

**Immigrants' Pathways to Business Ownership:
A Comparative Ethnic Perspective**

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ABSTRACT

This paper provides a comparative perspective of pathways to entrepreneurship among Hispanic (mostly Mexican), Korean, non-Hispanic white, and South-Asia/Middle-Eastern entrepreneurs to identify common and unique circumstances conducive to business ownership. We analyzed a stratified random sample business survey conducted in an immigrant neighborhood in Chicago, to determine whether employment in a co-ethnic firm and informal self-employment serve as a stepladder to business ownership. We also examine the blocked mobility hypothesis by considering self-reports about reasons for becoming self-employed. Results show that the informal economy is a common pathway to steady self-employment for Hispanics, whereas entry through employment in a co-ethnic firm was more common among Koreans than immigrants from Mexico, the Middle-East, and South-Asia. Koreans see business ownership as a way to overcome blocked mobility, but virtually all desire their offspring to acquire “good jobs” in the open labor market. For Hispanics, business ownership is not solely an instrument for overcoming discrimination, but rather a strategy for intergenerational mobility.

I. Introduction

The rapid increase in the rates of self-employment and the number of immigrant-owned business enterprises spawned a plethora of studies to address why rates of self-employment are higher among foreign-born compared to non-immigrant co-ethnics, and why some groups, e.g. Koreans and Cubans are more successful establishing small businesses than others, e.g. Mexicans and Filipinos (Light and Sanchez, 1987; Waldinger and Aldrich, 1990; Light and Rosenstein, 1995; Raijman, 1996). While there is general agreement that access to capital, labor, and business know-how enable immigrants to establish small businesses in the United States (Aldrich et al, 1984; Portes and Bach, 1985; Portes, 1987; Light and Bonacich, 1988; Waldinger et al., 1990a), there remains considerable disagreement about how residential concentration promotes or inhibits the proliferation of immigrant enterprises (Aldrich and Reiss, 1976; Aldrich et al. 1985; Aldrich et al, 1989; Evans, 1989; Waldinger et al, 1990b; Boyd, 1991a; Logan et al, 1994; Light and Karageorgis, 1996). For example, several residentially concentrated groups, like Mexicans and African Americans, exhibit low rates of business ownership while other residentially dispersed groups, like Asian Indians, have high rates of entrepreneurial activity. Because the study of immigrant business ownership has largely focused on groups with high rates of self-employment, it is virtually impossible to ascertain whether under-represented groups access the business world by mobilizing social and financial resources differently than other immigrant groups. Consider the following two vignettes that exemplify contrasting pathways to business ownership.

Antonio Perez, a 35 year-old Mexican immigrant with only 5 years of education owns a grocery store in Little Village, an immigrant neighborhood in Chicago. Before opening the business, he worked in an American-owned factory from which he was fired. He began his business career as a street vendor until he opened the store in the community (in 1989), just ten years after immigrating to the U.S.. His business operated three months without a license because he did not know about this legal requirement, which, ironically, he learned from a

casual street vendor. The first year was very difficult and in order to make ends meet, he collected junk as a side activity. His wife and 16-year old daughter also work in the current business. His strong entrepreneurial drive is evident in his response to shifting sales. When sales slump, Antonio smoothes income flows by filling his truck with merchandise and selling on various streets in communities around Chicago. He is interested in having a family member take over his business when he retires

Tae-Jon Kim is a 42-year-old Korean immigrant who arrived in the United States in 1987 with his 37-year-old wife, Hei. She holds a high school degree and Tae-Jon finished 2 years of college in Seoul (Korea), where he operated a marketing-consulting business for one year. Because Tae-Jon perceived very limited employment options in the United States, he decided business ownership was his only choice. His only choice was to go into business. That option also proved limiting for a Korean immigrant unaccustomed to the culture and language of the U.S. By working four years as a manager for a distant relative who owned a men's wear retail business, Tae-Jon learned the trade, language and the "American" way of doing business. In 1991 (three years before interviewed) he opened his first business in a flea-market mall. His wife held a job in a factory during the first year the business operated to provide supplementary income for the family, but subsequently returned to full-time homemaking. Although Tae-Jon helped his brother and sister start their own business, he is not interested in having his own kids take over the business.

These vignettes raise several questions regarding what aspects of entrepreneurial experiences are shared and which are group-specific. To answer these questions and understand the differential rates of business formation along ethnic lines, this paper examines several ideas based on the wealth of theoretical approaches to ethnic enterprises. First, we consider how different groups access the world of business ownership. More specifically, we examine ethnic differences in the extent to which employment in a co-ethnic firm as a stepladder to business ownership (Tae-Jon's case) and

whether informal self-employment facilitates the process of business formation by serving as an alternative training sector for prospective entrepreneurs (Antonio's case). We also consider why different ethnic groups enter the world of business by testing the hypothesis that self-employment helps overcome blocked mobility for recent immigrants and comparing the reasons for accessing the world of business along ethnic lines. Although the ideas are not novel, no study has systematically compared entrepreneurs of various national origins to identify common and unique circumstances conducive to business ownership along these theoretical dimensions.¹

To address these questions we rely on a case study of ethnic owned and operated businesses in Little Village, a predominantly Mexican immigrant community in Chicago. Little Village is an interesting case study for understanding ethnic variation in entrepreneurial activity for several reasons. First, the neighborhood's vital business community provides an ideal setting for studying in detail the prevalence of business ownership among Hispanics in general, and Mexicans in particular. Our focus on Mexicans is novel as well. Previous research on ethnic entrepreneurship has implied that because of their working-class background, Mexican immigrants in the U.S. represent a wage labor pool destined

¹ Most of the studies that analyze determinants of self-employment in a comparative ethnic perspective are based on census data. See for example Borjas, 1986; Razin, 1988; Boyd, 1991b; Buttler and Herring, 1991; Sanders and Nee, 1996; Light and Rosenstein, 1995; Fairlie and Meyer, 1996; Razin and Light, 1998. However, from census data we learn about the demographic characteristics of the self-employed but virtually nothing about their establishments. Thus to address the factors conducive to ethnic enterprise (beyond personal characteristics a customized survey was required. Waldinger (1990) collected data for different ethnic groups (Puerto Ricans, white Americans, Dominicans, Chinese, foreign-born Jews, Italians, Koreans, Greeks, Cubans, and Irish) in the area of Sunset Park, Brooklyn (80 interviews in 1986). Gold's ethnographic study (1992) compared Soviet Jews and Vietnamese refugees. However, neither comparative study addresses the issues we consider.

to blue collar and service jobs, and not to business ownership (Portes and Bach, 1985:167, 297; Light and Bonacich, 1988:xi). Whether by design or default, the focus of most studies of ethnic entrepreneurship on groups with high visibility in small businesses, such as Koreans, Cubans, and Chinese, has been taken as *prima facie* evidence of their unique entrepreneurial predispositions. Because most studies have been based on single groups (Portes and Bach, 1985; Yoon, 1991; Min, 1988; Light and Bonacich, 1988; Engstrom and McCready, 1990; Zhou, 1992), it is difficult to ascertain what factors conducive to self-employment are group-specific and which are shared. Second, although predominantly a Mexican residential community, the Little Village business community is ethnically heterogeneous. During the last decade or so, various ethnic groups (Koreans, Arabs, Chinese, Vietnamese and Pakistanis) joined the white and Mexican business owners in Little Village. This rich ethnic diversity allows for an in-depth study of the Hispanic business community as well as a comparative study of business formation along ethnic lines.

After summarizing the key theoretical ideas on which our empirical analysis builds, (Section II), we describe the survey used (section III), and present a comparative profile of business owners and their businesses in Section IV. Subsequently, we contrast pathways to self-employment among Hispanic (mostly Mexicans), Korean, non-Hispanic white, Middle-Eastern and South Asian business owners in Little Village (Section V). In the concluding section we draw a typology of pathways to business ownership that summarizes the specific and general circumstances that promote entrepreneurship and discuss the implications of these differences for business formation.

II. Theoretical Background

Several hypotheses have been advanced to explain how different immigrant groups access the world of business ownership, particularly in the context of concentrated immigrant neighborhoods.

The stepladder argument maintains that immigrants' employment in enterprises owned and operated by other co-ethnics, even at low wages, enables acquisition of knowledge and experience required to establish a business. From this perspective, time spent at low-wage employment is a form of on-the-job training rather than exploitation of immigrant workers by co-ethnics. Moreover, social ties within the ethnic economy widen workers' contacts and increase the chances that employees will move through a variety of jobs that allow for the acquisition of industry-specific business skills. With such training opportunities in place, the immigrant sector grows via a self-feeding process that allows newcomers to work in ethnic firms, from which a subset will set up a business of their own after acquiring relevant skills and becoming acclimated to the U.S. labor market (Portes and Bach, 1985; Portes and Manning, 1986; Waldinger, 1985; Bailey and Waldinger, 1991; Waldinger, 1993; Light and Karageorgis, 1994). Although these ideas have been used to describe the experiences of specific groups, no prior study has documented from a comparative perspective whether entry into self-employment builds on a stepladder experience.

Another set of ideas about how ethnic groups access the world of entrepreneurship concerns the role of informal self-employment in fostering business formation. Informal self-employment also can be a stepladder to formal business ownership, particularly among immigrants whose skills preclude economic mobility in low-wage employment (Castells and Portes, 1989; Stepick, 1989). There exists very little empirical evidence about on the share of immigrant businesses that began informally, except through anecdotal accounts that neither provide a clear sense of prevalence, nor a sense of differential occurrence among national origin groups. Furthermore, even among established businesses (like Antonio's), informality may play a role in enhancing the likelihood that immigrant businesses will succeed by permitting income smoothing during slow periods; by lowering transaction costs; or by providing risk insurance. Of course, not all businesses lend themselves to informal practices and

organizational arrangements, but in low-wage settings, the boundary between formal and informal activities is very blurry (Gauhan and Ferman, 1987; Raijman, 1996; Morales, 1997).

A third hypothesis about differential rates of business ownership along race and ethnic lines is the ethnic disadvantage or blocked mobility hypothesis. Labor market disadvantages unusually reflect inadequate human capital resources (e.g. low education, lack of work experience or job-specific tenure), but can also result from statistical discrimination or the non-transferability of skills acquired abroad). The latter refers to the idea that high-skilled immigrants seek self-employment as a solution to anticipated discrimination in the U.S. labor market. Presumably, the lack of skills that can be readily transferred to the U.S. coupled with poor English fluency drive immigrant workers into the small business sector. Owning and operating a business provides an avenue for economic mobility in a “protected” market, that is, a market relatively shielded from competition with native-born workers of comparable skills (Light, 1972, 1979, 1980, 1985; Bonacich and Modell, 1980; Min, 1988).

Both the stepladder and the blocked mobility hypotheses have been examined with Korean and other Asian immigrants (Light, 1972; Min, 1988), and to a lesser extent with Cuban immigrants (Portes and Bach, 1985), but never with Arab or Hispanic origin immigrants. Notions about how informal employment activities are conducive to the development of formal businesses have been explored with Haitian and Cuban immigrants (Stepick, 1989), and to a lesser extent with other unskilled immigrants from Latin America (Portes and Sassen-Koob, 1987). That this practice has not been challenged reflects the absence of data to develop and test hypotheses comparatively. Evaluating the stepladder and blocked mobility hypotheses with groups other than those from which the original theoretical ideas were derived provides a more solid ground for falsification and verification than the single-group comparisons that have dominated the study of ethnic enterprises. In the following section, we reconsider these hypotheses by presenting comparative empirical evidence. Although most of the

analyses are descriptive, they provide a preliminary foray to understand immigrants' pathways to business ownership from a comparative ethnic perspective. We show that although business ownership is universally considered a source of economic mobility in the U.S., ethnic groups have distinctive pathways to business ownership. Specifically, the informal economy is a common pathway to steady self-employment for Mexicans, whereas entry through employment in a co-ethnic firm was more common among Koreans than for immigrants from Mexico, the Middle East and South-Asia. Koreans see business ownership as a way of overcoming blocked mobility, but virtually all desire their offspring to acquire "good jobs" in the open labor market. For Hispanics, business ownership is not solely an instrument for overcoming labor market disadvantages stemming from low stocks of human capital, but also a strategy for generating resources to be transferred to subsequent generations.

III. The Little Village Study

Little Village, a neighborhood on the southside of Chicago, is the largest Mexican community in the Midwest. The neighborhood experienced considerable social and economic change between 1970 and 1990. In 1970, Hispanics constituted only 30 percent of the neighborhood population, which numbered 62,895 residents. During the next twenty years Hispanics became the predominant ethnic group, comprising 82 percent of all residents by 1990. The process of residential succession generated a crucial market condition for the development of a business sector—that is, a critical mass of ethnic consumers to support ethnic businesses. Merchants and leaders in the community (with whom we met) proudly talk about W. 26th street being the second most successful commercial strip in Chicago (after the Magnificent Mile on Michigan Avenue). Besides formal store fronts, street vendors (Mexican *fruter*os and *eloter*os, and Arab cassette vendors) augment the vitality of business activity in the community throughout the year, but especially during the summer months.

For this study we conducted a survey of businesses located in Little Village. The survey is based on a stratified random sample of establishments that were in operation during the Spring of 1994. Our canvassing of the neighborhood yielded circa 1000 business establishments which were stratified according to primary type of industry, product or service.² Relatively uncommon businesses, such as bridal shops, bakeries, iron works products and factories, were sampled at a rate of 100 percent. Relatively abundant enterprises, like restaurants, bars, auto repair shops and hair salons, were sampled at a rate of 35 percent. All remaining establishments were sampled at a rate of 50 percent. Weights inverse to the sampling ratio are applied to represent the universe of business enterprises.³

We drew a sample of 340 establishments, of which 36 were closed by the date of the interview; 10 were franchises or not-for-profit operations, 5 were secondary businesses of respondents in the sample, and 3 were owned by Cantonese-speaking Chinese, which we excluded for cost reasons. That is, it was not cost-efficient to translate the survey instrument for these cases. Our target sample was 200, therefore we surveyed 286 enterprises and successfully interviewed 204, with a response rate of 71 percent.

² It should be noted that the canvassing approach has limitations because it does not detect businesses that are not visible from the street, which are usually informal home businesses. Our household survey in the same community documented the pervasiveness and character of these economic activities, which mostly involve women in part-time domestic and childcare work (Tienda and Raijman, 2000).

³ Professional services (such as lawyers and health services) were NOT sampled for theoretical reasons. Both the process and the formal requirements for self-employment in medicine and law are sufficiently different from those required to establish small business enterprises. Furthermore, most of the clinics located in Little Village actually were part of large HMO networks that were affiliated with one of the major hospitals in the City of Chicago. Thus, our sample represents all service industries EXCEPT legal and medical services.

In addition, Little Village houses a Jewish-owned, Korean-operated discount mall that accommodates 120 small booths which are rented by Koreans, Arabs, Asian-Indians, Mexicans and other Hispanic immigrants. We drew a stratified random sample of these booths and interviewed 35 percent of Korean and Hispanic businesses, and all booths rented by other groups. Of the 64 operators contacted for interview from the mall sample, 63 percent were successfully interviewed. As such, the response rate for the combined sample of stores from booths and business was 70 percent. This is a highly successful response rate given that we insisted on interviewing owners, and declined to conduct interviews with managers or other employees.⁴

The business instrument solicited information about household and respondent characteristics, a set of questions to measure risk disposition, employment activity before the current business, and inputs for business start-up, including sources of capital, use of credit, problems and financial barriers, family members' participation, employees and clients, suppliers, social networks, organizational participation, and current financial status. The originality of the instrument lies in its emphasis on how ethnicity, through multiple social and economic domains, influences the creation and development of businesses. Another unique feature of the instrument its reliance on extensive use of open-ended questions. To initiate the interviews, respondents were asked to narrate their business career in general, and their current business in particular. This question generated very rich data about the pathways to business ownership.

⁴ All interviews were conducted by bilingual interviewers. If a business had multiple owners, only one was interviewed. Respondents who had multiple businesses were queried about their main business. It was unnecessary (and too costly) to interview all owners because the instrument solicited detailed information about the nature of the partnership and the division of responsibilities among owners. Multiple interviews would have resulted in much redundant information. Less than 10 percent of our respondents were partners.

IV. Ethnic Entrepreneurs in Little Village: a Comparative Profile

We begin with a comparative socio-economic profile of ethnic entrepreneurs in Little Village focusing on dimensions relevant to understanding the applicability of the stepladder and the blocked mobility hypotheses for understanding the process of business formation. Table 1 reports selected characteristics of the business owners and their firms surveyed. As expected, the vast majority (75 percent) were of Hispanic origins (predominantly Mexican), and of these, virtually all were foreign-born (92 percent of Hispanic business owners were born abroad). Of the Hispanic foreign-born, 96 percent were from Mexico and the remainder from Central America. Half of the remaining business owners in Little Village were Koreans, while Middle-Eastern, other South-Asian (India and Pakistan) and non-Hispanic whites comprised 12 percent of total business owners. All Korean, Middle-East, and South-Asia business owners were foreign-born. Immigrant business owners were younger than non-Hispanic whites (43-45 years and 53 years, respectively). Among immigrant business owners, the vast majority (80 percent) were married, compared to just over half of U.S.-born Hispanic establishment owners. Hispanic immigrants who owned businesses in Little Village averaged 23 years of U.S. residence compared to just 11 and 15 years for Korean and Middle Eastern business owners, respectively. Foreign-born Hispanic business owners were less proficient in English than either Korean or Middle Eastern business owners.

Table 1
Selected Characteristics of Little Village Establishment Owners: Means or Percents
(Standard deviations)

	Hispanic Native-born	Hispanic Foreign-born	Korean	Middle East and S. Asia	White
<i>Owner Characteristics</i>					
Age	36.3 (10.7)	43.3 (9.5)	45.6 (10.3)	39.1 (8.9)	53.3 (11.9)
Female Respondents	18.4	31.5	20.8	0.0	15.8
<i>Marital Status</i>					
Currently Married	52.6	81.2	83.8	84.4	76.3
Ever Married	21.1	14.2	7.4	-	15.8
Never Married	26.3	4.6	8.8	15.6	7.9
Tenure in the country years	n.a.	23.4 (9.5)	11.1 (5.8)	11.9 (6.5)	n.a.
<i>English proficiency</i>					
Very proficient	64.5	21.4	4.4	28.1	100.0
Moderately proficient	25.8	46.7	83.8	50.0	-
Not proficient	9.7	31.8	11.8	21.9	-
Years of formal schooling	11.9 (2.8)	9.3 (4.1)	14.5 (2.6)	14.3 (2.2)	14.6 (2.3)
Academic degree	31.6	10.4	52.2	65.7	52.2
Foreign earned degree	-	60.5	88.6	57.1	-
Owned a prior business	23.7	33.3	66.7	45.0	39.5
If prior business abroad	n.a.	33.0	52.0	33.0	n.a.
<i>Industry Distribution</i>					
Construction	5.3	1.0	-	-	5.3
Manufacturing	2.6	1.7	-	-	13.2
Wholesale and Retail Trade	50.0	62.9	97.0	100.0	55.3
Finance-insurance-real-estate	10.5	1.4	-	-	-
Personal, business and repair	21.1	28.1	3.0	-	21.0
Entertainment and recreation	10.5	1.9	-	-	-
Professional and related	-	2.9	-	-	5.3
N	14	165	28	10	18

Source: Little Village Business Survey.
n.a.= Not applicable

Education and prior business experience provide general skills, training and knowledge—human capital—that enables individuals to organize and establish a business in the United States. . Ethnic groups differ appreciably in such human capital resources. Hispanic immigrant establishment owners averaged 9 years of formal schooling while Korean, Middle-Eastern and South-Asian owners (also foreign-born) averaged at least two years of college. U.S.-born Hispanic business owners averaged 12 years of graded schooling. More than half of Korean and non-Hispanic white and two-thirds of Middle-East and South-Asia business owners received an academic degree, compared to one-third and 10 percent of native-born and immigrant Hispanics, respectively. Among immigrants, the majority of the degree holders completed their education in their home countries. These characteristics, especially U.S. tenure, English proficiency, and education, have direct implications for the likelihood of business ownership (Borjas, 1986; Portes, 1987; Evans and Leighton, 1989; Aronson, 1991; Butler and Herring, 1991; Fairlie and Mayer, 1996).

Previous experience in the world of business—what Frazier, (1949) designates as “the art of buying and selling acquired in the sending countries”—has been singled out as the key factor promoting business growth within an ethnic community. Presumably, immigrants equipped with urban skills and trade experiences acquired in their countries of origin can be much more successful than other immigrant groups that lack that kind of training. Experienced businessmen are better prepared to cultivate economic activities in their host societies than their inexperienced counterparts because they bring know-how from their home countries (Portes and Bach, 1985). Ethnic entrepreneurs in Little Village differ considerably in their previous business experience. Two-thirds of all Korean business owners in the community had previously operated a business, compared to 45 and 40 percent of Middle-Eastern/South Asian and non-Hispanic white merchants, respectively. Hispanic business owners had less experience in business ownership. Only one-fifth of U.S.-born and one-third of

foreign-born Hispanic establishment owners had previously owned a business. Almost half of Korean business owners with previous entrepreneurial experience reported owning a former business in their home country, compared to one-third of their immigrant counterparts from Mexico and Central America, and one-fifth Middle-East/South-Asia business owners.

The bottom panel of Table 1 reports the industrial distribution of business establishments in Little Village by the ethnicity of the owner. Retail trade was the modal industry, but there were notable differences by ethnicity of the owner. Virtually all Korean, Middle-Eastern and South-Asian-owned businesses involved retail or wholesale trade activities, compared to only 63 percent of businesses owned and operated by Hispanic immigrants, and half of all businesses owned and operated by U.S.-born Hispanics and non-Hispanic whites. Given the ethnic composition of the community, Spanish-speaking immigrants have a comparative advantage operating entertainment and recreation services, as well as business and repair services. Korean business owners concentrated in clothing (nearly 63 percent) and other general retail concerns, such as electronics, jewelry and beauty supply outlets. By contrast, only 38 percent of Middle-East and South-Asian entrepreneurs and less than 10 percent of non-Hispanic white business owners were engaged in retail of clothing.

Approximately 40 percent of non-Hispanic and U.S.-born Hispanic storefront owners were engaged in sale of furniture, music, photo-processing, laundromats, video rentals and jewelry. One-third of U.S.-born Hispanic owners operated auto repair shops, compared to only 9 percent of Hispanic immigrants. Restaurants in Little Village were predominantly a Mexican immigrant concern, as were hair salons and barbershops. In these businesses that cater to an ethnic clientele, immigrants from Spanish-speaking countries have a clear competitive advantage. Koreans were notably absent from food-store and bakery ownership, which was dominated by foreign-born and U.S.-born Mexicans (nearly 20 percent were so engaged) and a few Middle-East/South-Asian immigrants. This rich data

from the business community of Little Village invites a comparative analysis of pathways to business ownership, to which we now turn.

V. Pathways to Business Ownership: A Comparative Ethnic Approach

Given group differences in human capital resources, including prior business experience, and length of U.S. residence, we expected distinct pathways to business ownership, as shown in Table 2. The top panel reveals that over 60 percent of Hispanic, Korean and Middle-East/South-Asian-owned businesses were started by the current owner, compared to only 29 percent of those owned by non-Hispanic whites. Whereas trivial shares of immigrant-owned businesses were inherited, 16 percent of establishments owned by non-Hispanic whites, and 13 percent of firms owned by U.S.-born Hispanics were so acquired. That over half of businesses owned and operated by non-Hispanic whites were bought, rather than created, suggests a stronger capital position of this group relative to the immigrant minority populations. One-third of Korean businesses were purchased outright. This confirms two circumstances documented by prior researchers, namely that Koreans are more likely to come with prior business experience (see Table 1) and greater capital resources compared to other recent immigrants (Light, 1980; Light and Bonacich, 1988; Min, 1988).

With the exception of Koreans, the modal prior employment status of Little Village business owners was wage and salaried employment. Koreans were far more likely to have prior entrepreneurial experience than any of the other groups, which indicates one pathway to business ownership. That 45 percent of self-employed Koreans, and 24 percent of immigrant Hispanic and Middle-East/South-Asian business owners reported being self-employed in another business prior to the current business implies a high turnover rate of immigrant establishments. Business turnover results

from various sources, including relocation, consolidation of multiple sites, opening of new enterprises, or outright failure.

Although these tabulations reveal important group differences in the precursors to business formation, they not speak to the theoretically interesting issues concerning the role of ethnic communities in providing training for business ownership. The key questions revolve around the extent to which and manner in which businesses owned and operated by ethnic compatriots function as a training platform for future immigrant business formation, and also whether and how groups differ in their reliance on ethnic ties to acquire experience relevant to self-employment.

Table 2
Mode of Entry, Activity Prior to Current Business and Prior Employment Experience of Little
Village Establishment Owners Who Respondents Who Held Wage or Salaried Employment
Prior to Current Business
(in percent)

	Hispanic Native-Born	Hispanic Foreign-Born	Korean	Middle East and S. Asia	White
Mode of Entry:					
<i>Bought or invested</i>					
Self-started	26.3	21.4	32.8	25.0	55.3
Inherited	60.5	74.2	67.2	75.0	28.9
Other	13.2	1.9	-	-	15.8
	-	2.4	-	-	-
Activity Prior to Current Business					
<i>Sample %who were self-employed prior</i>					
to starting current business	15.8	23.4	44.8	25.0	18.4
<i>Sample %who held wage or salaried job prior</i>					
to starting current business	81.3	77.2	51.8	75.0	66.6
<i>% Same Ethnicity as Previous Employer</i>	48.3	45.3	100.0	0.0	100.0
% Acquired Business-relevant Skills in Prior Job	92.5	53.6	66.7	37.5	57.7
[% Started Business in the Informal Economy]	7.9	27.2	9.1	-	-
N	13	132	14	9	12

Source: Little Village Business Survey.

1. The Stepladder Hypothesis of Ethnic Entrepreneurship

The idea that ethnic economies function as training sectors for future self employment implies that informal mobility ladders structured along race and ethnic lines are conducive to self-employment (Portes and Bach, 1985; Portes and Manning, 1986; Waldinger, 1985). This would help explain how limited English proficient and/or educationally disadvantaged immigrants can establish ethnic enterprises. Previous studies suggest that working for an ethnic compatriot may facilitate entry to self-employment, but this presupposes the existence of ethnically circumscribed opportunity structures to acquire experience relevant to establishing a small business. Our training function hypothesis implies that acquisition of work experience either in an ethnic-owned business or a firm in a related line of work serves to acquaint newcomers with the customs, practices and regulations governing business ownership in the U.S., that is, “the American way of doing business.”

The bottom panel of Table 2 provides information about prior employment experience, with a special focus on the ethnicity of the current owners, their relationship to previous employers, and whether respondents’ previous occupational experience provided them with skills relevant to the current business. The data reveal striking differences by ethnicity of business owners. First, all non-Hispanic whites and Koreans reported having previously worked for co-ethnic employers, compared to only 48 and 45 percent of native and foreign-born Hispanics, respectively. Second, only 38 percent of Middle-Eastern and South Asian merchants acquired business-relevant skills in their previous job, compared to 54 percent of foreign-born Hispanics and 67 percent of Koreans.

These results indicate that experience in the ethnic economy is a more common pathway to business ownership for Koreans and non-Hispanic whites than for other immigrant groups. In other words, Korean-owned enterprises serve as training platforms for further self-employment of other Koreans in ways that are not reproduced by other ethnic groups. Although Hispanic business owners

were less able to access the world of entrepreneurship through employment in the Hispanic-owned firms compared to Koreans and non-Hispanic whites, those who worked for a co-ethnic employer were more likely to report having acquired business skills compared to their counterparts who did not work for a co-ethnic employer before opening their current business.

2. Informality as a Stepladder to Entrepreneurship

Table 1 shows that ethnic enterprises operated by immigrants in Little Village are concentrated within the retail and personal service sectors of the economy, which are conducive to small enterprises with low initial capital outlays. Table 2 also presents the actual shares of businesses that began informally according to the ethnicity of the owner. For all groups, informality was not the primary pathway into self-employment, although it was much more salient for Hispanic immigrants—those we earlier identified as having the lowest levels of education and resources at time of arrival.

Over one-quarter of Hispanic immigrant businesses were begun informally, compared to 8 percent of Korean and 15 percent of Middle-East and South-Asian concerns. None of the businesses owned and operated by non-Hispanic whites were begun informally, compared to 8 percent of those owned by native-born Hispanics. Of the 46 Hispanic immigrant businesses that began informally, one was a construction firm, five involved business and repair services, eight were in personal services, and 32 (79 percent) were in retail trade. The relatively high percentage of Hispanic businesses that began informally indicate the prominence of the informal sector as a stepladder to entrepreneurship among Spanish-speaking merchants in Little Village.

Many of the businesses owned and operated by immigrant minorities began at home or in flea markets, allowing potential entrepreneurs to experiment and explore the viability of a particular product in the United States. Of the total foreign-born Hispanic businesses that began informally,

almost 60 percent were home-based during the first stage, and the rest were located in open flea-markets (“garra”), like the former Maxwell Street or in the open streets (like Antonio). Most of the informal businesses moved into their formal stage after their owners gained confidence, experience, capital, and “visualized” a market (Tienda and Rajiman, 2000).

In our sample, only 15 percent of Hispanics who worked for a co-ethnic employer began their business informally compared to one-third of their ethnic counterparts who did not work in an ethnic firm. To test the hypothesis that informal employment is an alternative pathway to self-employment for immigrants who lack opportunities to acquire business experience in co-ethnic firms, we estimate a logistic regression predicting the probability of beginning a business informally as a function of ethnicity of previous employer and a set of control variables (age, years of formal schooling, tenure in the country, and English proficiency). These results (available from authors upon request) support to hypothesis that working for co-ethnic employer decreases the odds of starting the business informally. Hispanic business owners who worked for a co-ethnic firm were 2.3 times less likely to begin their business informally compared to those who did not work for a co-ethnic employer. Apparently, Hispanic businessmen who worked for a co-ethnic employer benefited from training and experience needed to establish their own business in the same line of work. Therefore these respondents were less likely to need the passage through the ethnic economy to acquire relevant skills to operate a business. Thus we tentatively conclude that the informal economy provides an alternative pathway to self-employment for those lacking ethnic ties, capital resources or opportunities to acquiring training in co-ethnic firms.

3. The Blocked mobility Hypothesis and Ethnic Enterprises

The “blocked mobility” argument addresses why rates of business ownership differ among groups with varying levels of education. To examine this hypothesis, we consider respondents' self-reports about reasons for becoming self-employed. Table 3 reports responses to an open-ended question that inquired about the reasons for starting a business and entrepreneurial dispositions.⁵ The modal response for becoming business owners given by all groups except native-born Hispanics was a desire to make more money. This indicates that both relatively highly educated (i.e., Koreans and Middle-Eastern/ South-Asians) and poorly educated (Hispanic) immigrants view self-employment—more specifically, business ownership—as an avenue to economic mobility in the United States.

⁵ The responses do not sum up to 100 percent because the question permitted multiple answers.

Table 3
Reasons for Establishing Current Business and Entrepreneurial Dispositions by Ethnicity of Owner ^a
(Percents)

	Hispanic Native-Born	Hispanic Foreign-born	Korean	Middle East & S. Asia	White
Disadvantaged in U.S. Labor market	5.3	4.6	38.2	31.0	5.3
Difficulties in previous job	10.5	9.2	2.9	9.4	7.9
Make more money	18.4	32.3	51.5	31.3	28.9
Desire independence	18.4	28.2	20.6	37.5	10.5
Always wanted a business	34.2	18.1	10.3	25.0	13.2
Desire flexibility of self-employment	-	5.8	8.8	-	13.2
Previous business experience	15.8	17.8	11.8	-	18.4
Had relevant skills	13.2	16.4	7.4	-	2.6
Opportunity presented itself	34.2	13.0	2.9	-	7.9
Other ^b	-	2.4	4.4	-	15.8
"Would you be willing to risk your house and possessions					
to start a new business" (% willing or very willing)					
	44.7	59.8	30.9	56.3	34.2
On a scale of 1 (Keep business in place) to 5 (Always think					
about ways to make business better), which number fits you?					
(% reporting 4 or 5)					
	86.9	79.3	52.6	64.2	90.3
N	16	171	27	12	18

Source: Little Village Business Survey.

^a Percents exceed 100 because respondents gave multiple answers.

^b Includes all Puerto Ricans

^c Other includes availability of location; "American Dream,"

Both Korean and Middle-Eastern/South-Asian business owners viewed self-employment as an avenue to overcome labor market disadvantages, their second most frequent response. In fact, the most educated immigrant populations perceive most intense blocked mobility. Disadvantages stemming from lack of English language proficiency and the imperfect transferability of their foreign-earned degrees are the basis for immigrants' blocked opportunities in the U.S. labor market. When unable to find employment to commensurate with their education, many college-educated immigrants

seek higher incomes through business ownership. This is the case of a college-educated Korean immigrant who arrived in the United States in 1973 with a college degree and who owns a clothing store in Little Village. When asked about the reasons for becoming self-employed, he answered: “I could not get the job I wanted, that's why I went into my own business.” Another college-educated Korean business owner in the community, with 15 years of U.S. residence admitted that it was difficult to find a job because he lacked English skills. “Most minorities when they come to the U.S. don't know how to apply for a job... I have a university degree in Korea...they [American employers] don't accept a foreign degree... so I asked those who came earlier than me and they suggested the opportunity of doing business.”

U.S.- and foreign-born Hispanics do not perceive business ownership as a strategy for overcoming labor market disadvantages, as only 5 percent gave this as a reason for desiring to establish their own business. Rather, other non-economic rewards, like the desire for independence afforded by business ownership, was the second most common reason given by Hispanics for becoming self-employed. This reason ranked first for immigrant entrepreneurs from the Middle-East and South-Asia, and third for Koreans. U.S.-born Hispanic business owners are a distinctive group insofar as 34 percent indicated that they became self-employed “because the opportunity presented itself.”

Interestingly, less than 10 percent of Korean business owners, compared to 34 percent of Hispanic and 25 percent of Middle-Eastern/ South-Asian business owners, reported a long-standing desire for a business. Furthermore, Hispanics appear to be more willing than Korean immigrants to

risk losing their house and material positions in order to begin a new business.⁶ When asked to comment how much time they invest thinking about ways to improve their business, the majority of Hispanics and non-Hispanic white business owners indicated they “always think about ways to make the business better” compared to only half of Koreans and two-thirds of Middle-Eastern and South-Asian respondents.

Furthermore, and contrary to the restraining myths about Koreans' unique entrepreneurial disposition, our results show that Hispanic business owners are both more committed to “growing their business” and keeping the business in the family than are other immigrant minorities. When asked about plans for expanding their current business, Hispanics were most likely to express a strong desire to expand their business. Over 55 percent of Hispanics desired to expand their business, compared to 43 percent of Koreans, and 16 and 26 percent, respectively, of non-Hispanic whites and Middle-Eastern and South-Asian business owners, respectively. Moreover, an overwhelming majority of immigrant Hispanic business owners (75 and 48 % percent of foreign and native-born, respectively) indicated that they wanted to have a family member assume ownership of their business. This compares with only 10 percent of Koreans, 16 percent of non-Hispanic whites, and 26 percent of merchants from the Middle-East and South-Asia. Hispanic business owners prefer their children to assume ownership of the business, “so they will have resources;” “so they don't have to go through

⁶ It is conceivable that Hispanic business owners are highly selected in this community given that self-employment is less common for this group. We can shed some light on this question because we asked similar questions to respondents in a household survey that was conducted in Little Village simultaneously with the business survey. Self-employed respondents in the household survey were quite similar to the business survey respondents in their risk taking disposition as 31 percent were willing to risk their possessions in order to start a new business). Non-self-employed respondents from the household sample were even less risk averse than Korean business owners in this respect, as 18 percent of the wage-salaried workers who resided in Little Village were willing to risk their possessions in order to start a new business.

want I went through;” and “to keep the business in the family.” Korean business owners rather prefer their children “to go their own way,” preferably through a profession to improve their lives, because having a business is “a jail in disguise;” and “hard work [that] you can’t get anywhere.”

These responses connect with our previous analysis regarding the reasons Koreans gave for becoming self-employed. The first generation sees self-employment as the primary pathway to economic mobility in the host country and a way of overcoming blocked mobility but they aspire their offspring—the second generation—to have a “good” job, preferably a professional career. For Hispanics, business ownership is not solely an instrument for overcoming discrimination in the first generation, but rather a way of creating economic resources to be transmitted to their offspring. Probably anticipating low educational levels for their children, immigrant Hispanics see business ownership as an intergenerational wealth flow, and not as a transitional pathway to the U.S. labor market.

4. Evaluating the Blocked Mobility Hypothesis

In order to evaluate the blocked mobility hypothesis we estimated a logistic regression predicting the probability of reporting labor market disadvantages (e.g. being a foreigner, lack of language skills, lack of other opportunities, status inconsistency, being underpaid for skills) as a reason for becoming a business owner. These results are reported in Table 4. Model 1 includes only the effects of national origins and sex (for control purposes), and Model 2 incorporates a subset of predictors representing owner characteristics associated with labor market disadvantages, that is, language proficiency and tenure in the country.

Table 4
Logistic Regression Predicting Blocked Mobility as a Reason
For Becoming Business Owner (Standard Errors)

Variables	Model 1		Model 2	
Ethnic Origin ^a				
Korean	2.4*	(.77)	2.6*	(1.2)
Hispanic	-.15	(.76)	1.1	(1.1)
Middle-East/S.Asia	2.1*	(.82)	1.9	(1.2)
Education ^b	-		.39*	(.06)
English Proficiency ^c	-		-1.6*	(.45)
Tenure in the Country ^d	-			
1-10 years	-		-.05	(.92)
More than 10	-		.27	(.86)
Age	-		-.19*	(.09)
Age squared	-		.00*	(.00)
Gender (1=Male)			1.17*	(.56)
Constant	.71	(2.4)	-4.9*	(2.6)
- 2 Log-Likelihood	313.8		240.7	
X ²	66.6		138.9	
N	241		241	
% Respondents	11.0		11.0	

Source: Little Village Business Survey

a. The omitted category is Non-Hispanic whites

b. Education is a categorical variable code 1, if more than 13 years; if other 0.

c. Speaks good or moderately good is coded 1; other 0.

d. The omitted category is native-born

* Probability less or equal .05

Model 1 reveals that only Korean and Middle-East/South Asia origin is associated with reported labor market disadvantages. Substantially, these results imply that Hispanics were no more likely to report labor market disadvantage as a reason for becoming self-employed than white business owners. However, compared to white merchants, Korean and Middle-Eastern businessmen were significantly more likely to report labor market disadvantages as a reason for entering self-employment. Model 2, which includes additional indicators relevant for testing the blocked mobility hypothesis, shows that blocked mobility describes the experience of Koreans but not other groups. Thus, our results for Koreans are highly consistent with those produced by other scholars for different cities (Light and Bonacich, 1988, in Los Angeles; Yoon, 1991 in Chicago ; Kim, 1981, 1987, in New York and Min, 1988 in Atlanta). Blocked mobility seems to be the critical factor explaining high rates of business ownership among Koreans and probably other well-educated immigrant groups. Specifically, controlling for language proficiency, tenure in the country, schooling and age, Korean business owners were 24 times more likely than white merchants in Little Village to report blocked mobility as a reason for establishing a business.

As expected, language proficiency and level of education also affect the likelihood of reporting blocked mobility as a reason for becoming self-employed. Respondents who reported a good command of English and lower levels of education were less likely to report blocked mobility as a reason for becoming business owners than their respective counterparts with low English proficiency and high levels of education. Finally, female and young respondents were less likely than male and older respondents to report disadvantages in the labor market as a reason for becoming self-employed. The absence of a Hispanic effect on labor market disadvantages indicates that blocked mobility is not a salient mechanism driving their self-employment. That is, because the majority of Hispanic (mostly Mexican) immigrant business owners have relatively low levels of education and limited English

proficiency, their labor market disadvantages can be traced to human capital shortfalls and not to a mismatch between their skills and job opportunities in the labor market like in the case of Koreans. From an analysis addressing different questions, Waldinger (1990:270-271) arrives to similar conclusions. In his words, “We can locate the source of Koreans’ business drive in the mismatch between their skills and the opportunities that they encounter for salaried employed- not in any special feeling or affinity for business. Moreover, the circumstances of Koreans’ migration seem to make the consequences of blocked mobility more severely felt. By contrast such a mismatch is not characteristic of the Hispanics; hence, their recruitment into business takes the form of a more or less natural succession into vacant places.”

VI. Discussion and Conclusions

The main objective of this paper was to understand *how* and *why* different ethnic groups access the world of business. We sought to identify what circumstances are unique to specific groups, and which are common to all. Table 5 summarizes the discussion by presenting a typology of pathways to business ownership by ethnicity. Although not exhaustive, the typology includes the main dimensions relevant to understanding why and how individuals of different ethnic backgrounds enter the world of business ownership.

Table 5
Typology of Pathways to Business Ownership by Ethnicity of Owner

	Hispanics	Whites	Koreans	Middle-East & S.Asia
Why do different ethnic groups access the world of business?				
Avenue to economic mobility	High	High	High	High
Blocked Mobility	Low	n.a.	High	High
Risk Disposition	High	Moderate	Moderate	Moderate
How do ethnic groups access the world of business?				
Prior business Experience in home country	Low	n.a	High	Low
Education	Low	High	High	High
Inheritance	Low (Native-born only)	Low	None	None
Previous employment in a co-ethnic firm	Moderate	High	High	None
Started in the informal economy	High	None	Low	Low

One reason for becoming a business owner is the desire of all respondents—regardless of ethnicity—to improve their economic situation. Only immigrants from Korea, who had high levels of education, reported that mismatch between their skills and the jobs available in the labor market was an important reason for becoming business owners (like Tae-Jon). That only Korean business owners

reported having been pushed to self-employment because they could not get a suitable job raises questions about how discrimination manifests itself in the labor market, and why some ethnic groups have better chances than others to achieve jobs congruent to their skills. Had Koreans had “adequate” job opportunities, would they still be self-employed? If yes, would their rates of self-employment be lower? And, would their main industry of employment be in the retail trade? In this regard, the findings suggest that the blocked mobility hypothesis obtains for Koreans, who view self-employment as the “price” of immigration to be paid by the first generation. They expect their children to enjoy better labor market opportunities than they experienced as immigrants. Our findings also challenge conventional wisdom about unique entrepreneurial disposition of Koreans. Hispanics ranked as the most entrepreneurial among business owners in Little Village as compared to Koreans, Arabs and non-Hispanic whites based on their risk-taking ability.

We document clear differences among ethnic groups with regard to previous business experience. Hispanics have comparatively less experience in the world of business (whether in the U.S. or in their home countries) than either Korean immigrants and U.S.-born non-Hispanic whites. This means that for a substantial share of Korean merchants in the community (like the case of Tae-Jon), business ownership in the U.S. is merely an extension of previous experiences in their home countries. Our findings also show that the informal economy was a more common pathway to steady self-employment for Hispanic immigrants (like Antonio), whereas the passage through employment in a co-ethnic firm was more common among Koreans (like Tae-Jon). Native-born Hispanics reported fewer experiences in the informal economy, probably because their human capital resources (higher education, language proficiency, American citizenship) and family resources facilitate alternative routes to business ownership or to the general labor market, for that matter. Indeed, for U.S.-born Hispanics

and non-Hispanic white business owners in Little Village, inheritance is an alternative pathway to self-employment not shared by immigrant groups.

Mexicans and Koreans differ in their chances of entering the world of business through employment in a co-ethnic firm. For Koreans, access to employment in the ethnic economy is more prevalent than for immigrants from Mexico, the Middle-East and South-Asia. That means that for Mexicans, even though training experiences are available in co-ethnic firms, the multiplier effect that facilitates proliferation of new firms is smaller. Thus, the aggregate, this pathway to Mexican-business ownership may be smaller owing to the smaller base of ethnic businesses that provide training opportunities to compatriots (compared to Koreans). To what extent this could explain different rates of self-employment is a question that needs to be addressed in future research.

Lacking a strong ethnic economy to acquire training and skills, many Hispanic immigrants use the informal sector as means of acquiring the skills and capital necessary for starting a business in the formal realm (like Antonio). In some instances informal self-employment is a conduit to formal self-employment in the small business sector. Informal economic activities allow enterprising immigrants to experiment and explore the viability of particular types of businesses. By testing the market, possibly accumulating capital or learning about its availability, acquiring rudimentary skills in a particular line of work, and learning “American ways,” informal self-employment can serve as a stepladder to successful business formation. Although this study provides some clues for understanding the linkage between informal activities and small business ownership, a longitudinal study is necessary in order to better understand the transition from informality to a formal business formation.

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