

# **UTILIZATION OF MINORITY EMPLOYEES IN SMALL BUSINESS: A COMPARISON OF NONMINORITY AND BLACK-OWNED URBAN ENTERPRISES**

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Structural changes in the urban economy are causing African-American workers in blue collar occupations to rely increasingly upon the small business sector for employment. This study finds that most of the nonminority-owned small businesses operating in large urban areas do not employ minorities. Even among the businesses physically located within minority communities, the majority of the workers in the nonminority small firms are white. Black-owned businesses, in contrast, rely largely on minority workers even when their firms are located outside of minority neighborhoods.

## **INTRODUCTION**

This study examines the employment composition of small businesses owned by blacks and nonminorities operating in 28 large metropolitan areas. Nonminority owners of small businesses are found to exclude minority employees (including blacks, Asians, and Latinos) quite often while black owners—even when their firms are located outside of minority communities—consistently employ minorities.

Affirmative action employment policies are of little help in combating the aversion many nonminority small business owners exhibit to employing minorities. Negative white attitudes towards blacks show up regularly in survey data: 65 percent of whites, for example, characterize blacks as lazier than whites.<sup>1</sup> Neckerman and Kirshenman have shown that race serves as a signal of presumed work habits and job suitability for many employers, based upon their general negative stereotypes of blacks.<sup>2</sup> In light of this reality, an alternative strategy for opening up job opportunities in the small business sector is to promote creation and

expansion of firms owned by the group—black employers—that has already demonstrated its commitment to minority hiring.

The fact that most nonminority-owned small business employers have no minority employees may or may not reflect discriminatory hiring patterns. The geographic distribution of minority and nonminority populations in the United States varies greatly, and minorities live disproportionately in large urban areas. Among Hispanics, 88 percent reside within very large Standard Metropolitan Statistical Areas (SMSAs). Only 27 percent of white labor force participants reside in central cities, versus nearly two thirds of the nation's African-American workers.<sup>3</sup> This study examines the employment patterns of small businesses within 28 large metropolitan areas, and these areas are subdivided, in turn, into minority residential neighborhoods and other urban areas. The purpose of this focus is to examine the employment patterns of white and black-owned small businesses in a manner that reduces uncertainty about geographic proximity of minority employees to jobs. The key finding of this study is that minorities are largely excluded from the payrolls of nonminority-owned small businesses. Even those white-owned small business employers whose firms are physically located in inner-city minority communities employ a work force that is predominantly white. Roughly one third of all such firms in minority neighborhoods employ no minorities whatsoever.

Black-owned firms operating in inner-city neighborhoods, in contrast, employ a labor force that consists almost entirely of minority workers. This study finds that 96.2 percent of the black employer firms operating in urban minority communities rely upon a work force composed largely of minorities. While black firms located outside of minority neighborhoods rely largely upon minority workers, most white-owned businesses in these same areas have no minority employees.

### **THE GROWING IMPORTANCE OF SMALL BUSINESS EMPLOYERS**

Declining blue-collar employment at the nation's largest corporations, and the interrelated phenomenon of shrinking employment of less-skilled workers in manufacturing generally, is weakening employment prospects for such groups as African-Americans traditionally reliant upon industrial jobs. Net creation of low-skilled and blue-collar employment opportunities in recent years has been most pronounced in the small business arena.

Structural changes in the urban economy are causing minority workers in industrial regions particularly to rely increasingly upon the small-business sector for employment. Declining employment in manufacturing, offset by a rise in the service-producing sector, is partially responsible for this trend.<sup>4</sup> Furthermore, a growing body of evidence suggests that the bulk of all new jobs in recent years have originated in the small-business sector. The highly publicized research of economist David Birch proclaims that firms employing fewer than 20 workers “have created about 88 percent of all net new jobs” nationwide in the 1980s.<sup>5</sup> Efforts to replicate Birch’s findings have been unsuccessful. More credible studies have pegged the small business share of new jobs at 51 to 56 percent of the employment total.<sup>6</sup> Statistics from the Small Business Administration indicate that firms with fewer than 100 employees were responsible for 53.0 percent of net job creation nationally in the 1980–1986 time period.<sup>7</sup>

Controversy over the role of small business in generating jobs is far from settled, but something of a consensus is emerging regarding employment trends in the manufacturing sector. A recent study of manufacturing employment in the Milwaukee metropolitan area found the employee numbers dropped by 56,800 in the 1979–1983 period and expanded by 5,673 between 1983 and 1987.<sup>8</sup> Looking solely at manufacturers with under 50 employees, Milwaukee-area employment was stable in 1979–1983 (employment grew by a tiny 117 jobs) and it grew by 4,315 employees in the 1983–1987 time period. For Milwaukee manufacturers with 500 plus workers per establishment, employment fell by 46,814 in 1979–1983 and it fell by an additional 3,361 jobs during the 1983–1987 economic recovery period. This pattern of job loss concentrated in the larger establishments and job gains in the small firms typifies manufacturing employment nationwide. Irrespective of the precise overall percentage on job generation by sector, it is clear that urban black workers—particularly males in blue collar occupations—are increasingly limited to employment (and underemployment) with small business.

Until the 1970s, penetration into blue-collar manufacturing had been responsible for widespread income gains for less-skilled employees, especially black male workers. This traditional route to upward mobility has been undermined in many areas of the United States; the massive losses of blue-collar manufacturing jobs in the 1970s and 1980s in nonsouthern regions, furthermore, have effectively reversed many of the employment gains previously captured by black workers.<sup>9</sup>

Black income trends by region highlight the impacts of these job losses. Black family median income in the highly industrialized midwest

was \$23,671 in 1970, which was 73.4 percent of the median white family income in that region. The midwest has been transformed from the *highest* median income region for blacks (in 1970) to the *lowest* median income region by 1987. In that year, black family income in the midwest region (in constant dollars) stood at \$16,755, which was 52.1 percent of the comparable median white family income. High-wage jobs in manufacturing were heavily displaced and the categories for black male workers that registered substantial growth were service employment, unemployment, and labor force nonparticipation. The single line of service employment that grew most rapidly in the midwest was also the least stable, and offered the lowest wages: jobs in eating and drinking establishments.<sup>10</sup>

Largely unprotected by antidiscrimination safeguards, black workers compete for employment in a small-business sector where institutionalized practices tend to undercut their chances of being hired.<sup>11</sup> Small businesses that utilize paid employees are overwhelmingly owned by nonminorities. Among the very small firms in this sector, employees are most commonly either members of the immediate family, relatives, or friends. Employees are likely to be members of social networks that are family based; blacks are not likely to be included in the applicable networks.

Affirmative action, equal employment opportunity law and policies, by their very nature, are not designed to assist the black worker who is seeking employment in this milieu. Consider, for example, the landmark Executive Order 11246, which established rules for nondiscrimination by federal contractors, subcontractors, and construction projects operating with federal assistance. Contractors with 50 or more employees and contracts of \$50,000 or more were required to develop and submit affirmative action compliance programs with goals and timetables for the hiring and promotion of minorities. The key phrase here is "with 50 or more employees."

A number of studies have found that young blacks and whites tend to use different job-search techniques. While blacks tend to walk in and apply, whites are more often referred by friends or relatives.<sup>12</sup> A study by Braddock and McPartland found that the quality of employment blacks obtain is directly correlated with the racial composition of their social networks. They found that blacks who attended racially mixed high schools were more likely to live in racially mixed neighborhoods and work in racially mixed job settings. For black workers, Braddock and McPartland conclude that "segregated networks lead to poor paying, more segregated jobs—desegregated networks lead to better paying, less segregated work."<sup>13</sup>

The relevance of social networks to job access helps to explain why the racial composition of the workforce employed by black-owned businesses differs so profoundly from that employed by nonminority enterprises. These small firms largely draw employees from family-based networks, and blacks are commonly not members of these networks. For essentially the same reasons, black-owned firms employ a labor force consisting almost entirely of minority workers.<sup>14</sup>

### **SMALL BUSINESS EMPLOYMENT PATTERNS IN 28 LARGE METROPOLITAN AREAS**

The samples of small businesses analyzed in this section are drawn from the Characteristics of Business Owners (CBO) survey, which was compiled by the U.S. Bureau of the Census in 1987. The CBO survey drew its sample of over 125,000 small business owners from the 1982 Survey of Minority-Owned Business Enterprises (SMOBE). SMOBE, which includes large numbers of nonminority respondents, was used in conjunction with the 1982 Survey of Women-Owned Businesses, to identify firm owners by race, ethnicity, and gender. In the case of multiple-owner firms, all owners were included in the CBO survey. By design, minorities (Asian, Latino, African-American) were heavily oversampled, accounting for over 75,000 of the 125,000 business owners covered by the CBO survey. The response rate was 81 percent.<sup>15</sup> The 28 metropolitan areas examined in this study are SMSAs selected on the basis of black business frequency and certain population characteristics; all of the largest SMSAs are included.<sup>16</sup> The concept of "minority community" is defined at the zip code level in each of these SMSAs: zip codes having 40 percent or more minority inhabitants are defined as belonging to the minority community (or neighborhood). Zip codes with under 40 percent minority residents are defined as nonminority areas for purposes of this study.

For these 28 large metropolitan areas, the incidence of minority employees on the payrolls of small businesses owned by nonminorities and blacks in 1982 is summarized:

|  | <i>Black firms</i> | <i>White firms</i> |
|--|--------------------|--------------------|
| Percent with 50 percent or more minority employees                     | 93.5%              | 23.3%              |
| Percent with under 50 percent but greater than zero minority employees | 4.3%               | 19.0%              |
| Percent having no minority employees                                   | 2.2%               | 57.8%              |

**TABLE 1**  
**The Incidence of Minority Employees on the Payrolls of Nonminority**  
**versus Black-Owned Firms, by Area, in 1982 (includes small businesses in**  
**28 large SMSAs only).**

|   | Firm located in<br>minority neighborhoods |                    | Firms located in<br>nonminority neighborhoods |                    |
|---|---|--------------------|---|--------------------|
|   | <u>Black Firms</u>                        | <u>White Firms</u> | <u>Black Firms</u>                            | <u>White Firms</u> |
| Percent with 75 percent<br>or more minority<br>employees                          | 93.1%                                     | 29.4%              | 78.9%   | 15.5%              |
| Percent with 50 percent<br>or more minority<br>employees                          | 96.2%                                     | 37.6%              | 86.7%   | 20.4%              |
| Percent with under 50<br>percent (but greater<br>than zero) minority<br>employees | 1.9%                                      | 29.4%              | 10.2%   | 16.9%              |
| Percent having no<br>minority employees   | 1.9%                                      | 32.9%              | 3.1%  | 62.7%              |
| Percent of employers<br>located in each type<br>of geographic area                | 71.3%                                     | 16.4%              | 28.7%   | 83.6%              |

Source: Characteristics of Business Owners Data Base; U.S. Bureau of the Census

These figures certainly reveal very clear-cut differences in the employment patterns of black- and nonminority-owned small businesses operating in major urban areas. While over 93 percent of the black business employers rely upon minorities to fill 50 percent or more of their available jobs, nearly 60 percent of the nonminority employers have no minority employees.

Table 1 breaks down the 28 metropolitan areas into minority neighborhoods and nonminority areas in order to examine small-business employment patterns in greater detail. Looking solely at firms operating in urban-minority communities, Table 1 indicates that 32.9 percent of the white-business employers have no minority workers on their payrolls. Within minority neighborhoods, the preponderance of employees at the nonminority-owned small businesses are white. In complete contrast, nearly all of the black firms utilized minority employees, with 93.1 per-

cent of the employers in minority neighborhoods relying upon minority workers for at least 75 percent of their employees.

Among black employers that are located in nonminority sections of large metropolitan areas analyzed in Table 1, 86.7 percent of them had work forces that were made up of 50 percent or more minorities; most of these relied on minority employees for over 75 percent of their work force. Among the white-owned small businesses in these same areas, most firms had no minority employees whatsoever. Prevalence of minority employees typifies large as well as small black firms, white-collar industries such as finance and insurance as well as blue-collar industries such as manufacturing and construction.<sup>17</sup>

Table 1 documents the fact that black-owned businesses employ minorities predominantly. Among small businesses owned by whites, well over half of those that hire paid workers have no minority workers. Black firms located outside the minority community are clearly much more likely to hire minority employees than nonminority-owned businesses located within minority residential areas.

## CONCLUDING REMARKS

Structural changes in the urban economy are causing African-American workers in blue-collar occupations to rely increasingly upon the small-business sector for employment. This study finds that most of the nonminority-owned small businesses operating in large urban areas do not employ minorities. Even among the businesses physically located within minority communities, the majority of the workers in the nonminority small firms are white. Black-owned businesses, in contrast, rely largely on minority workers even when their firms are located outside of minority neighborhoods. This may suggest that unemployment among blacks can be alleviated somewhat by expanding the number of black-owned businesses,<sup>18</sup> but that is not the issue at hand. The evidence presented herein—whites tend to employ whites while blacks tend not to employ whites—is consistent with the hypothesis that the network-hiring propensities of small business owners tend to limit the employment alternatives of black job seekers. Underrepresentation of African-Americans in the ranks of small-business ownership potentially becomes a major obstacle to black job seekers in a world where 1) new job opportunities are increasingly likely to be found in the small-business sector, and 2) white owners of small businesses prefer to draw their employees from networks that contain few blacks. Black-owned firms employed fewer

than 250,000 workers nationwide in 1987.<sup>19</sup> If most of the jobs available in the small-business sector are found in white-owned firms, and most of the white-owned firms prefer to hire relatives, family members, friends, and friends of friends—few of whom are black—then it follows that black job seekers will fare poorly in this sector. While this study does not constitute a definitive proof of this proposition, all of the evidence considered herein points toward a small business world of network hiring in which job accessibility is a function of the race of the small business owner. In such a world, expanded black ownership of small business is an option that is worthy of serious consideration.

## NOTES

Research reported here was conducted at the U.S. Bureau of the Census, Center for Economic Studies. Findings and conclusions reported in this article do not necessarily reflect the views of the Census Bureau.

1. National Opinion Center, *General Social Surveys* (Chicago: 1991).

2. Kathryn Neckerman and Joleen Kirschenman, "Hiring Strategies, Racial Bias, and Inner City Networks," *Social Problems* (November 1991).

3. These figures, drawn from the 1980 Decennial Census of Population data, are cited in James Lowry, "Set-Aside Programs: Vehicles for Change or Threats to the Free Enterprise System?", in *Selective Affirmative Action Topics in Employment and Business Set-Asides* (Washington, D.C.: U.S. Commission on Civil Rights, 1986).

4. Bennett Harrison and Barry Bluestone, *The Great U-Turn: Corporate Restructuring and the Polarization of America* (New York: Basic Books, 1985). Timothy Bates and Daniel Fusfeld, *Political Economy of the Urban Ghetto* (Carbondale, Illinois: Southern Illinois University Press, 1984).

5. David Birch, *Job Creation in America* (New York: The Free Press, 1987).

6. C. Armington and M. Odle, "Small Business: How Many Jobs?" *Brookings Review* (Winter 1982).

7. These figures are cited in Charles Brown, James Hamilton, and James Medoff, *Employers Large and Small* (Cambridge: Harvard University Press, 1990).

8. Sammis White and Jeffrey Osterman, "Is Employment Growth Really Coming from Small Establishments?" *Economic Development Quarterly* (August 1991).

9. Nationwide data on trends in the occupation and industry of employment illustrate resultant impacts on black men; figures (in percent) represent employment of black men working in:

|   | 1969  | 1984  |
|---|-------|-------|
| a. manufacturing, mining, construction<br>(industry data) | 41.3% | 33.6% |
| b. operatives (occupation data)                           | 28.3% | 22.6% |

While black male operative employment in manufacturing is down across the board, young workers have suffered disproportionately from this trend in job availability. See, Bates and Fusfeld, *Political Economy*.

10. Ibid.

11. Timothy Bates, *Banking on Black Enterprise* (Washington, D.C.: Joint Center for Political and Economic Studies, 1993).



12. Gerald Jaynes and Robin Williams, *A Common Destiny: Blacks and American Society* (Washington, D.C.: National Academy Press, 1989).
13. Henry Braddock and James McPartland, "How Minorities Continue to be Excluded from Equal Employment Opportunities: Research on Labor Market and Institutional Barriers," *Journal of Social Issues* (Spring 1987), p. 12.
14. Bates, *Black Enterprise*.
15. The CBO survey and data base are described in, Timothy Bates, "New Data Bases in Human Resources: The Characteristics of Business Owners Data Base," *The Journal of Human Resources* (Fall 1990).
16. The relevant 28 metropolitan areas include these SMSAs: New York, Chicago, Los Angeles, Detroit, Philadelphia, Houston, Washington, D.C., Dallas-Fort Worth, New Orleans, St. Louis, San Francisco-Oakland, Atlanta, Baltimore, Cleveland, Memphis, Indianapolis, Jacksonville, Milwaukee, Shreveport, Omaha, Columbus, Oh., Birmingham, Newark, Gary, In., Nashville, Kansas City, Richmond, and Pittsburgh. Criteria for SMSA selection are described in Timothy Bates, "Small Business Viability in the Urban Ghetto," *Journal of Regional Science* (November 1989).
17. Differences in the industry distribution of black- and white-owned small businesses are not trivial, with blacks being somewhat overrepresented in service fields and underrepresented in manufacturing. See Bates (1993) for the relevant industry breakdowns.
18. This position is advocated in Bates, *Black Enterprise*.
19. U.S. Bureau of the Census, *Survey of Minority-Owned Business Enterprises: Black* (Washington, D.C.: U.S. Government Printing Office, 1990).

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