisfied with their firms performance. An analysis of variance (ANOVA) was performed to examine the differences in the owner's perception for each of the strategy types for both minority- and nonminority-owned firms.

Table 28. Summary Table for Three Way ANOVA

Source	df	SS	MS	F
Strategy	3	28.143	9.381	.12 (NS)
Firm Type	1	315.345	413.345	4.00 (S)
Satisfaction	5	201.57	40.314	.51 (NS)
Interaction	28	1453.02	51.893	.90 (NS)
Error	276	21782.00		
Total	291	24368.581		

($p<.05$)

Only one of the sources of variation was significant and therefore a Bonferroni (Dunn) t test was done to further examine this main effect. This test revealed the two groups differed significantly ($t_{276}= 2.14$) in their perspections of firm performance.

The Effectiveness of Minority Set-Asides

The third question under investigation "How effective are minority set-asides as a gateway to entry?" was addressed by asking the respondents to first indicate how much of their revenues was derived from the minority set-asides and second to give their views on the the effectiveness of set-asides as a way to get started in the industry. Figures 13 and

14 show that the two groups differ in their views on the effectiveness of minority set-asides (X^2 = 66.2810. A more detailed discussion of their views is found in Chapter 6.

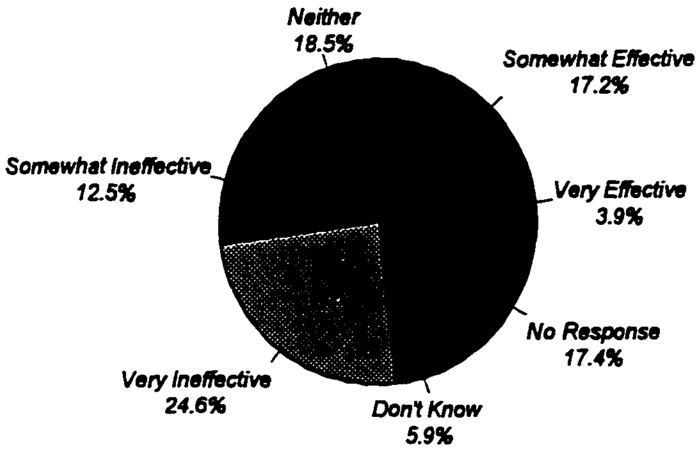


Figure 13. Minorities' Views on Effectiveness of Minority Set-Asides

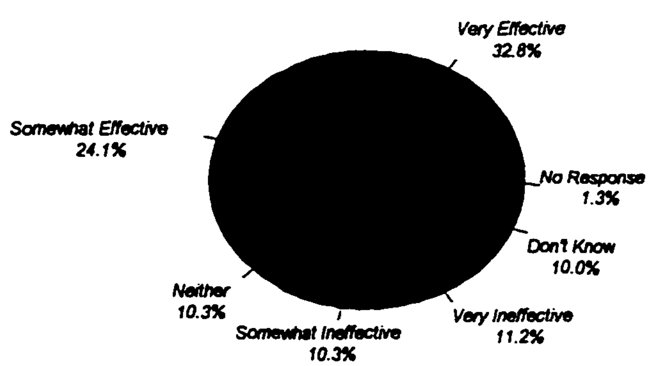


Figure 14. NonMinorities' Views on Effectiveness of Minority Set-Asides

CHAPTER VI

DISCUSSIONS AND CONCLUSIONS

The results presented in Chapter 4 provide some insights into minority business enterprises. This chapter provides a more in-depth discussion of those results, and attempts to develop alternative explanations as to why no linkage between strategy type and performance was found. It also elaborates on the findings regarding minority-set-asides.

Although it was anticipated that minority- and nonminority-owned firms would differ, it was not anticipated that they would differ in almost every aspect. Perhaps racial integration in the U.S. influenced these differences in some way. For many years before the Civil Rights Movement of the 1960's, minorities, especially Blacks, were prohibited from patronizing businesses owned by nonminorities. Minority-owned businesses served members of their own communities well (Woodson, 1987). However once minorities gained more civil liberties and segregation was outlawed in the U.S., minority-owned businesses had to compete with nonminority-owned businesses for customers. Many of those businesses failed because they could not compete successfully, perhaps due to location and/or narrow product or service offerings.

Minority business enterprises in the U.S. construction industry choose to "hedge their bets" by being involved in more than one type of work in the industry, as well as being involved in opportunities outside of the construction industry. Although, many minorities owned businesses before the 1970's, most minority-owned businesses in this industry were relatively newly formed. Many founders were actively involved in the companies and they employed very few people, most of whom were minorities.

The most important finding of this study is the identification of another strategy that entrepreneurial ventures and small businesses use to compete. While the respondents were forced to choose one of the statements provided, most were able to identify their firm's strategy in the self-typing. Though they did not provide an explanation, eighteen firms did not complete this part of the survey. One could argue that some or all did not complete this part of the survey because their strategy was not represented in the four statements provided. One could also argue that these respondents did not complete this part of the survey because they were required to choose one and only one of the statements and their strategy might have fallen within two statements. Of course, it could also be argued that some failed to complete this part of the survey because of time constraints, since upon a closer look at the data it was revealed that several firms did not provide information about their strategy at all. Moreover, the results of the five group cluster analysis make a convincing argument for the existence of a fifth strategy type. Therefore a closer examination of the this new strategy type was appropriate.

The fifth strategy was representative of those firms that fit the following profile:

Aim or Objectives:

Profit or growth

Kinds of Business Opportunities Pursued:

Pursue opportunities that involve their core business and sometimes pursue those that are related to their core business.

Key Relationships: In order to secure business:

Concentrate on building strong relationships with other companies that they are not in competition with or on building strong relationships with their customers.

Attitude toward Risk:

Lean toward conservative "safe" strategies that minimize risk and have reasonable
high probable returns.

This strategy type is identical to the Anchor strategy type on three out of four of the dimensions. However, it differs on the kinds of business opportunities pursued. Whereas, Anchors pursue opportunities that *only involve* their core business, this new strategy type of firm is more aligned with Adaptors on this dimension because they pursue opportunities that involve their core business and sometimes pursue those that are *related* to their core business. This strategy type does not need to team up with its competitors in order to compete for business opportunities that are not in their core area. Firms following this strategy type will be referred to as "Amplers," which is representative of their ability to pursue opportunities without the assistance of others, mainly their competitors.

Notwithstanding, this empirical evidence suggests that there is another dimension that helps to determine the strategies small businesses and entrepreneurs use to compete: capital and access to credit. Numerous reports state that minority business enterprises are plagued by lack of capital and access to credit and the results of this study suggest that those that have sufficient capital and access to credit are able to pursue more business opportunities, even those outside of their core area that would potentially require substantial resources. The new strategy type needs further investigation, however, that investigation is beyond the scope of this dissertation.

Moreover, this analysis revealed that any attempt to explicate the entire range of strategies used by MBEs is a enormous task. While much of the emphasis in this dissertation has been on differences between the strategy types, evidence exists that there are differences within the strategy types. Much of the variation can be found in the aim and or risk dimensions. The typology asserted that only one of the four strategy types identified would have survival or ability to work for self as the aim or objective, but the data revealed that firms practicing other strategies had this same aim. Also, in a group of firms that could be classified as Adaptors, while most of them might be risk averse; some very well might be risk takers. One could argue that these two dimensions should be eliminated because of their inability to further identify group differences, but, eliminating these variables would not improve our ability to describe MBEs. Moreover, the five strategies introduced in this dissertation are only a useful starting point for identifying and examining the strategies used by MBEs and given that there may be variations within the strategy types. In as much as this is true, the following revised typology is set forth:

The Revised Typology

Dimensions	Strategy Types				
	Anchors	**Adventurers**	**Adaptors**	**Amateurs**	**Amplers**
Aim or Objectives	Profit/ Growth	Profit/ Growth	Profit/ Growth	Autonomy/ Survival	Profit/ Growth
Key Relationships	Buyer-Supplier	Competitor-Competitor	Buyer-Supplier Competitor-Competitor	Competitor-Customer	Buyer-Supplier
Opportunities Pursued	Narrow Markets	Unrelated to Core Business	Related to Core Business	Skill Based	Related to Core Business
Attitude Toward Risk	Averse	Takers	Averse	Takers	Averse
Capital and Access to Credit	Limited	Limited	Limited	Limited	Sufficient

<u>Frequency of Use of the Strategy Types</u>

It was proposed that minority-owned and nonminority-owned firms would differ in the number of firms (frequency) classified into each of the strategy types. This proved to be true. The results of the analysis showed that most MBE firms were classified as Adaptors, followed by Anchors, followed by Amateurs, followed by Adventurers. However, the hypothesis that most nonminority-owned firms would be Adaptors, followed by Adventurers, followed by Anchors, followed by Amateurs was not confirmed. Instead, there was significant evidence that there was an equal number of nonminority-owned firms using the Adaptor, Anchor, and Amateur strategies and that these were the most commonly used strategies for nonminority-owned firms. This finding was interesting because it was asserted that these owners would be more willing to take risks than the owners of MBEs and, therefore, it was hypothesized that there would be more nonminority-owned firms classified as Adventurers than Anchors. Instead, the Adventurer strategy was the least-commonly used strategy for both groups.

Perhaps this result is a function of the resources that are needed to pursue this strategy. Those owners whose primary objective for their firm is profit and growth must have the capital necessary to support that growth. While most MBEs perceived lack of capital and access to credit as a problem that is particular to them, most of their counterparts disagreed or had no opinion about the severity of this problem. For sure, both types of firms do not have unlimited resources and must give careful consideration to the type of projects they undertake. If they are to compete successfully, they must have assets and must have the ability to raise capital.

Performance

Although it was anticipated that firms in both groups that followed a particular strategy would do well relative to the other strategy types, it was found not to be the case in this study. This dissertation measured firm performance based on the firm's average return on assets which is a common ratio used to measure profitability. If assets are too low, then profitable sales and opportunities to procure contracts will be lost. While the researcher did not obtain actual figures for the analysis, the performance of the four strategy types did not differ significantly based on AROA.

Although the AROA means for each strategy type were not the same, they were not significantly different. Adventurers and Adaptors were expected to have the highest performance, but this study failed to show a significant difference among these groups' performances as compared to the performance of the other groups. Those firms that were classified as Anchors and even Amateurs did just as well as the Adventurers and Adaptors.

Future researchers should use caution in grounding theory based on this study's failure to find these differences for several reasons. First, Dollinger and Golden's (1992) speculations about their failure to find a relationship between collective strategy and performance might hold true for this study. They stated "that the owners and senior managers are as yet unable to fully exploit the potential performance benefits from this activity" (Dollinger & Golden; 1992 : 710). The assertion here is that firms that combine their resources (work together), and pursue more activities or contracts would perform better than those firms that do not team up with other firms. Once this relationship is perceived as more valuable, one would expect to see firms classified as Adventurers and Adaptors perform better than the other strategy types.

One would also expect that firms classified as Amplers would perform better than the other strategy types because they are not faced with the same limitations as the others. However, a post-hoc examination in the performance of the five strategy types revealed some interesting results. According to a two-way ANOVA for the five-cluster analysis, there was a significant interaction effect ($p < .10$), and there was also a significant effect for the main effect for the difference in the performance of MBEs and NMBEs ($p < .05$). However, the five strategy types did not differ significantly in performance. Table 30 presents the means for this post-hoc examination.

Table 30. Means For Post-hoc Examination

	Adventurers	Adaptors	Anchors	Amateurs	Amplers
MBEs	5.8	3.8	8.8	5.0	4.2
NonMBEs	2.4	7.0	6.1	12.7	8.6

Second, the research design may have been an issue. The databases used in the study may have been too diverse. Any firm that meets the criteria for an MBE can register with the Minority Business Development Agency at no charge, however nonminority-owned firms must pay to be a member of Associated Builders and Contractors. This difference may have impacted the size of firms participating in the study. Moreover, the sample size may not have been not large enough to find significant differences. Although response rates are a problem in small business research, particularly minority business enterprise research, more attempts must be made to improve response rates to ensure reliability of the results. Perhaps in future studies, an organization such as the National Association of Minority Contractors will sponsor research and encourage its members to participate. Currently, organizations like these protect their membership base and are unwilling to provide the needed access to outsiders.

Finally, although making a profit helps to ensure firm survival, many minority-owned firms base their performance on survival and not on the amount of profits the firm earns. Perhaps other measures of performance that are noneconomic such as the number of firms that began operations and are still operating, the number of firms that pursued and were awarded government contracts, the number of firms that attempted to and met the bonding requirements, or some other public or private data would reveal significant differences in performance in the strategy types. Future attempts to measure performance should include noneconomic measures.

Minority Set-Asides

The government developed set-asides to save minority-owned businesses and to ensure diversity in those who enjoy the American dream of success. As stated earlier in this chapter, many minority-owned firms suffered as the result of integration. It has been said that minority set-aside programs are vital to the success of today's minority business enterprises that depend on them and that the elimination of such programs could have a serious negative impact for those businesses. While it has been alleged that most minority-owned firms depend on set-asides for their existence, this study did not reveal such a reliance.

Most owners of minority business enterprises viewed minority set-asides as a way for businesses to get started but felt that the “red tape” involved in actually getting certified and procuring the contract was a deterrent to pursuing these opportunities. Instead, they emphasized the need for local, state, and federal government to remove the restrictions such as bonding requirements that are placed on all small firms that do not have a lot of assets or capital. Furthermore, they argued that agencies and general contractors do not pay for work when it is completed, and that another network of minority subcontractors exists that have numerous opportunities to work while others do not. It appears as though these firms want to compete for all business opportunities, but without the necessary assets, capital, and assess to credit, they find it very hard to do so. This is a big issue in this industry, because firms must have enough resources to complete a construction project from start to finish. Only those firms that have the necessary resources will be able to compete for set-asides for those projects.

While this study based performance on AROA (average return on assets), as reported earlier, revenues and profits for the two groups differed. Generally, nonminority-owned firms are making much more money than minority-owned firms. Almost 67 percent of the minority-owned firms indicated that their revenues were under $1 million in 1992, 1993 and 1994, while almost 79 percent of the nonminority-owned firms reported revenues of over $1 million for this same period. More minority-owned firms than nonminority-owned pursued projects that require resources under $25,000 which may be a result of their inability to get the capital and credit necessary to pursue larger projects.

However, the post-hoc examination revealed that firms that have sufficient capital and access to credit did not differ significantly in their performance as compared to firms that had limited capital and access to credit. One industry insider stated that a problem with some minority-owned firms is that because they do not have the business experience that some of their nonminority counterparts have, they are unable to make informed strategic decisions that could impact their firms in a way that could lead to success and perhaps are using their intuition to determine what projects to pursue. Moreover, more NMBEs have been in business longer and may have developed economies of scales that most MBEs have yet to achieve.

Hence, as a public policy issue, minority set-asides may be helpful to some minority-owned firms, but perhaps government should place more of its efforts in ensuring that capital and access to credit is available for all small businesses and in providing training and education to minorities to enlighten them about ways they can better manage, allocate, and invest the capital and credit they have. Also, these efforts will ensure that minority-owned businesses are not systematically excluded from competition. Stringent practices for contract procurement, like bonding or the requirement that firms have a certain amount of financial resources available, eliminate many firms that do meet these requirements or have access to channels that can provide the resources needed. On the other hand, minority-owned firms will have to eliminate some of the company-specific risks, such as those found by Pearson et al. (1993), involving transaction costs that hinder some of them from competing for larger projects.

To conclude this discussion, while the other entry barrier, the Network, did not seem to have the same level of variance between the two groups of owners as the question of capital and asset to credit, evident from this "disagreement" is that more research needs to be conducted to identify the specific problems that minority business owners incur and how those problems impact the success of their firms. Moreover, one could argue that the mere claim by minority business owners that these barriers exist is not enough to prove their existence. Perhaps as a result of these studies, more support will be provided for Hoffer's (1987) assertion that the construction industry is one of a few industries that minority-owned businesses have been able to penetrate. The next section provides some directions for future research.

Directions for Future Research

This study only touches the surface of the strategic issues surrounding MBEs. This is an underresearched area that needs further study. Some suggestions include:

1. A need exists to determine how the two entry barriers that are often associated with minority-owned ventures (the Network and lack of capital and access to credit) influence the selection of a specific strategy type. This examination should document some of the problems that prevent or hinder minority-owned ventures from penetrating new and existing industries. Performance should be based on whether the firms were able to overcome the entry barriers and whether they were able to survive in the industry for five years, the period in which most new ventures fail.

2. A need exists to determine what happened to those firms that were identified through the mailing as undeliverables. Are those firms no longer in business or did they relocate or are they operating under another name? If they are no longer in business, was a strategic decision made to cease operations and upon what criteria was that decision made? If they are still in business, was the decision to relocate or operate under a new name a strategic decision and, if so, how has that decision impacted their firm performance? Perhaps the Minority Business Development Agency could assist in this endeavor. If no records are kept on these firms, then a database might be started that can track their owner's business start-up activities, opportunities, and performance for five years.

3. A more detailed examination of the kinds of business opportunities pursued needs to be undertaken. Are these opportunities within the respective minority communities or are there opportunities outside of these communities, or both? How skilled are the entrepreneurs and management team at deciding which opportunities to pursue? What criteria is their decision based on or is it based on intuition? Perhaps

owners could provide a copy of their strategic plan or some other record of their efforts to pursue business opportunities within and outside of their communities.

4. Dollinger and Golden (1992) assert that firms cooperate to compete and compete to cooperate. How do Adaptors and Adventurers decide which firms in the industry to cooperate with? How do they determine if these strategic alliances or joint ventures should be continued or disbanded? Which form of cooperation is most frequently used: strategic alliances or joint ventures and why? Some portion of these data should be available through local commerce departments.

5. Do these strategies evolve? Do Anchors, Adventurers, or Adaptors start out as Amateurs and change strategies over time? How is the subsequent strategy chosen? Do firms switch between strategies? If so, what factors determine this change? A longitudinal study is required.

6. Would geographical location alter the results of this study? Would two areas that are similar in structure, like Atlanta, Georgia, and Birmingham, Alabama, have similar results? What about two areas that do not have similar structures, like Atlanta, Georgia, and Boston, Massachusetts? Entry barriers in these two areas might prove to have different impacts on MBEs because in Atlanta one would expect the entry barriers to be lower due to the fact that the government is largely controlled by a Black mayor and many of the city council members are minorities. But, in Boston, a city that has a history of segregation and exclusion, one would expect entry barriers to be somewhat higher, especially the Network and capital and access to credit.

7. The revised typology should be further tested. The preliminary results show that an interaction exist between firm type and strategy type. Therefore, the guidelines set forth by Neter et. al, (1990) should be utilized to further examined this relationship.

8. The revised typology should be tested in other industries. Is this typology industry-specific? What industry characteristics are necessary for this typology to be of

use.? Several industries in which minorities have penetrated are the automobile industry as dealers and service industries such as hair care and other beauty needs of women.

Chapter 6 provided some greater insights into minority-owned businesses. This chapter next chapter discusses the contributions of this research to practice, teaching, and research.

CHAPTER VII

CONTRIBUTIONS TO KNOWLEDGE

This dissertation is the first study that examines the business strategies that are used by minority business enterprises. Chapter 7 begins with a presentation of the contributions of this research for both academic and practitioner audiences. It concludes with a discussion of the study's limitations.

Contributions

This dissertation research provides some interesting insights into minority-owned businesses. Minority business enterprises have been under researched in the field of management. These findings suggest that they deserve further investigation and should not be examined under the same umbrella with other small businesses without acknowledging that differences exists between nonminority-own businesses and minority-owned businesses. Following are the contributions of this research for practice, teaching, and research.

For Practice

This dissertation research provides some interesting and useful insights into minority business enterprises. First, it offers empirical evidence that minority businesses in the construction industry pursue at least four types of strategies and that some are used more often than others. It makes a strong case that another strategy exists, one that enables firms to pursue more opportunities than the strategies initially identified. Although this research showed no linkage between strategy and firm performance, it should be noted some factor (other than AROA) that was not consider in this study could show this linkage. Therefore, owners of MBEs are encouraged to identify a strategy that allows them to exploit their strengths and opportunities and nullify their weaknesses and threats in order to improve their performance. Ultimately, the research addresses the issue of minority set-asides and brings attention to the plight of minority-owned businesses that seek to use minority set-asides to get started. The significant differences between minority- and nonminority-owned businesses exposed in this research suggest that the perhaps the government's efforts to assist minority-owned businesses is misdirected.

For Teaching

A growing number of business schools are offering programs in entrepreneurship and family businesses. This could be due to the fact that small businesses provide a vast amount of jobs in the U.S. and business schools want to take advantage of this opportunity. Moreover, most new businesses in this country are started by minorities. Additionally in recent years, the number of minorities pursuing business degrees has increased. It stands to reason that these business schools would consider incorporating research on minority business enterprises into their management or entrepreneurship curriculum.

This dissertation provides information about some of the differences in minority-owned and nonminority-owned businesses that could greatly benefit minorities who choose to start their own businesses. It could also provide some insight for nonminority students and business owners who may compete against or collaborate with minority-owned firms in business endeavors. It could be a first step to analyzing and understanding the competition. Notwithstanding, a course or section of a course, that focuses on minority business enterprises would aid greatly in persuading more minorities to start their own businesses.

For Research

This research extends a growing body of literature on small businesses and entrepreneurial ventures, and more specifically, MBEs. Previous studies have primarily looked at minority businesses in the context of public policy, how they compared to nonminority firms, and corporate purchasing programs. The Revised Typology of

Strategies for Entrepreneurial Ventures and Small Businesses can be used to classify the strategies used by all small firms, regardless of who owns or manages the firm. It is the first of its kind in the minority business enterprise literature.

Limitations and Key Assumptions

Following are the limitations and assumptions of this study. The list is not exhaustive, but it does identify obvious limitations.

Limitations

This dissertation was limited to firms in the construction industry. Therefore, caution should be exhibited when making generalizations to other industries. It was further limited to those firms that are registered with ABELS or ABC. Not all minority businesses choose to register with a Minority Business Development Center nor are all nonminority-owned construction firms Associated Builders Contractors members.

Because of the lack of research on the strategies of minority business enterprises, this dissertation relied on an innovative typology that had not been empirically tested. Several attempts were made to ensure that the categories provided were representative of the strategies used by small businesses and entrepreneurial ventures, minority-owned businesses in particular.

Because this study used a field survey as the data collection tool, it relied on the owners' perceptions. Attempts were made to define concepts like the "good-ole boy network" that could have different meanings to various owners. Attempts were also made to take the owners' values and beliefs into account, especially when it involved the success of their firm. Furthermore, owners of small businesses and entrepreneurial ventures do not complete surveys as accurately or comprehensively as possible because they do not want outsiders to know financial and other sensitive information on their firms. Attempts were made to assure them that their firm could not be identified on the document. Also, in an effort to obtain more responses to the financial questions on the survey, ranges were used instead of specific numbers.

Finally, the low response rate is indicative of the fact that minority business owners often do not respond to surveys due to the unethical practices of some researchers in the past. Attempts were made to assure these owners that the researcher is ethical and will report the findings appropriately. Therefore, caution should be made in generalizing the results to all minority-owned firms.

Assumptions

One key assumption was that minority business enterprises are a special case of small businesses and entrepreneurial ventures and therefore face many of the same problems that small businesses face. They should have had available to them many of the same activities that other small businesses have. While some firms illegally register as MBEs, it was assumed that those firms registered by ABELS as minority business enterprises were indeed managed and controlled by a minority and are representative of the population of minority-owned construction firms. This researcher assumed that the data gathered through the field survey accurately reflects the strategies used by minority businesses. Finally it is assumed that the proposed theoretical framework correctly identifies the strategies used by minority-owned firms.

In conclusion, this dissertation identifies five strategies that MBEs use to compete. While it fails to show that any particular strategy leads to greater firm performance than the others, it provides evidence that minority-owned and nonminority-owned firms differ in almost every aspect of their business. It reveals that the two groups are in definite disagreement about the impact of set-asides, as well as the existence of the entry barriers under investigation. This dissertation will serve as a starting point in identifying and investigating these and many more issues.

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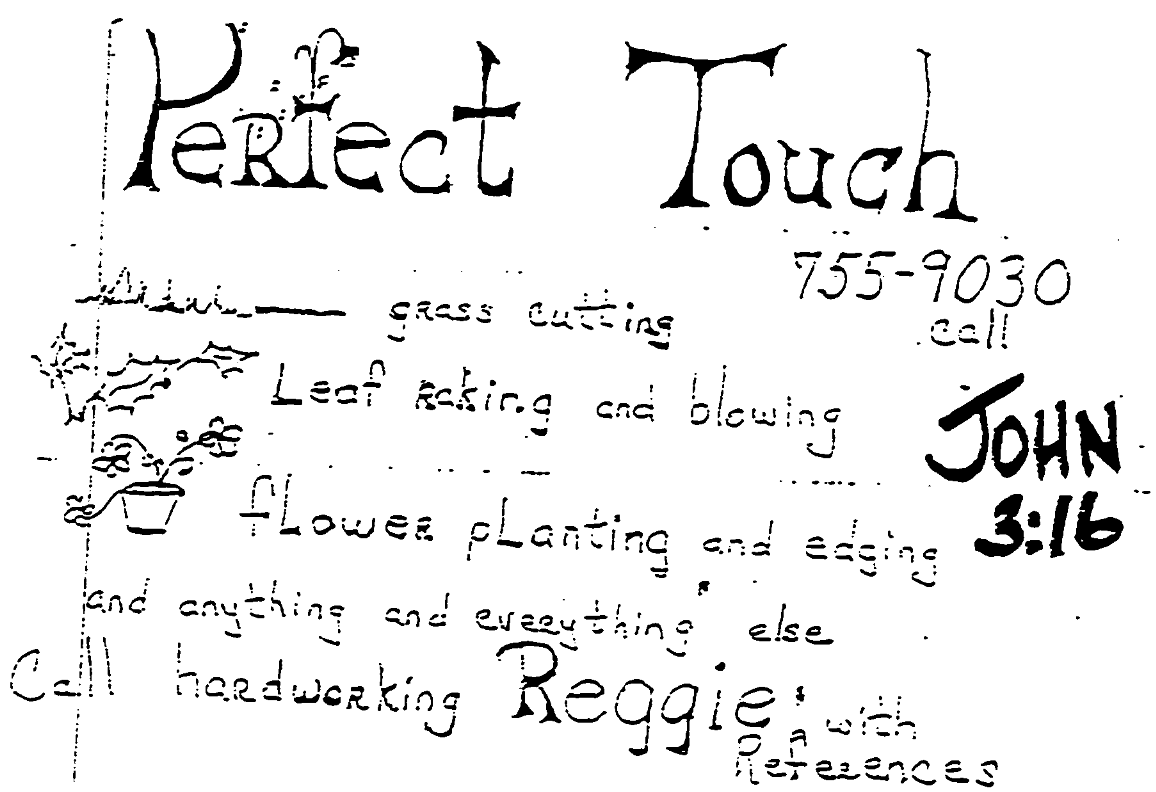
APPENDIX A

Example of an Amateur



APPENDIX B

Example of an Amateur

McKelvey's Carpet and Upholstery Cleaning
2751 Lloyd Road
Decatur, Georgia 30034
Phone: (404) 241-2578
Pager: (404) 247-2221

Dear Friend(s):

My name is Nathaniel McKelvey, owner of McKelvey's Carpet and Upholstery Cleaning. I started this business over four years ago and have come to realize what it takes to continue to grow.

This year, I have put all my knowledge and experience to better serve you my soon to be customer. To provide you with a business person, who not only can clean carpet better than any other, but have the tools and know-how to do many more handy jobs that you may need serviced in your home or business.

Example: A customer called on July 4th and needed her Kenmore stove repaired. When I arrived , she also needed her gutters cleaned; ceiling fan switch repaired; blinds hung and clothes rack in the closet repaired, all in which I was more than happy to do.

I understand that it may be hard for you to take a chance, but you have my word that I am one of the best carpet cleaners and a very good "jack of many trades!"

I hope you give McKelvey's a chance to serve you. You will not be sorry!

Respectfully Yours,

Nathaniel McKelvey

Nathaniel McKelvey

APPENDIX C

Semi-Structured Interview Questions For MBEs

Do you agree with the following statements:
1. There is a good-ole boy network in your industry.
2. Belonging to the good-ole boy network is important if you want to succeed in your industry.
3. Although lack of capital and access to credit is a problem for all small firms, it is particularly a problem for minority-owned firms.
4. My firm's success can be measured by my financial statement.

Please read the following descriptions of strategies that can be used in your industry to compete and check the one that most closely fits your firm.

1.____Competitive strategies such as focusing on customer needs, providing good customer service, and striving for quality can be summarized as what minority-owned firms can do to differentiate themselves from other firms in an industry. Firms that are able to differentiate themselves effectively can choose a position in the industry and maintain or defend that position. These firms penetrate the market by targeting a certain type of customer and guarding that market. For example, they might only pursue minority customers, or opportunities through minority set-asides, or companies with minority purchasing programs. These firms are able to specialize and, because they know their customers well, are better able to meet their needs. Those minority-owned firms that do business with certain markets know the needs of the communities they serve. Often this includes extending a service that meets the need of the community that outside firms may not offer. Outside firms may not be aware of the customers' needs or they may be unwilling to accommodate the customers in order to obtain their business. Similarly, those minority-owned firms in pursuit of government contracts learn how to complete the forms required for bidding, whom they can go to for assistance, and whom they will compete against. Access to the Network may be important if the owner is targeting the type of customers who belong to the Network. Otherwise, these firms are only interested in the network that the members of the community in which they serve belong. They also control their costs which is important due to the lack of capital and access to credit.

2.____Collaborative strategies such as pursuing government set-asides as either the prime contractor or the subcontractor, and forming joint ventures or strategic alliances with other firms can be summarized as what owners of minority-owned firms can do to pursue opportunities that they deem to have above average profit potential, but are unable to pursue without the help of another firm or organization. The owners of these firms do not target a particular market, but are willing to venture into the larger arena. Although they primarily pursue a certain type of customer, they actively seek new opportunities that may not be closely related to their core businesses. What sets them apart from other owners is their willingness to join forces with firms who have similar management styles in order to compete for business that they could not otherwise handle, due to their lack of capital or access to credit. They will be very interested in joining the Network in order to use the "system" to their advantage.

3.____Combinations of competitive and collaborative strategies such as focusing on a particular customer need and forming joint ventures with other firms can be summarized as the efforts made by minority owners to improve their chances of success, or to "hedge their bets." They penetrate a market, and are willing to pursue additional opportunities that are closely related to what they do well. For example, minority-owned firms that are suppliers to major corporations may spend most of their efforts meeting the needs of these corporations. However when opportunities beyond their control force the owner to seek customers from the minority community, they are well positioned to shift their focus from the corporation to the minority community. Overall, these firms adapt easily.

4.____There are minority owners who choose not to develop and/or use strategies, plans, and policies. They may have a business plan but they do not use it to guide the business. These individuals are in business because they want to control their own destinies, they want to be their own bosses, and they do not want to work in Corporate America, which is often viewed by minorities as being controlled by the dominant culture. They are knowledgeable about what similar firms are doing in the industry and they price their products or services accordingly, making little if any attempt to distinguish themselves from their competitors.

Please be prepared to discuss the following questions at our meeting.

1. Are there any other strategies that can be used to compete in your industry?
2. Could you identify your firms strategy with ease?
3. Do you feel that you would be better able to identify your firm if you could combine two or more of the descriptions?
4. In your opinion, which strategies will be used most often and why?
5. In your opinion, which strategies are the most successful?
6. Should small firms use set-aside programs as a basis for business activity? If so, when? If not, why not?
7. Should minorities use set-aside programs as a basis for business activity? If so, when? If not, why not?

Overall, how would characterize opportunities in the construction industry?

APPENDIX D

Semi-Structured Interview Questions For NMBEs

Do you agree with the following statements:

1. There is a good-ole boy network in your industry.
2. Belonging to the good-ole boy network is important if you want to succeed in your industry.
3. Lack of capital and access to credit is a problem for all small firms, not for just minority-owned firms.
4. My firm's success can be measured by my financial statement.

Please read the following descriptions of strategies that can be used in your industry to compete and check the one that most closely fits your firm.

1._____Competitive strategies such as focusing on customer needs, providing good customer service, and striving for quality can be summarized as what small firms can do to differentiate themselves from other firms in an industry. Firms that are able to differentiate themselves effectively can choose a position in the industry and maintain or defend that position. These firms penetrate the market by targeting a certain type of customer and guarding that market. For example, they might only pursue certain types of customers, or opportunities through set-asides., These firms are able to specialize and, because they know their customers well, are better able to meet their needs. Those firms that do business with certain markets know the needs of the communities they serve. Often this includes extending a service that meets the need of the community that outside firms may not offer. Outside firms may not be aware of the customers' needs or they may be unwilling to accommodate the customers in order to obtain their business. Similarly, those small firms in pursuit of government contracts learn how to complete the forms required for bidding, whom they can go to for assistance, and whom they will compete against.

2._____Collaborative strategies such as pursuing government set-asides as either the prime contractor or the subcontractor, and forming joint ventures or strategic alliances with other firms can be summarized as what owners of small firms can do to pursue opportunities that they deem to have above average profit potential, but are unable to pursue without the help of another firm or organization. The owners of these firms do not target a particular market, but are willing to venture into the larger arena. Although they primarily pursue a certain type of customer, they actively seek new opportunities that may not be closely related to their core businesses. What sets them apart from other owners is their willingness to join forces with firms who have similar management styles in order to compete for business.

3.____Combinations of competitive and collaborative strategies such as focusing on a particular customer need and forming joint ventures with other firms can be summarized as the efforts made by small business owners to improve their chances of success, or to "hedge their bets." They penetrate a market, and are willing to pursue additional opportunities that are closely related to what they do well. For example, firms that are suppliers to major corporations may spend most of their efforts meeting the needs of these corporations. However when opportunities beyond their control force the owner to seek customers from their targeted customers, they are well positioned to shift their focus from the corporation to their customers. Overall, these firms adapt easily.

4.____There are owners who choose not to develop and/or use strategies, plans, and policies. They may have a business plan but they do not use it to guide the business. These individuals are in business because they want to control their own destinies, they want to be their own bosses. They are knowledgeable about what similar firms are doing in the industry and they price their products or services accordingly, making little if any attempt to distinguish themselves from their competitors.

Please be prepared to discuss the following questions at our meeting.

1. Are there any other strategies that can be used to compete in your industry?
2. Could you identify your firms strategy with ease?
3. Do you feel that you would be better able to identify your firm if you could combine two or more of the descriptions?
4. In your opinion, which strategies will be used most often and why?
5. In your opinion, which strategies are the most successful?
6. Should small firms use set-aside programs as a basis for business activity? If so, when? If not, why not?
7. Should minorities use set-aside programs as a basis for business activity? If so, when? If not, why not?

Overall, how would characterize opportunities in the construction industry?

APPENDIX E

SURVEY FOR MINORITY-OWNED VENTURES

This questionnaire will be used to study the success of small businesses and entrepreneurial ventures in the construction industry. <u>You do not need to identify your firm on this document.</u> Please answer each question even if your knowledge on some items is limited, there are no right or wrong answers. Your help is greatly appreciated! A brief summary of the results will be mailed to everyone in the sample. Please return the completed questionnaire by January 31, 1996 to Vickie Cox Edmondson at the University of Georgia, Management Department, Athens, GA 30602.

PART I. The following questions ask general information about your company. Please check the response that best represents your firm.

1. Which one of the following types of organizations in the construction industry best represents the type of work your company performs?

___General contracting ___Subcontracting

___Manufacturing ___Distribution and transporting

___Professional consulting services ___Other, please specify___________

2. How long has your company been in business?

___20 or more years ___15 to 19 years

___10 to 14 years ___5 to 9 years

___Less than 5 years

3. Has there been a major change in the top leadership team during this time?

___Yes ___No ___Not sure

3a. If you answered Yes to item 3, was the change in leadership due to a change in the company's strategy?

___Yes ___No ___Not sure

4. Does your company have a formal, written mission statement?

___Yes ___No ___Not sure

5. Does your company have formal, written objectives?

___Yes ___No ___Not sure

5a. If you answered Yes to item 5, how often are the objectives revisited by top management?

___Never ___Yearly

___Every 3 to 5 years ___As often as necessary

___Other; please specify__________

6. Which one of the following groups represents the type of business ownership of your company?

___White/non Hispanic-owned ___Black or African-American-owned

___Hispanic-owned ___Asian/Pacific Islander-owned

___Native American/Alaska Native-owned

7. What is the average number of full time employees in the company?

___More than 100 ___51 to 100

___21 to 50 ___11 to 20

___5 to 10 ___Less than 5

7a. What percentage of your company's employees are minorities?

___81 to 100% ___61 to 80%

___41 to 60% ___21 to 40%

___ 0 to 20%

8. What role(s) do you play in the company? Check all that apply.

___Founder ___CEO

___Manager (Other than CEO) ___Staff Member (e.g., Accountant)

___Field Employee (e.g., Brick Mason, Contractor)

9. What is the financial requirement of the projects your company primarily pursues?

___Projects that usually require less than $25,000 in capital and/or credit

___Projects that usually require at least or more than $25,000 in capital and/or credit

10. What percentage of the company's revenues is derived from government small business set asides?

___100% ___75 to 99.9%

___50 to 74.9% ___25 to 49.9%

___ 1 to 24.9% ___0%

11. How effective are small business set-asides as a way to get started in this industry?

___Very effective ___Somewhat effective

___Neither effective or ineffective ___Somewhat ineffective

___Very ineffective

12. What percentage of the company's revenues is derived from minority set asides?

___100% ___75 to 99.9%

___50 to 74.9% ___25 to 49.9%

___ 1 to 24.9 ___0%

13. How effective are minority set-asides as a way to get started in this industry?

___Very effective ___Somewhat effective

___Neither effective or ineffective ___Somewhat ineffective

___Very ineffective

14. What percentage of your company's sales comes from the construction industry?

___100% ___75 to 99.9%

___50 to 74.9% ___25 to 49.9%

___ 1 to 24.9 ___0%

PART II. The following statements are views about the competitive nature of the construction industry. For the purpose of this survey a 'good-ole boy network' is a close group of firms in an industry that have the ability to keep outsiders from fully participating in their industry. Please indicate your views by checking the correct response.

1. There is an influential good-ole boy network in the industry.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

2. Belonging to the good-ole boy network is important to succeed in this industry.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

3. Although lack of capital is a problem for most small firms, it is particularly a problem for minority- owned firms.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

4. Although access to credit is a problem for most small firms, it is particularly a problem for minority-owned firms.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

5. Overall, business opportunities in the construction industry could be characterized as:

___Excellent ___Very good

___Good ___Fair

___Poor

PART III. The following statements are representative of the types of strategies that may be used in your industry to compete. Please indicate the <u>one that most closely represents</u> how your company competes by placing a check mark next to the statement.

___Our company pursues business opportunities with only customers that are in our target market(s) -- residential customers, customers in a certain geographical area, government set-asides. Thus we are better able meet their needs by focusing on quality service, customer service, or some other aspect of our business that differentiates us from other companies in the industry. We do not team up with our competitors to secure business opportunities.

___Our company pursues <u>all customers</u> who are interested in our special skills or services. We make changes in our operation as often as necessary and price our products or services competitively in order to secure the business. Thus, our strategy is informal and allows for maximum flexibility.

___Our company mainly pursues a certain type (or types) of customers or business opportunities. However, we pursue additional opportunities that are related to what to do well. This could include extending our services to customers outside of our target market when necessary, as well as teaming up with another company to pursue an opportunity that fits well with the other projects in which we are involved.

___Our company pursues as many business opportunities as possible. This often means teaming up with other companies in the industry as either the prime contractor or the subcontractor on multiple projects, and forming joint ventures or strategic alliances. These business opportunities may be unrelated, but if the potential for profit is satisfactory, we are willing to team up with others to secure the business.

PART IV. The following questions pertain to your company's performance. Please provide financial data for the last three years and give your assessment of how well your company performed. (Your firm cannot be identified.)

1. What were your company's revenues for:

1992	1993	1994
___0 to $49,999	___0 to $49,999	___0 to $49,999
___$50,000 to $99,999	___$50,000 to $99,999	___$50,000 to $99,999
___$100,000 to $299,999	___$100,000 to $299,999	___$100,000 to $299,999
___$300,000 to $1,000,000	___$300,000 to $1,000,000	___$300,000 to $1,000,000
___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999
___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999
___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999
___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999
___$100 million or more	___$100 million or more	___$100 million or more

2. What were your company's assets for:

1992	1993	1994
___0 to $49,999	___0 to $49,999	___0 to $49,999
___$50,000 to $99,999	___$50,000 to $99,999	___$50,000 to $99,999
___$100,000 to $299,999	___$100,000 to $299,999	___$100,000 to $299,999
___$300,000 to $1,000,000	___$300,000 to $1,000,000	___$300,000 to $1,000,000
___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999
___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999
___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999
___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999
___$100 million or more	___$100 million or more	___$100 million or more

3. What were your company's profits for:

1992	1993	1994
___Loss	___Loss	___Loss
___0 to $24,999	___0 to $24,999	___0 to $24,999
___$25,000 to 49,999	___$25,000 to $49,999	___$25,000 to $49,999
___$50,000 to $99,999	___$50,000 to $99,999	___$50,000 to $99,999
___$100,000 to $299,999	___$100,000 to $299,999	___$100,000 to $299,999
___$300,000 to $1,000,000	___$300,000 to $1,000,000	___$300,000 to $1,000,000
___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999
___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999
___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999
___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999
___$100 million or more	___$100 million or more	___$100 million or more

4. Which one of the following factors is the most important in determining your company's success?

___Firm profit ___Firm growth

___Firm survival ___Ability to work for self

___Other, please specify: ___________________________________

5. Based on your response to item 4, how satisfied are you with your company's performance over the last three years?

___Very satisfied ___Somewhat satisfied

___Neither satisfied or dissatisfied ___Somewhat dissatisfied

___Very dissatisfied

Part V. The following categories represent different dimensions that help to determine how a company competes. Please check one statement for each of the categories that best expresses your position regarding each dimension.

Kinds of Business Opportunities Pursued

___We pursue opportunities that only involve our core business. (roofing projects only)

___We pursue opportunities that involve our core business and sometimes pursue those that are related to our core business. (roofing and vinyl siding projects)

___We pursue opportunities that involve our core business and although we do not actively pursue them, we are willing to accept projects that are unrelated to our core business. (roofing projects and garage door insulations)

___We pursue all opportunities -- those that involve our core business, those that are related to our core business, and those that are unrelated to our core business. (roofing projects, siding projects, garage door insulations)

Key Relationships: In order to secure business:

___We concentrate on building strong relationships with other companies that we are not in competition with or on building strong relationships with our customers. (Relationships with our suppliers or our customers)

___We concentrate on building strong relationships with companies that we are in competition with so we can work together when necessary and on building strong relationships with our customers.

___We concentrate on building strong relationships with both companies that we are in competition with and those that we are not in competition with and our customers.

___We concentrate on building strong relationships only with our customers instead of our competitors.

Attitude toward Risk

___We lean toward conservative "safe" strategies that minimize risk and have reasonable high probable returns.

___We lean toward aggressive "opportunistic" strategies that can produce a big payoff in the long term.

Again, thank you! Please call Vickie Cox Edmondson at 770-808-4027 if you have any questions or concerns.

APPENDIX F

SURVEY FOR NONMINORITY-OWNED VENTURES

This questionnaire will be used to study the success of small businesses and entrepreneurial ventures in the construction industry. <u>You do not need to identify your firm on this document.</u> Please answer each question even if your knowledge on some items is limited, there are no right or wrong answers. Your help is greatly appreciated! A brief summary of the results will be mailed to everyone in the sample. Please return the completed questionnaire by January 31, 1996 to Vickie Cox Edmondson at the University of Georgia, Management Department, Athens, GA 30602.

PART I. The following questions ask general information about your company. Please check the response that best represents your firm.

1. Which one of the following types of organizations in the construction industry best represents the type of work your company performs?

___General contracting ___Subcontracting

___Manufacturing ___Distribution and transporting

___Professional consulting services ___Other, please specify___________

2. How long has your company been in business?

___20 or more years ___15 to 19 years

___10 to 14 years ___5 to 9 years

___Less than 5 years

3. Has there been a major change in the top leadership team during this time?

___Yes ___No ___Not sure

3a. If you answered Yes to item 3, was the change in leadership due to a change in the company's strategy?

___Yes ___No ___Not sure

4. Does your company have a formal, written mission statement?

___Yes ___No ___Not sure

5. Does your company have formal, written objectives?

___Yes ___No ___Not sure

5a. If you answered Yes to item 5, how often are the objectives revisited by top management?

___Never ___Yearly

___Every 3 to 5 years ___As often as necessary

___Other; please specify__________

6. Which one of the following groups represents the type of business ownership of your company?

___White/non Hispanic-owned ___Black or African-American-owned

___Hispanic-owned ___Asian/Pacific Islander-owned

___Native American/Alaska Native-owned

7. What is the average number of full time employees in the company?

___More than 100 ___51 to 100

___21 to 50 ___11 to 20

___5 to 10 ___Less than 5

7a. What percentage of your company's employees are minorities?

___81 to 100% ___61 to 80%

___41 to 60% ___21 to 40%

___ 0 to 20%

8. What role(s) do you play in the company? Check all that apply.

___Founder ___CEO

___Manager (Other than CEO) ___Staff Member (e.g., Accountant)

___Field Employee (e.g., Brick Mason, Contractor)

9. What is the financial requirement of the projects your company primarily pursues?

___Projects that usually require less than $25,000 in capital and/or credit

___Projects that usually require at least or more than $25,000 in capital and/or credit

10. What percentage of the company's revenues is derived from government small business set asides?

___100% ___75 to 99.9%

___50 to 74.9% ___25 to 49.9%

___ 1 to 24.9% ___0%

11. How effective are small business set-asides as a way to get started in this industry?

___Very effective ___Somewhat effective

___Neither effective or ineffective ___Somewhat ineffective

___Very ineffective

12. What percentage of the company's revenues is derived from minority set asides?

___100% ___75 to 99.9%

___50 to 74.9% ___25 to 49.9%

___ 1 to 24.9 ___0%

13. How effective are minority set-asides as a way to get started in this industry?

___Very effective ___Somewhat effective

___Neither effective or ineffective ___Somewhat ineffective

___Very ineffective

14. What percentage of your company's sales comes from the construction industry?

___100% ___75 to 99.9%

___50 to 74.9% ___25 to 49.9%

___ 1 to 24.9 ___0%

PART II. The following statements are views about the competitive nature of the construction industry. For the purpose of this survey a 'good-ole boy network' is a close group of firms in an industry that have the ability to keep outsiders from fully participating in their industry. Please indicate your views by checking the correct response.

1. There is an influential good-ole boy network in the industry.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

2. Belonging to the good-ole boy network is important to succeed in this industry.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

3. Although lack of capital is a problem for most small firms, it is particularly a problem for minority- owned firms.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

4. Although access to credit is a problem for most small firms, it is particularly a problem for minority-owned firms.

___Strongly agree ___Agree

___Neither agree or disagree ___Disagree

___Strongly disagree

5. Overall, business opportunities in the construction industry could be characterized as:

___Excellent ___Very good

___Good ___Fair

___Poor

PART III. The following statements are representative of the types of strategies that may be used in your industry to compete. Please indicate the <u>one that most closely represents</u> how your company competes by placing a check mark next to the statement.

___Our company pursues business opportunities with only customers that are in our target market(s) -- residential customers, customers in a certain geographical area, government set-asides. Thus we are better able meet their needs by focusing on quality service, customer service, or some other aspect of our business that differentiates us from other companies in the industry. We do not team up with our competitors to secure business opportunities.

___Our company pursues <u>all customers</u> who are interested in our special skills or services. We make changes in our operation as often as necessary and price our products or services competitively in order to secure the business. Thus, our strategy is informal and allows for maximum flexibility.

___Our company mainly pursues a certain type (or types) of customers or business opportunities. However, we pursue additional opportunities that are related to what to do well. This could include extending our services to customers outside of our target market when necessary, as well as teaming up with another company to pursue an opportunity that fits well with the other projects in which we are involved.

___Our company pursues as many business opportunities as possible. This often means teaming up with other companies in the industry as either the prime contractor or the subcontractor on multiple projects, and forming joint ventures or strategic alliances. These business opportunities may be unrelated, but if the potential for profit is satisfactory, we are willing to team up with others to secure the business.

PART IV. The following questions pertain to your company's performance. Please provide financial data for the last three years and give your assessment of how well your company performed. (Your firm cannot be identified.)

1. What were your company's revenues for:

1992	1993	1994
___0 to $49,999	___0 to $49,999	___0 to $49,999
___$50,000 to $99,999	___$50,000 to $99,999	___$50,000 to $99,999
___$100,000 to $299,999	___$100,000 to $299,999	___$100,000 to $299,999
___$300,000 to $1,000,000	___$300,000 to $1,000,000	___$300,000 to $1,000,000
___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999
___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999
___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999
___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999
___$100 million or more	___$100 million or more	___$100 million or more

2. What were your company's assets for:

1992	1993	1994
___0 to $49,999	___0 to $49,999	___0 to $49,999
___$50,000 to $99,999	___$50,000 to $99,999	___$50,000 to $99,999
___$100,000 to $299,999	___$100,000 to $299,999	___$100,000 to $299,999
___$300,000 to $1,000,000	___$300,000 to $1,000,000	___$300,000 to $1,000,000
___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999
___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999
___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999
___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999
___$100 million or more	___$100 million or more	___$100 million or more

3. What were your company's profits for:

1992	1993	1994
___Loss	___Loss	___Loss
___0 to $24,999	___0 to $24,999	___0 to $24,999
___$25,000 to 49,999	___$25,000 to $49,999	___$25,000 to $49,999
___$50,000 to $99,999	___$50,000 to $99,999	___$50,000 to $99,999
___$100,000 to $299,999	___$100,000 to $299,999	___$100,000 to $299,999
___$300,000 to $1,000,000	___$300,000 to $1,000,000	___$300,000 to $1,000,000
___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999	___$1,000,001 to $2,999,999
___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999	___$3,000,000 to $4,999,999
___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999	___$5,000,000 to $24,999,999
___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999	___$25,000,000 to $99,999,999
___$100 million or more	___$100 million or more	___$100 million or more

4. Which one of the following factors is the most important in determining your company's success?

___Firm profit ___Firm growth

___Firm survival ___Ability to work for self

___Other, please specify: ____________________________________

5. Based on your response to item 4, how satisfied are you with your company's performance over the last three years?

___Very satisfied ___Somewhat satisfied

___Neither satisfied or dissatisfied ___Somewhat dissatisfied

___Very dissatisfied

Part V. The following categories represent different dimensions that help to determine how a company competes. Please check one statement for each of the categories that best expresses your position regarding each dimension.

Kinds of Business Opportunities Pursued

___We pursue opportunities that only involve our core business. (roofing projects only)

___We pursue opportunities that involve our core business and sometimes pursue those that are related to our core business. (roofing and vinyl siding projects)

___We pursue opportunities that involve our core business and although we do not actively pursue them, we are willing to accept projects that are unrelated to our core business. (roofing projects and garage door insulations)

___We pursue all opportunities -- those that involve our core business, those that are related to our core business, and those that are unrelated to our core business. (roofing projects, siding projects, garage door insulations)

Key Relationships: In order to secure business:

___We concentrate on building strong relationships with other companies that we are not in competition with or on building strong relationships with our customers. (Relationships with our suppliers or our customers)

___We concentrate on building strong relationships with companies that we are in competition with so we can work together when necessary and on building strong relationships with our customers.

___We concentrate on building strong relationships with both companies that we are in competition with and those that we are not in competition with and our customers.

___We concentrate on building strong relationships only with our customers instead of our competitors.

Attitude toward Risk

___We lean toward conservative "safe" strategies that minimize risk and have reasonable high probable returns.

___We lean toward aggressive "opportunistic" strategies that can produce a big payoff in the long term.

Again, thank you! Please call Vickie Cox Edmondson at 770-808-4027 if you have any questions or concerns.