

## **Training Functions of Ethnic Economies: Mexican Entrepreneurs in Chicago**

Rebeca Raijman,

University of Haifa

Mount Carmel

Haifa - 31905 - Israel

Email: [raijman@soc.haifa.ac.il](mailto:raijman@soc.haifa.ac.il)

Marta Tienda,\*

Princeton University

21 Prospect Avenue

Princeton, NJ 08544-2091

Email: [tienda@opr.princeton.edu](mailto:tienda@opr.princeton.edu)

An earlier version of this paper was presented at the Conference of the Research Committee #28 (Social Stratification and Mobility) of the International Sociological Association, Tel Aviv, May 1997. This research was supported by grants from the MacArthur Foundation and the Rockefeller Foundation to the Center for the Study of Urban Inequality at the University of Chicago, (Marta Tienda, Richard Taub and Robert Townsend, PI's). We are grateful to Pamela C. Bye-Erts for technical assistance and to Moshe Semyonov and two anonymous reviewers for helpful comments.

\*Direct all correspondence to Marta Tienda at the address indicated above.

(Revised, March 2000)

## **Training Functions of Ethnic Economies: Mexican Entrepreneurs in Chicago**

### **Abstract**

This paper evaluates the frequent claim that ethnic economies operate as a training sector for future entrepreneurs. Results from a representative community survey of Mexican business owners in Chicago show that previous employment in a co-ethnic firm increases the likelihood of acquiring skills relevant for running a business. Mexican business owners who previously worked in a co-ethnic firm were exposed to training opportunities that differ from the experiences of their ethnic counterparts who did not. However, Mexican immigrants' chances of entering the world of business through employment in a co-ethnic firm are low, as less than half ever worked for a co-ethnic boss before opening their current business. Thus, the proliferation of Mexican-owned and operated businesses may remain relatively low until the small base of Mexican businesses expands.

## **Training Functions of Ethnic Economies: Mexican Entrepreneurs in Chicago**

### **I. Introduction**

Previous research in the field of ethnic entrepreneurship has suggested that the ethnic economy functions as a “school for entrepreneurs” (Light et. al., 1994). Presumably, employment in co-ethnic firms promotes self-employment among co-ethnic employees by providing opportunities for skill acquisition and importing knowledge about what it takes to start a business (Portes and Bach, 1985; Portes and Manning, 1986; Waldinger, 1985, 1986; Bailey and Waldinger, 1991). This view assumes ethnic economies create business opportunities for immigrant workers by mobilizing ethnic ties in pursuit of market opportunities, whether ties are spatially concentrated in ethnic enclaves or evenly distributed across space (Light and Bonacich, 1988; Waldinger, 1993; Logan et al, 1994). However, there has been relatively little empirical evidence has been marshaled to support these claims, dubbed the training function hypothesis. Accordingly, we evaluate the training function hypothesis by drawing on a case study of Mexican business owners in Chicago.

Our focus on Mexicans is novel. Despite the size of the Mexican foreign-born population and its high residential concentration in a few large cities (Greenwood and Tienda, 1997), Mexicans have been a neglected group in the field of ethnic entrepreneurship.<sup>1</sup> Previous studies claimed that Mexican immigrants represent a wage labor pool destined to blue collar and service jobs rather than business ownership (Portes and Bach, 1985:167, 297; Light and Bonacich, 1988:xi). In fact, most studies of ethnic entrepreneurship focus on groups with high visibility in small businesses (such as Koreans, Cubans, and Chinese), to the relative neglect of Mexicans or other immigrant groups with low rates of self-employment. Little Village, a Mexican immigrant

community in Chicago, is an interesting case study for understanding Mexican entrepreneurial activity because the community features a vital business sector dominated by Hispanic entrepreneurs, and Mexicans in particular. As such, it provides an ideal setting for studying the circumstances conducive to business ownership among recent immigrants.

Based on this community study, we examine the mechanisms through which ethnicity affects access to business ownership to illustrate how ethnic economies stimulate or undermine business activities. Our analysis focuses on one specific training mechanism, namely the acquisition of skills via employment in a co-ethnic firm. Specifically, we consider whether current Mexican business owners in Little Village were trained in other co-ethnic businesses, and how the training process differs depending on whether it occurs within or outside establishments owned and operated by co-ethnics.

We begin with a theoretical overview that sets the background for understanding entrepreneurship in Little Village (Section II). After describing the Little Village business survey (Section III), we profile Mexican business owners' and contrast their training experiences according to previous employment in the ethnic versus the open economy (Section IV). The final section discusses the implications of the ethnic economy's training function for self-employment growth in immigrant communities.

## **II. Theoretical Background**

### ***The Ethnic Economy and the Ethnic Enclave : A Conceptual Distinction<sup>2</sup>***

For over two decades, social scientists have tried to understand how different immigrant groups access the world of business ownership, particularly in the context of ethnic and immigrant neighborhoods. Since Portes and his associates coined the term "ethnic enclave" to

characterize the emergence of a spatially concentrated business sector in Miami (Wilson and Portes, 1982, Portes and Bach, 1985; Portes 1987; Portes and Manning, 1986), there has been highly spirited debate about the necessary and sufficient conditions for an ethnic enclave to emerge, the differences between ethnic economies and enclaves; and the costs and benefits of working in ethnic enterprises. In an effort to bring clarity to the conceptual confusion in the burgeoning entrepreneurship literature, Light and collaborators summarized the theoretical underpinnings of ethnic economies and ethnic enclaves (Light and Karageorgis, 1994; Light et al., 1994; Light and Gold, 2000). They remind us that ethnic economy concept derives from a literature about middleman minorities (Bonacich, 1973), whereas ethnic enclave economy evolves from writing about labor segmentation (Averitt, 1968; Doeringer and Piore, 1971; Piore, 1975).

Bonacich and Modell (1980) first developed the ethnic economy concept “to differentiate general economy employment from the employment a minority has created for itself” (Light et al, 1994:66). The ethnic economy includes any ethnic or immigrant persons who are employers, who are self-employed, or employees in co-ethnic firms. The contours of an ethnic economy are defined by race, ethnicity, or national origin and its defining feature stems from the economic advantages afforded in relations among business owners, and between owners and workers of the same racial origin (Logan et al, 1994).

Presumably, ethnic economies operate as sheltered labor markets because in the absence of competition with natives, immigrants often enjoy job opportunities otherwise denied them (Waldinger, 1986). Within the ethnic economy immigrants can avail themselves to job opportunities across the entire occupational hierarchy, including managerial, administrative, and professional positions (Lewin-Epstein and Semyonov, 1994). Viewed from an institutional perspective, ethnic

economies often function as internal labor markets by protecting (at least partly) immigrant workers from competition in the general labor market while also providing training necessary for future business endeavors (Jiobu, 1988; Bailey and Waldinger, 1991; Waldinger, 1995). However, the ethnic economy concept does not require the locational clustering of firms or co-ethnic clientele or suppliers (Light et al, 1994). Thus, it is possible for any ethnic group to participate in an ethnic economy in the absence of residential concentration.<sup>3</sup>

Portes and associates proposed the concept of an *ethnic enclave economy* in the 1980s, both to explain the high rates of self-employment among Cubans and to underscore the importance of residential concentration in enhancing the ability of small business owners to capitalize and benefit from co-ethnic ties (Wilson and Portes, 1980; Portes, 1981; Portes and Bach, 1985; Portes and Manning, 1986; Portes, 1987). In addition to locational concentration of ethnic firms, ethnic enclaves are distinguished by vertical and horizontal integration of suppliers and distributors and extensive reliance on co-ethnic employees for labor. Furthermore, enclaves share many features of primary labor markets because they allegedly provide mobility opportunities for employees aspiring to self-employment. Presumably, recent immigrants who enter the U.S. labor market in firms owned and operated by a co-ethnic (usually an earlier immigrant) are promoted to higher managerial positions when these become available. Under ideal conditions, employees of enclave firms eventually become self-employed, often with the support of their employers, or they move on to better paying positions outside the enclave (Portes and Bach, 1985; Portes and Manning, 1986).

Because ideas about the necessary and sufficient conditions to define an ethnic enclave were based on a single group in a single group location, namely Cubans in Miami, subsequent studies attempted to verify whether parallel residential and economic arrangements are reproduced among

other immigrant groups in different locations. Although the Cuban ethnic economy in Miami does not appear to be reproduced exactly elsewhere, similar economic arrangements were identified in New York's Chinatown (Zhou, 1992) and Koreatown in Los Angeles (Light and Bonacich, 1988). The common features of these communities are: (1) a large and spatially concentrated immigrant population, (2) rapid population growth through continued immigration flows; and (3) a highly visible small business sector. These cases suggest that there now may exist favorable conditions for development of enclaves by groups other than Cubans in Miami and in other parts of the country (Logan et al, 1994). However, the conditions of vertical and horizontal integration have not been documented for these emergent ethnic enclaves. Therefore, the specific circumstances, nuances, nature and locales of these new ethnic economic arrangements warrant further scrutiny (Alvarez, 1990).

Because most ethnic groups – especially recent immigrants – are associated with some aspects of ethnic economies but only a few display an ethnic enclave pattern, many leading scholars in the field of ethnic entrepreneurship have proposed using the *ethnic economy* as a more encompassing concept (Waldinger, 1993: 450) and the *ethnic enclave* as a special case of the former (Light and Bonacich, 1988; Light and Karageorgis, 1994; Waldinger, 1993; Logan et al. 1994; Light and Gold, 2000:15). Specifically, the *ethnic economy* is intended only to distinguish whether work opportunities for a specific group are exclusive or inclusive, irrespective of the residential clustering of interdependent firms, which is a unique attribute of an ethnic enclave. Accordingly, in what follows, we refer to *ethnic economy* as the general concept and *ethnic enclave* as a specific case.

Little Village, a Mexican immigrant neighborhood in Chicago, meets the primary characteristics used to define an ethnic economic enclave as a constellation of residentially

concentrated ethnic enterprises with vertical and horizontal linkages among ethnic suppliers, producers, and distributors. Little Village also features a dynamic ethnic business community, a rapidly expanding ethnic consumer market, and a ready supply of new immigrant workers for aspiring entrepreneurs (Portes and Manning, 1986). And finally, Little Village is well articulated with a wider Mexican ethnic economy in the city of Chicago. South Chicago, Pilsen, Little Village, Back of the Yards, and Near West Side, are Chicago's largest Mexican neighborhoods. All of these neighborhoods have a continuous flow of new immigrants and feature visible ethnic business communities, the most developed is Little Village (Padilla 1993).

### ***Training in Ethnic Economies and Ethnic Enclaves***

According to Bailey and Waldinger, ethnic economies are characterized by “an external, informal training system that shapes the employment relationship and increases the availability and quality of information for workers and employers” (Bailey and Waldinger, 1991: 432). These authors define training systems as “the mechanisms by which labor market information is circulated, workers are recruited and skills are obtained” (Bailey and Waldinger, 1991: 433). Because recruitment of ethnic workers is facilitated by residential concentration of ethnic-owned and operated firms, in the context of an enclave the training functions of ethnic enterprises may serve not only to help new immigrants adapt to the U.S. labor market in a culturally familiar milieu, but also may facilitate the proliferation of new firms (Waldinger, 1985; 1993; Portes and Bach, 1985; Portes and Manning, 1986; Boissevain et al, 1990). The latter follows because in ethnic enclaves, workers can not only acquire the know-how to start and operate a business, but also develop contacts among suppliers and distributors that are necessary to establish a firm in a setting that guarantees co-ethnic workers and consumers.

On-the-job training processes depend on connections to ethnic social networks in which they are embedded because mutual trust arises more frequently between co-ethnics than in contacts across ethnic boundaries, which putatively facilitates the flow of information and skill acquisition (Bailey and Waldinger, 1991; Lee, 1999; Zimmer and Aldrich, 1987.) The web of social relationships that link employees and employers in an ethnic economy reinforces direct family and friendship ties, especially when an atmosphere of mutual obligation prevails (Bonacich, 1973; Modell, 1985; Alvarez, 1990). Therefore, social ties within an ethnic enclave economy widen workers' contacts and hence increase the chances that employees will move through a variety of jobs that develop their firm-specific skills. Several authors claim that once the training function is in place, the immigrant sector grows via a self-feeding process where newcomers start working in ethnic firms, and a subset of those who acquired business skills establish their own businesses (Portes and Bach, 1985; Portes and Manning, 1986; Waldinger, 1985, 1986, 1993; Bailey and Waldinger, 1991; Light and Karageorgis, 1994).

Although residential clustering may be important for securing an ethnic market for consumers and suppliers (Wilson and Martin, 1982), locational clustering may not be necessary to guarantee the proliferation of ethnic enterprises among former employees of ethnic-owned and operated firms. As Waldinger has pointed out "there is no reason to assume that the particular factors that distinguish the informal training system among immigrant workers and entrepreneurs are uniquely a product of their placement in space. From this perspective the informal training systems operating in concentrated ethnic economies are likely to function in similar ways in ethnic economies which are dispersed across space" (1993:450). Although reasonable on its face, this proposition has not been systematically evaluated.

Portes and Bach (1985) were early claimants that immigrants' employment in enterprises owned and operated by other co-ethnics, even at low wages, promoted economic incorporation of recent arrivals. They assumed that socioeconomic integration resulted when workers acquired the knowledge and experience either to establish their own enterprises, or to compete more effectively in the open labor market as they mastered English and learned how U.S. labor markets operate. This view presumes that low-wage employment in ethnic firms represents on-the-job training rather than exploitation of recent immigrant workers by co-ethnics. Other studies also claimed that ethnic firms provide substantial opportunities for general skill acquisition, and entrepreneurial training in particular. So characterized, ethnic firms operate as training arenas that accord immigrant employees benefits not otherwise available for them in the open market (Waldinger, 1985; Bailey and Waldinger, 1991; Zhou, 1992).

These ideas suggest testable hypotheses that to date have not been subjected to rigorous empirical scrutiny. In fact, case studies provide conflicting conclusions about the nature and consequences of training in ethnic-owned firms. For example, in the Cuban case, Portes and Bach (1985) presented information about ethnicity of employers, but they lack data on training practices within firms. Although they show that working for a co-ethnic firm at Time 1 is the most important predictor of self-employment at Time 2, this correlation does little to reveal the process (training, resource accumulation, family ties, etc.) that produces the observed outcome. Based on a study conducted in Los Angeles among Asian immigrants, Nee et al (1994) also report that employment in a co-ethnic firm increases the likelihood of becoming self-employed. However, they recognize that co-ethnic employers are not always willing to train and encourage their employees to move into business ownership for fear of future competition. Alvarez's (1990:112) case study of the Los Angeles Mexican wholesale produce market and its satellite

markets shows that Mexicans actually do experience advancement opportunities in this particular economic niche and that these experiences are conducive to the development of entrepreneurial activities.

Pessar's study on Latino business ownership arrives at different conclusions about the training opportunities available in ethnic firms. She finds that the Latino business community in Washington D.C. does not conform to a pattern of on-the-job-training and mentorship. Only one-third of Latino business owners in D.C. had been employed by a co-ethnic employer. Furthermore, she finds no significant differences with respect to job training and help in establishing businesses between those who did and did not work in a co-ethnic firm (Pessar, 1995: 386). Pessar concludes that Latinos residing in D.C. have not achieved an essential pre-condition for the development of ethnic economies, namely ethnic solidarity. One possible reason Pessar failed to find a training effect among ethnic firms is from the heterogeneous composition of the D.C. Latino business community. If ethnic solidarity is nationally rather than supra-nationally defined, then being Mexican, Cuban, or Puerto-Rican rather than Hispanic or Latino may be required for mobilizing ethnic solidarity.

The growth of residentially segregated immigrant communities during the 1970s and 1980s coupled with high rates of self-employment among foreign-born populations warrants further empirical research to adjudicate conflicting findings about the training hypothesis and to better understand the mechanisms that promote or retard the proliferation of immigrant enterprises. A recent survey of ethnic businesses in Little Village permits a test of the ideas presented above regarding the training functions of ethnic economies and ethnic enclaves. We show that ethnic-owned firms do serve as stepladders to business ownership for ethnic

compatriots because previous employment in a co-ethnic firm increases the likelihood of acquiring skills relevant for running a business. Moreover, Mexican business owners with previous work experience in co-ethnic firms (whether within or outside Little Village) were exposed to training opportunities that clearly differ from the experiences of their ethnic counterparts who did not acquire job experience in a co-ethnic firm. Our case study also reveals that business opportunities are transmitted along ethnic lines as former employees of Mexican-operated firms in Little Village subsequently opened their own businesses in similar lines of services or products. Furthermore, we show that Mexican immigrants who currently operate businesses in Little Village received technical and financial help from their previous co-ethnic employers.

### **III. The Little Village Study**

Little Village, a neighborhood on the southside of Chicago, is the largest Mexican community in the Midwest. Previously a Czech immigrant neighborhood, the community experienced considerable social and economic change between 1970 and 1990. In 1970, Mexicans constituted only 30 percent of the neighborhood population, which numbered 62,895 residents. During the next twenty years Mexicans became the predominant ethnic group, comprising 82 percent of all residents by 1990. The rising Hispanic population in the neighborhood was driven by the exodus of the white population. 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. The pathways to business ownership of Hispanic entrepreneurs in Little Village took the form of a natural succession into vacant storefronts.<sup>4</sup>

Today, the vibrant shopping district on 26<sup>th</sup> street is populated by small businesses that serve the steady stream of new immigrants. This neighborhood has become the primary magnet for recent immigrants from Mexico who seek employment in the low-wage jobs available within and surrounding the neighborhood. As in other minority neighborhoods, the absence of large retail stores has created a niche for immigrant entrepreneurs (Lee, 1999). Merchants and leaders in Little Village's Chamber of Commerce and in the community 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 "fruteros" and "eloteros" 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 that were stratified according to primary type of industry, product, or service. 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. 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.

The response rate for the sample 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. Bilingual interviewers conducted all interviews. If a business had multiple owners, only one was interviewed. 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. Respondents who had multiple businesses were queried about their main business.

A total of 244 business interviews were conducted; of these, 162 were Mexican immigrant owners. Although Little Village is predominantly a Mexican residential neighborhood, its business community is ethnically heterogeneous. During the last decade or so, various ethnic groups (Koreans, Arabs, Chinese and Pakistanis) joined the white and Mexican business owners in Little Village, thus transforming the neighborhood in a multi-ethnic business community.<sup>5</sup> Three in four of Little Village owners are of Hispanic origin, the majority of these Mexican and foreign-born. Koreans represented 13 percent of Little Village business owners, and the remaining share consisted of Middle-Eastern, other South-Asian (India and Pakistan) and non-Hispanic whites.<sup>6</sup>

The business instrument solicited information about household and respondent characteristics and specific questions about employment activity before the current business, which is essential to understand the training process within ethnic firms. Specific questions asked include: relationship to previous employer, ethnicity of employer, location of the business, occupation, years/months of work in previous occupation, supervisory functions, and skills acquisition.<sup>7</sup> The originality of the instrument lies in its emphasis on how ethnicity influences the creation and expansion of businesses, through multiple social and economic domains.

Our focus on Mexican immigrants to evaluate the training function of ethnic economies is justified on two grounds. First, the literature on the training function of ethnic economies is based on immigrant populations. Among Hispanic business owners in Little Village, the majority are Mexican and most are foreign-born. This is not so for the non-Mexican business owners.<sup>8</sup> Second, only Mexican business owners display a mixed pattern of employment (ethnic firms vs. non-ethnic firms). Other non-Hispanic merchants in Little Village are not included in this analysis because their previous work experiences were either exclusively with co-ethnic employers (whites and Koreans) or non-co-ethnic employers (Middle-Eastern and other South-Asian). Finally, our results and conclusions relate only to those Mexican entrepreneurs operating their businesses in the community. Our analysis does not include those Mexican business owners living in Little Village who operate firms outside the community.

#### **IV. Data Analysis**

Table 1 displays selected characteristics of the surveyed Mexican foreign-born business owners and their firms. The vast majority (82 percent) were married, in their mid-forties, and they averaged 23 years of U.S. residence. Chicago was the first residence for the vast majority. Mexican storefront owners averaged 9.3 years of formal schooling and despite their long

average U.S. tenure (16.3 years), they reported low levels of English proficiency, with nearly one-third reporting they were not proficient in English.

(Table 1 About Here)

Table 1 also shows the industrial distribution of Mexican-owned business establishments in Little Village. The majority of Mexican immigrant firms operate in retail trade (64 percent), but one-quarter operate business and repair services. Among retailers, Mexican business owners concentrate in clothing and jewelry, but other retail concerns include furniture, music, photo-processing, laundromats, and video rentals. Auto repair shops were the model repair services. 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.

Mexican businesses in Little Village had been in operation for 8 years, on average, although their owners have resided in Little Village for nearly 16 years. This suggests that these owners worked as salaried employees prior to opening their own business. Approximately half of the immigrant-owned establishments are family businesses, which means that the owner's spouse and/or children worked in the enterprise.<sup>9</sup> Besides providing employment to family members, ethnic firms in Little Village also create employment opportunities for other community residents. Approximately 70 percent of all business owners employed at least one non-family member. Moreover, Mexican residents in Little Village benefit most from these employment opportunities, as four out of five jobs created by Mexican entrepreneurs are filled by ethnic co-residents. This is because the majority of Little Village firms hire Mexican workers who reside in the community or in the adjacent Mexican neighborhood of Pilsen. Finally, the business sector in the community is highly dependent on their co-ethnic consumers in the community, as 80 percent of business owners so reported.

Responses about the acquisition of know-how relevant to business formation yields insights about the precursors to business formation. Prior to starting the current business the modal activity of Little Village business owners was wage and salaried employment. That fully one-quarter of Mexican immigrants worked for another employer in the same line of work suggests some would-be entrepreneurs acquire knowledge and experience relevant to business practices on the job. Although this is consistent with the training hypothesis, further substantiation, which we provide in the following section, is required. Approximately one-quarter of immigrants and 15 percent of native-born Mexicans reported having been self-employed in another business prior to the current business, which indicates a high turnover rate of immigrant establishments.<sup>10</sup>

Although these tabulations provide insight about the precursors to business formation, they not speak directly to the role of ethnic enterprises as training arenas for business ownership. For our current theoretical concerns, the key questions are whether, how much, and in what ways businesses owned and operated by ethnic compatriots function as a training platform for future immigrant business formation, and to what extent Mexicans rely on ethnic ties to acquire experience relevant to self-employment. We turn to these issues next.

### ***Training Functions of Ethnic Enterprises***

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 businesses in their host communities. Claims that working for an ethnic compatriot facilitates entry to self-employment presupposes the existence of ethnically circumscribed opportunity structures to acquire know-how about starting and running a small

business. This logic predicts that immigrant minority groups who acquire experience in a particular industry line may be more inclined to establish their own business in a similar line of work. More specifically, the 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.

Mexican business owners in Little Village differ from non-Mexican entrepreneurs with regard to prior employment in firms of ethnic compatriots.<sup>11</sup> Employment in the ethnic economy is a pathway to business ownership for only 44 percent of foreign-born Mexicans. These figures contrast with those displayed by other ethnic groups who own businesses in Little Village. Specifically, all white and Korean business owners worked for co-ethnics, while none of Middle-East and Asian business owners did so. However, given that workers secure a job with an ethnic compatriot, what are the chances they actually acquire relevant training and skills? In other words, does ethnicity of employer facilitate acquisition of skills pertinent to business ownership? Below we examine these ideas with the Mexican business owners operating in Little Village by comparing the training experiences of those who have worked in co-ethnic firms and those who have not.

Table 2 illustrates how much acquisition of skills, management experience, and job specific experience varies according to the ethnicity of the previous employer. These tabulations are based on the subset of business owners who worked for someone else before starting their current business. The descriptive results support the idea that working in a co-ethnic firm influences the likelihood of acquiring skills relevant to establishing a business. For example, Mexican business owners who previously worked for co-ethnic employers were three times more likely to have held jobs related to their current line of business than their counterparts who did not work for co-ethnic employers. They also were twice as likely to report having acquired

business-relevant skills during previous jobs, and 1.7 times more likely to have had supervisory positions than Mexicans who did not work for co-ethnic employers.<sup>12</sup>

The data in Table 2 also reveals that employment in the ethnic economy is embedded in family and friendship relationships. More than half of Mexican merchants whose prior employment was in a co-ethnic firm had a close relationship (either kin or friend) with their previous employer, but none of those who work for other groups did so. Nearly 53 percent of business owners whose prior employment was in a co-ethnic business reported that the firm was located in Little Village compared to only 11 percent of those who did not work for a co-ethnic boss. Finally, Mexican business owners previously employed by a co-ethnic boss are less likely to start their business in the informal economy compared to their counterparts who did not work in a co-ethnic firm. It would appear that Mexican business owners not employed in the ethnic economy were less likely to benefit from training opportunities in the open economy, and hence were more likely to use the informal economy as a venue for acquiring experience and skills before opening a business (see Raijman and Tienda, 2000).

(Table 2 About Here)

Table 3 provides further support for the training hypothesis by showing that working for a co-ethnic employer enhances the training opportunities of Mexicans immigrants.<sup>13</sup> We estimated a logistic regression predicting the (log) odds of acquiring business-relevant skills as a function of the ethnicity of respondents' previous employer (if prior employer co-ethnic=1, else=0), whether previous employment was in a similar line of business (similar line of business=1, else=0), location of previous employment (Little Village=1, else=0), and a vector of characteristics and control variables that are related to self-employment. Respondents were asked whether they have acquired business-relevant skills (=1, else=0) in jobs held before their current business. Human capital characteristics like schooling and English proficiency (proficiency good or moderately good=1, else=0) should influence the

chances of acquiring skills on the job. Inability to speak the native language constrains the transferability of skills and the type of jobs and tasks an immigrant can perform in the work setting for the firms that do not operate in an ethnic community. However, Spanish proficiency also could be an asset if workers are employed in enterprises that cater ethnic concerns (Tienda and Neidert, 1984). Longer periods of U.S. residence increase the likelihood that immigrants become socially and culturally assimilated, thereby raising the odds that they absorb new skills. Consistent with expectations, tenure in a job increases the likelihood of learning market-relevant skills. Finally, close ties to employers (family or friendship) should also affect training opportunities because business owners will usually prefer their blood-kin in assigning managerial or supervisory responsibilities, other things equal.

(Table 3 About Here)

The results in Table 3 clearly support the idea that previous work experiences in ethnic enterprises increase the likelihood of acquiring skills relevant to the current business. Net of other factors, the odds of acquiring business-relevant skills are 5.5 times (exp. 1.7) higher for business owners who worked for a co-ethnic employer prior to establishing their own business relative to those who worked for others. The results also support the hypothesis that acquiring experience in a particular industry raises Mexicans' probability of establishing a business in a similar line of work. Net of other factors, the odds of acquiring skills in the previous job were 3.8 times (exp. 1.3) higher for Mexican business owners who worked in a similar industry compared to those who worked in a different line of business.

The probability of acquiring business-relevant skills was not statistically related to schooling, to U.S. tenure, or to English proficiency. However, it is difficult to comment further about business owners' need for English skills because we lack information about the ethnic composition of the labor force and clientele served in the previous job. If most of the workers or customers are Mexicans, then Spanish becomes an asset, and the lack of English skills may not

be a liability because producers and distributors also speak Spanish. That location of previous employment did not influence skill acquisition supports Waldinger's claim that the spatial concentration *per-se* is not a requisite for mobility processes among immigrant firms, and more specifically for training opportunities (Waldinger, 1993:450).

On balance these findings support the idea that employment in a co-ethnic firm provides Mexicans with opportunities for skill acquisition that are not reproduced in firms operated by non-co-ethnics. The ethnic economy serves not only as a channel for the transference of skills and training, but also as an arena for stimulating further business activities. In this regard, work in the ethnic economy has also been identified as an ethnic career ladder where business owners help their former employees establish their own businesses (Portes and Manning, 1986; Werbner, 1990; Boissevain et al., 1990; Morokvasick et al., 1990). Information provided in Table 4 shows just how much employers in Little Village help their employees who subsequently opened a business.

(Table 4 About Here)

These tabulations suggest that a process of transmission of business opportunities does occur, at least among Mexican business owners operating in Little Village.<sup>14</sup> One-third of Mexican immigrant business owners operating in Little Village reported that a former employee opened a business (mostly in the same product line) after having worked for them, and over 60 percent of these respondents claimed that they helped their employees in the business start-up phase with technical and financial assistance (60 and 22 percent, respectively). Because we know that virtually all employees of Little Village businesses are of Mexican origin residing within the perimeter of the community or nearby Mexican neighborhoods, these results indicate that the process of transmission of business opportunities – although moderate in its magnitude – is both ethnically and geographically concentrated. However, as several scholars have pointed out, one must be cautious not to depict an idealized vision of coethnic advantages because

market concentration can also lead to saturation and sharp competition if too many co-ethnic employees are trained to be their future competitors (Gold, 1994:122). In that case ethnic entrepreneurs may be reluctant to hire co-ethnics and train them for fear of intra-ethnic competition (Gold, 1994; Nee et al, 1994; Lee, 1999). Because the Mexican ethnic enclave is still in its infancy, these processes may not yet have manifested themselves. It is also conceivable that the terms of cooperation and competition may be different across ethnic groups – but this hypothesis is beyond the scope of our empirical evidence or research objectives.

## **V. Discussion**

Our results illustrate the relevance of the ethnic economy as a stepladder to business ownership in the Mexican community of Little Village. We argue that working for a co-ethnic firm increases the likelihood of acquiring business-relevant skills during prior employment. Specifically, ethnic-owned firms (whether in Little Village or outside it) serve as a stepladder to business ownership for ethnic compatriots because previous employment in a co-ethnic firm increases the likelihood of acquiring skills relevant for running a business. Our findings show that informal training systems operating in concentrated ethnic economies function in similar ways to ethnic economies that are dispersed across space (Waldinger, 1993). Mexican business owners with previous work experiences in co-ethnic firms were exposed to opportunities for skill acquisition that apparently differ from the experiences of their ethnic counterparts who lacked job experience in a co-ethnic firm, and this is true regardless of the location of the co-ethnic firm. However, Mexicans' chances of entering the world of business through employment in a co-ethnic firm are low, as less than half ever worked for a co-ethnic boss before opening their current business. Lacking a strong ethnic economy to acquire training and skills, many Mexican immigrants in Little Village (over one quarter) use the informal sector as another route to business ownership. Informal economic

activities allow enterprising immigrants to test the market, accumulate capital or learn about its availability, and acquire skills in a particular line of work. Thus, informal self-employment becomes an alternative pathway to business ownership for Mexican immigrants who lack opportunities to acquire business experience in co-ethnic firms (Raijman and Tienda, 2000).

If differences in training systems generate disparate opportunities for self-employment growth within the ethnic community, even though training experiences are available in co-ethnic firms, for Mexicans the multiplier effect that facilitates proliferation of new firms is smaller in the aggregate. Thus, the proliferation of Mexican-owned and operated businesses may remain low, even in the context of high residential concentration, because the minimal base of ethnic businesses that provide training opportunities is relatively small compared to other immigrant groups, such as Cubans or Koreans. To what extent this could explain aggregate differences in self-employment rates is a question that needs to be answered in future research, but our results provide initial insight into this conundrum.

---

<sup>1</sup> For an exception see Hansen and Cardenas (1988) and the anthropological studies of Alvarez Jr., (1990) and Villar (1994).

<sup>2</sup> For a thorough and systematic discussion of ethnic economies see Light and Gold, 2000.

<sup>3</sup> A case in point are Iranian firms in Los Angeles (Light et al. 1994) which are not spatially clustered and where most business owners do not employ co-ethnics. Koreans who operate business in black and Hispanic neighborhoods in Chicago or elsewhere are another example (Yoon, 1995).

<sup>4</sup> One of our respondents – who defined himself as one of the first Hispanics (if not the first) who opened a business in the community – told us that by the time he opened his business in the mid-fifties store fronts in Little Village were vacant, as if an epidemic had attacked the community : “Estaba todo vacio. A mi se me hacía que acá había pegado el sarampión.”

<sup>5</sup> Little Village houses a Jewish-owned, Korean-operated discount mall that accommodates 120 small booths that are rented by Koreans, Arabs, Asian-Indians, Mexicans and other Hispanic immigrants.

<sup>6</sup> Non-Hispanic entrepreneurs concentrate in clothing, electronics, jewelry, beauty supply and laundry services. For a comparative socio-economic profile of ethnic entrepreneurs in Little Village see Rajjman, (1996).

<sup>7</sup> The survey instrument also included a set of questions to measure risk disposition, inputs for business start-up, including sources of capital, use of credit, problems and financial barriers, family members' participation in the business, employees and clients, suppliers, social networks, organizational participation, and current financial status.

<sup>8</sup> Only 14 business owners were native-born from Hispanic origin.

<sup>9</sup> If we consider all types of relatives, the figures for family participation are much higher.

<sup>10</sup> Business turnover results from various sources: relocation, consolidation of multiple sites, opening of new enterprises or outright failure.

<sup>11</sup> These tabulations are not shown, but are available upon request.

<sup>12</sup> These results contrast with those displayed by other non-Hispanic businessmen in the community. For example, all the Korean merchants in our sample had previously worked for a co-ethnic boss, but only 66 percent reported having acquired relevant skills. For non-Hispanic Whites, the figure is 58 percent (see Table 2 in Rajjman and Tienda, forthcoming).

<sup>13</sup> In this analysis only business owners who were working for someone else before the current business were included.

---

<sup>14</sup> One might speculate that because Little Village's businesses have on average only 8 years of tenure in the community, as the businesses mature, they will increase are their ability to provide assistance to prospective entrepreneurs. This process will be buttressed by continued immigration.

**Table 1**  
**Selected Characteristics and Prior Employment Experience of Little**  
**Village Establishment Owners**  
Means or Percents (Standard deviations)

	Mexicans	Foreign-born
<i><b>Owner Characteristics</b></i>		
Age	43.4	(9.3)
% Female Respondents	30.2	
<i><b>Marital Status</b></i>		
Currently Married	82.8	
Ever Married	12.3	
Never Married	4.9	
U.S. Tenure (years)	23.6	(9.3)
Tenure in Little Village (years)	16.3	(8.4)
<i><b>English Proficiency</b></i>		
Very proficient	21.6	
Moderately proficient	46.9	
Not proficient	31.5	
Years of formal schooling	9.3	(4.1)
<i><b>Business Characteristics</b></i>		
<i><b>Industry Distribution of Firms</b></i>		
Construction	1.2	
Manufacturing	1.2	
Wholesale and Retail Trade	64.2	
Finance-Insurance-real-estate	1.9	
Personal business and repair services	25.3	
Entertainment and recreation	2.5	
Professional and related services	3.7	
Duration of business (in years)	8.6	(7.2)
% Family business <sup>a</sup>	48.8	
% Business with non-family employees	70.2	
% Employees residing in Little Village	83.0	
% Businesses highly dependent on ethnic clientele	78.0	
<i><b>Activity before starting current business</b></i>		
Self-employed in another business	25.3	
In school	0.6	
Worked for someone else in a similar business	21.6	
Worked for someone else in other type of business	35.2	
Worked for someone else or relative in current business	6.2	
Other	11.1	
<b>N</b>	<b>162</b>	

Source: Little Village Business Survey.

<sup>a</sup>Percent reporting that owner's spouse and/or children worked in the business.

**Table 2**  
**Training Functions of the Ethnic Economy: Mexicans in Little Village**  
(Percents)

	<b><u>Ethnicity of Previous Employer</u></b>		
	Same	Other	t-test
If prior job related to current business	73.3	26.7	p <.000
If acquired skills relevant to current business	81.3	36.1	p <.000
If held supervisory function in previous job	38.7	22.7	p =.04
Relationship to previous employer			
Family	29.2	—	P=.000
Friend	23.6	3.1	
None	47.2	96.9	
If current business began informally	17.0	36.4	p <.01
N	(53)	(67)	

Source: Little Village Business Survey

**Table 3**  
**Logistic Regression Predicting the Probability of Acquiring Skills**  
**in Previous Employment**  
(asymptotic standard errors)

<b>Variables</b>	<b>B</b>	<b>(S.E.)</b>	<b>Odds Ratio</b>
If Prior Employer Co-ethnic	1.7 *	(.67)	5.47
If Prior Employer Family or Kin	.78	(.71)	2.19
If Prior Employment in Same Line of Business	1.3*	(.58)	3.80
If Prior Employment in Little Village	-99.0	(.68)	.037
Tenure on the Job	.05	(.05)	1.05
Years of Formal Schooling	.08	(.06)	1.08
If English Proficiency Good or Moderately Good	-.05	(.55)	0.95
If Male	.76	(.53)	2.15
U.S. Tenure	.07	(.05)	1.06
Age	-.06	(.04)	0.94
Constant	-1.93	(1.9)	
-2 Log Likelihood	120.7		
X <sup>2</sup>	42.8		
<b>N</b>	<b>120</b>		

Source: Little Village Survey

\* p≤.05

**Table 4**  
**Business Characteristics and Transmission of Opportunities**  
**for Business Ownership**  
Means or Percents (Standard deviations)

	Mexican Foreign-born
<i><b>Transmission of Business Opportunities</b></i>	
% whose previous employees opened a business	34.2
% ex-employees starting business in same line	96.0
% of business owners who helped previous employee	58.0
<i><b>Type of Help Provided</b></i>	
Technical Assistance	54.5
Financial Assistance	22.7
Other	22.8
<b>N</b>	<b>162</b>

Source: Little Village Business Survey.

## References

Alvarez, Jr. Roberto.

1990 "Mexican Entrepreneurs and Markets in the City of Los Angeles: A Case of an Immigrant Enclave." *Urban Anthropology* 19:99-124.

Averitt, Robert T.

1968 *The Dual Economy: The Dynamics of American Industry Structure*. New York: Norton

Bailey, Thomas and Roger Waldinger

1991 "Primary, Secondary, and Enclave Labor Markets: A Training System Approach." *American Sociological Review*, 56: 432-445.

Boissevain, Jeremy, Jochen Blaaschkee, Hanneke Grotenbreg, Isaac Joseph, Ivan Light, Marlene Sway, Roger Waldinger, and Pnina Werbner.

1990 "Ethnic Entrepreneurs and Ethnic Strategies." in R. Waldinger, H. Aldrich, and R. Ward (eds.) Pp. 131-156. *Ethnic Entrepreneurs. Immigrant Business in Industrial Societies*. California: Sage Publications.

Bonacich, Edna.

1973 "A Theory of Middleman Minorities." *American Sociological Review*, 38:583-594.

Bonacich, Edna and John Modell

1980 *The Economic Basis of Ethnic Solidarity in the Japanese American Society*. Berkeley: University of California Press.

Doeringer, Peter B. and Michael J. Piore.

1971 *Internal Labor Markets and Manpower Analysis*. Lexington, Mass: Heath.

Gold, Steve

1994 "Patterns of Economic Cooperation among Israeli Immigrants in Los Angeles."

*International Migration Review*, # 28: 104-135.

Greenwood, Michael and Marta Tienda.

1997 "U.S Impacts of Mexican Immigration." Chapter 4 of *Binational Study: U.S.-*

*Mexico Migration*. Washington, D.C.: U.S. Commission on Immigration Reform.

Hansen, Niles and Gilberto Cardenas

1988 "Immigrant and Native Ethnic Enterprises in Mexican American Neighborhoods:

Differing Perceptions of Mexican Immigrant Workers." *International Migration Review*, #22:226-42.

Jiobu, Robert M.

1988 "Ethnic Hegemony and the Japanese of California." *American Sociological*

*Review* 53(3):353-67.

Lee, Jennifer.

1999 "Retail Niche Domination Among African American, Jewish, and Korean

Entrepreneurs. Competition, Coethnic Advantage and Disadvantage." *American Behavioral Scientist*, 42:1398-1416.

Lewin-Epstein, Noah and Moshe Semyonov

1994 "Sheltered Labor Markets, Public Sector Employment, and Socioeconomic

Returns to Education of Arabs in Israel." *American Journal of Sociology*, #100:622-51.

Light, Ivan and Edna Bonacich

1988 *Immigrant Entrepreneurs. Koreans in Los Angeles. 1965-1982*. Berkeley, Los Angeles: University of California Press.

Light, Ivan and S. Karageorgis

1994 "The Ethnic Economy." Pp. 646-671 in Neil Smelser and Richard Swedberg (Eds.), *Handbook of Economic Sociology*. New York: Russell Sage Foundation.

Light, Ivan, Georges Sabagh, Mehdi Bozorgmehr, Claudia Der-Martirosian.

1994 "Beyond the Ethnic Enclave Economy." *Social Problems* 41:65-80.

Light, Ivan and Steve Gold

2000 *Ethnic Economies*. San Diego, California: Academic Press.

Logan, John, Richard Alba, and T. McNulty

1994 "Ethnic Economies in Metropolitan Regions: Miami and Beyond." *Social Forces*, 72:691-724.

Modell, Suzanne.

1985 "A Comparative Perspective on the Ethnic Enclave: Blacks, Italians, and Jews in New York City." *International Migration Review*, 19:64-81.

Morokvasic, Mirjana, Roger Waldinger, and Annie Phizacklea.

1990 "Immigrant and Minority Business in the Garment Industries of Paris, London and New York." in R. Waldinger, H. Aldrich, and R. Ward (eds.) Pp. 157-176. *Ethnic Entrepreneurs. Immigrant Business in Industrial Societies*. California: Sage Publications.

Nee, Victor, Jimmy Sanders, and Scott Sernau.

1994 "Job Transitions in an Immigrant Metropolis: Ethnic Boundaries and the Mixed Economy." *American Sociological Review*, 59:849-872.

Padilla, Felix. 1993.

1993 "The Quest for Community: Puerto Ricans in Chicago." Pp.129-148 in Joan Moore and Raquel Pinderhughes (eds.), *In the Barrios. Latinos and the Underclass Debate*. New York: Russell Sage Foundation.

Pessar, Patricia

1995 "The Elusive Enclave: Ethnicity, Class, and Nationality among Latino Entrepreneurs in Greater Washington, DC." *Human Organization*, 54:383-92.

Piore, Michael J. 1975

1975 "Notes for a Theory of Labor Market Stratification." Pp. 125-150 in R.C. Edwards, M. Reich and D.M.on (eds.) *Labor Market Segmentation*. Lexington, Mass:Heath.

Portes, Alejandro

1981 "Modes of Structural Incorporation and present Theories of Labor Immigration." Pp. 279-297 in Mary Kritz, Charles B. Keely and Silvano Tomassi (eds.), *Global trends in Migration: Theory and Research on International Population Movements*. New York: Center for Migration Studies.

Portes, Alejandro

1987 "The Social Origins of the Cuban Enclave Economy of Miami." *Sociological Perspectives*, 30:340-372.

Portes, Alejandro and Robert Bach

1985 *Latin Journey: Cuban and Mexican Immigrants in the United States*. Berkeley: University of California Press.

Portes, Alejandro and Robert D. Manning

1986 "The Immigrant Enclave: Theory and Empirical Examples." Pp. in Susan Olzak and Joane Nagel (eds.) *Competitive Ethnic Relations*. New York: Academic Press.

Raijman, Rebeca and Marta Tienda.

2000 "Immigrants' Pathways to Business Ownership: A Comparative Ethnic Perspective." *International Migration Review* 34(3).

Tienda, Marta and Lisa J. Neidert. 1984.

1984 "Language, Education and the Socioeconomic Achievement of Hispanic Origin Men." *Social Science Quarterly*, 65(2): 519-536.

Villar, Maria de Lourdes.

1994 "Hindrances to the Development of an Ethnic Economy among Mexican Migrants." *Human Organization*, 53:263-268.

Waldinger, Roger

1985 "Immigrant Enterprise and the Structure of the labour Market." Pp. in Bryan Roberts, Ruth Finnegan, and Duncan Gallie (eds.). *New Approaches to Economic Life: Economic Restructuring, Unemployment and the Social Division of Labor*. Manchester: Manchester University Press.

1986 "Immigrant Enterprise. A Critique and Reformulation." *Theory and Society*, 15:249-86.

1993 "The Ethnic Enclave Debate Revisited." *International Journal of Urban and Regional Research*, 17: 444-452.

Werbner, Pnina.

1990 *The Migration Process. Capital, Gifts, and Offerings among British Pakistanis*.  
Oxford: Berg Publications.

Wilson Kenneth D. and Alejandro Portes.

1980 "Immigrant Enclaves: An Analysis of the Labor Market Experiences of Cubans in Miami." *American Journal of Sociology*, 86:295-319.

Yoon, In-Jin.

1995 "The Growth of Korean Immigrant Entrepreneurship in Chicago." *Ethnic and Racial Studies*, 18:315-335.

Zhou, Min

1992 *Chinatown: The Socioeconomic Potential of an Urban Enclave*. Philadelphia:  
Temple University Press.

Zimmer, Catherine and Howard Aldrich

1987 "Resource Mobilization through Ethnic Networks. Kinship Ties of Shopkeepers in England." *Sociological Perspectives*, 30:422-445.