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IDENTIFYING AND COMPARING CHARACTERISTICS OF SUCCESSFUL MINORITY AND MAJORITY BUSINESSES

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What are the characteristics of a successful majority-owned business? Can these same characteristics be found in successful minority-owned businesses?

It has been reported, “approximately half of new small businesses fail within the first five years of operation” (Stewart, 2004). In fact, “60% of [all] firms fail in the first six years” (Hayward et al., 2006).

Many variables may contribute to the success or failure of businesses, and these may vary from business to business. Education and training level, prior experiences in entrepreneurial start-ups, and geographic location are an example of these variables. Minority-owned businesses may have different variables that may contribute to, or be a barrier to, success.

This research is relevant because it concentrates on those businesses that are successful as opposed to those which are unsuccessful. I propose if common characteristics of successful businesses can be identified in both minority-owned and majority-owned businesses, the presence of those characteristics in other businesses may increase the probability of success.

Merz and Sauber (1995) profiled managerial activities in small firms, hypothesizing that 1) “Small firms that survive and adapt to the rigors of their environments display similar managerial and structural characteristics,” and 2) “Small firms that survive their environment are driven toward a configuration that dictates consistency between their managerial and structural characteristics and the environmental contexts.”

Merz and Sauber categorized firms they studied into four profiles based upon features shared in Mintzberg’s typology of organizational structure (1979) and Miller and Friesen’s entrepreneurial configu-

| Profile I Firms | Profile II Firms | Profile III Firms | Profile IV Firms |
|--|---|---|--|
| <ul style="list-style-type: none"> • Highly centralized in decision making • Least engaged in the collection and evaluation of external or internal information • Decision making seems to be short term and impulsive, centered at the CEO level • Little need for formalized operating procedures • Use few written work rules, job descriptions, or other managerial control devices • Environment perceived by CEOs to be extremely placid with the lowest levels of dynamism, hostility, and diversity among profiles • Have the smallest size and growth in the number of employees • Sales volume and growth are the second smallest among profiles | <ul style="list-style-type: none"> • CEOs value information and emphasize collection of external and internal information • Seemingly short-term and impulsive decision-making orientation • Decision making is centered at the top management level • Amount of formalization the lowest among the profiles • Widely use internal cost control mechanisms, second highest among profiles • Environments perceived by CEOs as less dynamic and less diverse compared with other profiles • Environmental hostility perceived to be the highest among profiles • Somewhat entrepreneurial • Display better than average innovativeness • Firm size and growth, in terms of dollar sales and number of employees, are somewhat smaller compared to other profiles • Most productive amongst the other profiles | <ul style="list-style-type: none"> • Characterized by high levels of specialization and decentralization • Firm CEOs highly supportive of specialization • Have a tendency to delegate authority and to empower their lower managers to make various decisions compared with other small firms • CEOs are analyzers and moderately active in long-term planning • CEOs have little use for the external scanning of environments, including scanning customers, competitors, and industry technologies • Managerial control is emphasized via the use of formalized operating procedures such as written work descriptions, business plans, and organizational charts • Firms face environments that are more dynamic and unpredictable, more hostile, and diverse than average • Their entrepreneurial outlook is more proactive than average (compared with other profiles) • They are the largest in terms of dollar sales and number of employees, and have experienced the highest growth in sales and employees in the past five years • The majority are in manufacturing and wholesale industries | <ul style="list-style-type: none"> • Characterized as fervent gatherers and analyzers of internal and external information • Have deliberate, long-term planning horizons • Are moderately specialized and maintain very formalized operating procedures with extensive cost control systems • While the decision making is rational and centralized, firms are highly collaborative and seek consensual input from subordinate managers • Perceived environments faced are highly dynamic, hostile, and multifaceted, resulting in Profile IV firms being highly entrepreneurial • Display highest level of proactiveness and innovativeness among all profile firms • Have relatively good size in dollar sales and number of employees, growth level, and productivity (sales per employee) • Almost 30 percent are in the manufacturing industry |

ration (1984, Ch. 7). Those four profiles are Profile I, Profile II, Profile III, and Profile IV.

According to Merz and Sauber, Profile I resembles Mintzberg's "simple firm" archetype. Such firms are typically young and small with little growth; they use minimum planning and control, are highly centralized, and operate in homogeneous environments (1995).

Profile II is a combination of Profile I and Profile IV. Profile IV firms are almost the opposite of Profile I and Profile II firms in terms of the environment in which they operate. They tend "to operate in environments that are highly dynamic, diverse, and hostile." In order to meet the challenges of their environment, the firms operated entrepreneurially, became decentralized with little formality, delegated authority to lower management levels, engaged in scanning and analysis of environments, and promoted interaction via internal communication among personnel.

Profile III, according to Merz and Sauber (1995), consisted of firms "resemble[ing] Mintzberg's 'divisional form' and Miller and Friesen's 'planning firms.'" These firms were large and specialized, bureaucratic as well as entrepreneurial in nature, high in formality, and decentralized in activities with a level of cost control. Environments were dynamic, diverse, and competitive, as firms in Profile IV.

Firms in Profile II conformed to no particular archetype identified by Mintzberg (1979) or Miller and Friesen (1984). As alluded to above, Profile II is a hybrid of Profile I and Profile IV. Profile II firms shared the scanning, futurity, formality, productivity, and cost control characteristics of Profile IV, referred to by Miller and Friesen as "organic." More simply put, they searched environments for opportunities and planned for the future. Profile II firms, however, like firms in Profile I, faced stable, predictable environments and were less analytic, interactive, specialized, innovative, and more centralized and intuitive, and faced stable, predictable environments.

Merz and Sauber (1995) believed that the profiles could be used in a diagnostic way to "uncover differences in firms' strategy-making activities and the strategic focus of certain structural and operational characteristics."

Whether organizations used to collect data in Merz and Sauber's study were minority- or majority-owned was not specified. Also, characteristics identified were in the context of the firm's survival and

continued growth and it was not clear that they led to what is defined as success. It can be argued by the reader that in order for a firm to be successful, it needs to both survive its environment and continue to grow.

A study by Gompers, Kovner, Lerner, and Scharfstein (2010) looked at the relationship between performance persistence in entrepreneurship and success, showing that “the perception of performance persistence...can induce real performance persistence (Gompers et al., 2010).” According to Gompers et al. (2010), “all else equal, a venture-capital-backed entrepreneur who succeeds in a venture...has a 30% chance of succeeding in his next venture. By contrast, first-time entrepreneurs have only a 21% chance of succeeding and entrepreneurs who previously failed have a 22% chance of succeeding.” In other words, “success [breeds] success” (Gompers et al., 2010). Entrepreneurs who exhibit market-timing skills (knowing how to select the right industry and when) are more likely to receive support from suppliers and customers alike. The authors “identify the skills that might generate performance persistence” (Gompers et al., 2010), breaking them into two factors: 1) market-timing skill (starting a company at an opportune time and place), and 2) the outperformance of other start-up companies in the same industry and at the same time (Gompers et al., 2010).

The second factor, outperformance of other start-ups, may also include managerial skill as well as the quality of the business idea, and is measured as the difference between the actual success and the predicted success from industry and year selection.

The authors state that “entrepreneurs who succeed by investing in a good industry and year are far more likely to succeed in their subsequent ventures than those who succeeded by doing better than other firms founded in the same industry and year” (Gompers et al., 2010).

The authors’ second question is “If there is performance persistence, why?” Their study identified prior experience (serial entrepreneurship) as a characteristic of success, which they defined as “go[ing] public or register[ing] to go public” (Gompers et al., 2010) within two years. Everything equal, a venture-capital-backed entrepreneur who succeeds in a venture, i.e., going public, has a 30% chance of succeeding in the next venture. This is in contrast to first-time entrepreneurs who have only a 21% chance of succeeding, and those entrepreneurs who’ve previously failed, who have a 22% chance of succeeding at their next attempt.

Findings by Gompers et al., (2010) were that the experience gained in starting a new venture, whether deemed to be successful or not, imparted benefits such as skills, contacts, or ideas (Gompers et al.,

2010). Further study indicated that experience in itself doesn't increase the likelihood of success as having developed the skill of determining performance does.

Sonfield (2007), in a 30-year (1974 to 2004) longitudinal analysis of the largest black-owned businesses in the United States, noted that "though blacks are more likely than whites to start up a new venture, long-run successes are lower" (2007).

Referring to a study conducted by Popkin (1991), who identified several factors that positively impacted the success of businesses, Sonfield revealed those factors included age of the business (at the time of identification as it being a successful business), business size, having more than one business location, and being in manufacturing or wholesaling as opposed to retailing. Though these factors may positively impact the success of businesses, they are not characteristics of successful businesses because they 1) do not specify what age the business should be, 2) what size the business should be, and 3) the article did not definitively state that a business *must* have more than one business location or that the business must be in the manufacturing or wholesaling industry as opposed to retailing.

Supporting the idea that black minorities are more likely to start new ventures as opposed to whites, but with a lower success rate, is a study by Kollinger and Minniti (2006), which Sullivan (2007) refers to in her article.

Using the 2002 Global Entrepreneurship Monitor survey of the U.S. population, Kollinger and Minniti (2006) simultaneously studied a set of variables, which, until this study, had never been done before. Those variables were socioeconomic, demographic, and perceptual variables as related to entrepreneurial activity. Included in the socioeconomic and demographic variables were age, gender, working and marital status, education, and household income level. Perceptual variables included participants' assessments of: 1) their knowledge, skills, and experience relevant to starting a business; 2) whether good business opportunities exist; 3) whether a fear of failing would prevent them from starting a firm; and 4) whether they knew someone who previously started a business.

The results of the study by Kollinger and Minniti (2006) found that the "lack of participation in business ownership among blacks is not due to a lack of entrepreneurial propensity but, rather, to the existence of uneven barriers to entry across races and to higher failure rates among minorities (Kollinger & Minniti, 2006) and that "regardless of the socio-economic characteristics, demographic characteristics, and industry,

black entrepreneurs are more likely to try starting a business, but are less likely to succeed relative to white entrepreneurs.” The article goes on to state that continued results suggest a gap between blacks and whites who attempt to start a business as being in perceptual differences: blacks are more confident and optimistic, with less fear of failure than whites. Sullivan (2007) recognized that while authors Kollinger and Minniti (2006) may provide an explanation for the “gap in start-up activities initiated between blacks and whites,” it does not account for what she calls a “disproportionately low representation of blacks among established entrepreneurs.”

This article is relevant because it listed characteristics or “variables” (Sullivan, 2007) that may contribute to the success of entrepreneurs and could possibly be comparable in both successful minority- and majority-owned businesses in my analysis. However, in neither Sullivan’s research brief (2007) nor in Kollinger and Minniti’s study (2006), was the focus on common characteristics that consistently contributed to the success minority and majority entrepreneurs.

Lussier (1996) focused on presenting a startup business success versus failure prediction model for retail businesses, excluding service businesses, and making no distinction between minority- and majority-owned businesses.

An extensive quantitative correlational study was done, using a Likert-type scaled survey “quantify[ing] the specific bodies of knowledge possessed by successful entrepreneurs who have operated their business for over five years,” resulting in identifying “financial and intangible successes of the business and its owner” (Sun, 2004). Independent variables were correlated with dependent variables, measuring entrepreneurial successes. In the study, the sample population was limited to successful first-generation small business owners and their knowledge, having fewer than 500 employees, and with at least five years of operation in Franklin County, Ohio.

Sun’s (2004) research revealed there is a lack of knowledge and skills by small business owners necessary for success (Hisrich & Peters, 1992) and that three out of five American businesses fail within the first six years of operation (Boone & Kurtz, 1990).

During his literature research, Sun (2004) discovered the following characteristics of successful businesses and their owners:

- The resources of the family are generally heavily invested in the business (as cited in Chant & Morgan, 1994; DiBac-

- co, 1987; Jacobs, 1991; Nadel, 1996)
- Typical business startup costs average \$25,000, with 75%–81% coming from personal savings (as cited in Stephen, 2002)
- Planning skills, organizing, directing, and controlling (as cited in Boone & Kurtz, 1985; Lado & Wilson, 1994)
- Autonomy, innovativeness, risk taking, pro-activeness, and competitive aggressiveness (as cited in Dress, Lumpkin, & Covin, 1997)
- Comprehensive factors such as knowledge of key performance indicators of the business, e.g., return on investment and gross margins (Malcolm Baldrige National Quality Award as cited in Stephens, 2000)
- Leadership knowledge to assist in teamwork and collaboration (Fiol, 1991; Toney, 1998)
- Leadership skills, e.g., delegation and organizational planning (as cited in Cuba & Milbourn, 1982; Maruca, 1999; Parnell & Wright, 1993; Snow & Hrebiniak, 1980; Ufuk & Özgen, 2001)
- Comprehension of sales and marketing indicators, operations, measurements, and learning ability (as cited in George, 1997; Paige, 1999; Presnell, 1999).
- Distinction was made between knowledge and skill in the study

According to Sun (2004), the purpose of the study was to “identify and define the specific bodies of knowledge that significantly relate to the success of small business in Franklin County, Ohio.”

The author (Sun, 2004) analyzed data from exploratory research and literature review, dividing [the independent variables] into four main knowledge-based groups: planning & organizing, self-leadership, interpersonal leadership, and system management (Boone & Kurtz, 1985; Malcolm Baldrige National Quality Award as cited in Stephens, 2000; Paige, 1999).

Though the study focuses on small businesses in Franklin County, Ohio, characteristics related to the success of small businesses are identified that can be used to compare characteristics between businesses in my study.

Fairlie and Robb (2010) conducted a study focused on the disparities in capital access, which seems to concentrate on minority experiences. Fairlie and Robb’s research revealed that minority business

contribute substantially to the U.S. economy, “generating \$661 billion in total gross receipts in 2002,” supplying a great deal of jobs, and therefore reducing national unemployment levels, especially in minority communities. However, Fairlie and Robb (2010) found that “the growth potential of minority-owned businesses is being severely hampered... face[ing] obstacles of access to capital, access to markets and access to social networks... which are essential for any business to increase in size and scale.” Some of Fairlie and Robb’s key findings were that:

1. Young minority-owned firms create jobs at similar rates as young non-minority firms
2. Minority businesses create jobs with good pay
3. Minority-owned firms outpace growth of non-minority firms
4. Minority-owned firms lag behind in size compared with non-minority firms
5. Minority-Owned firms are less likely to receive loans than non-minority firms
6. Minority-owned firms are more likely to be denied loans
7. Minority-owned firms are more likely to not apply for loans due to rejection fears
8. Minority-owned firms pay higher interest rates on business loans
9. Minority-owned firms have lower loan and equity investments
10. Disparities in Access to financial capital grow after the first year of operations
11. Lower wealth levels are a barrier to entry for minority entrepreneurs, and
12. Experience, geographic location, lower sales and industry sectors partially limit capital access for minority firms.

Though the article doesn’t speak directly about the key findings being characteristics of success or failure, they are contributors to the success or failures of minority-owned businesses.

Closer to the topic of characteristics of successful business owners is a study conducted by Langston, which is an analysis of the 2002 survey of business owners. In this study, Langston recognizes the impact minority businesses have on the U.S. economy, stating “As mi-

nority businesses grown in size, scale, and capacity, so does the American economy.” Beneficial to my research, Langston goes on to state that his report “analyzes minority businesses to identify trends that may have impacted their performance.” The characteristics alluded to in the key findings by Langston (2008) were

1. Average gross receipts
2. Capital costs to start, acquire, expand, or finance capital improvements of the firm
3. Multiple ownership as opposed to single ownership (which increased when family-owned)
4. Franchised businesses being preferable to home-based businesses
5. Selling to other businesses as opposed to exporting

Langston’s key findings “point to characteristics that may have contributed to the survival and growth in receipts of minority firms,” a very positive and desirable outcome for minority-owned businesses. Langston refers to another study by Headd (2003) who “indicates that firms with employees, better financing, multiple ownership, and a variety of customers enjoy higher rates of survival compared to those which do not have these characteristics, among other factors.” Multiple ownership allows businesses opportunity to “tap into the experience and resources of other business partners” and “employer firms have a higher rate of business survival” (Langston, 2008). Minority entrepreneurs are more likely to utilize costlier capital sources than their non-minority counterparts, seen as a burden to the minority entrepreneurs that could hinder their growth (Langston 2008).

In their book on success, *Enduring Success: What Top Companies Do Differently*, Bailom, Matzler, and Tschemernjak interviewed 1100 senior executives in companies with long-term success to determine what they do differently from other companies not included in that category (Bailom, Matzler, & Tschemernjak, 2007). Their research spanned a period of four years.

In their book, Bailom, Matzler, and Tschemernjak (2007) listed a table of the five most significant studies on success factors. Included in that table were authors Peters and Waterman, who analyzed 43 successful companies, finding eight success dimensions: proactiveness; close customer relationships; entrepreneurial freedom; productivity on the part

of employees; a system of values the company is seen to live by; focusing on the core business; flexible, uncomplicated organizational structure; and freedom and control within company management. Second on the table were Buzzel and Gale, who evaluated a database containing key figures for over 3500 strategic business units. Buzzel and Gale found eight main strategic factors: market share; productivity; intensity of investment; relative customer value; rate of innovation; growth rate of the market; vertical integration; and relative costs. Next was Simon, who conducted an analysis of over 500 “unknown” world market leaders, finding “several common characteristics of unknown world market leaders. [These leaders] place value on ‘psychological’ market leadership... create market niches and develop unique products.” They also combine a narrow specialization with global marketing. Simon (1999) identifies the lynchpin as having close customer relationships, that innovation provides the foundations for market leadership, that they operate in markets with intense competition and gain competitive advantage through differentiation rather than cost. The corporate culture is performance and team-oriented, and the senior executives are “strong and dynamic.”

Next to be recognized by Bailom, Matzler, and Tschernjak (2007) are Collins and Porras (1998), who analyzed twenty companies with what is referred to as “cult status.” These companies had vision and were successful over the long term.

Last in the table were Norhria, Joyce, and Roberson (2003), who analyzed sixty companies from forty industries. Norhria, Joyce, and Roberson developed the “Four-plus-Two” formula, where companies who excel in the four primary management disciplines (strategy, execution, culture, and structure) and in two of four optional secondary disciplines (talent, innovation, leadership, and mergers and partnerships) were more successful than their competitors and increased their shareholder value.

WHAT IS SUCCESS?

Bailom, Matzler, and Tschernjak (2007) defined businesses success using four dimensions: 1) profitability; 2) growth; 3) advantageous market position with regard to quality, brands, etc.; and 4) subjective assessment by the most senior executives (in their study) as to how well the company is prepared for the competitive conditions and challenges of the future.

When defining success in the context of this research, to identify a population and determine a frame from which to draw my sample, success is the achievement or attainment of recognizable financial levels within a particular time frame. In measurable terms, it will mean a company has been in existence for at least five years and that profit is equal to or greater than its total costs, allowing it to operate long term.

WHAT IS MEANT BY THE TERM “MINORITY”?

For the purpose of this discussion, racial groups will be defined as can be found on the U.S. Census Bureau website, which is the following:

An “American Indian” or “Alaska Native” is a person having origins in any of the original people of North and South America (including Central America), and who maintains tribal affiliation or community attachment; “Asian” refers to a person having origins in any of the original people of the Far East, Southeast Asia, or the Indian subcontinent including, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand, and Vietnam; “Black” or “African American” refers to a person having origins in any of the black racial groups of Africa, including those who consider themselves to be “Haitian”; “Hispanic” or “Latino” refers to a person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin, regardless of race; “Native Hawaiian” or “Other Pacific Islander” refers to a person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands; “Some other race” includes all other responses not included in the “American Indian or Alaska Native”, “Asian”, “Black or African American”, “Native Hawaiian or Other Pacific Islander,” and “White” race categories described above; [“White” refers to a person having origins in any of the original peoples of Europe, North Africa, or the Middle East].

IDENTIFICATION OF THE CHARACTERISTICS OF SUCCESS

The secondary data from federal sources and found in literary reviews was used to identify characteristics of successful businesses. The information was gathered for the purpose of determining whether

or not the characteristics are shared amongst both successful minority-owned businesses and successful majority-owned businesses.

Data provided by the U.S. Census Bureau includes statistics that describe the composition of U.S. businesses by gender, race, and ethnicity, as well as number of employees, business revenues generated, kind-of-business characteristics, and firm size, all gathered from a large sample of all nonfarm businesses filing 2002 tax forms as individual proprietorships, partnerships, or any type of corporation, and with receipts of \$1,000 or more (U.S. Census Bureau website, 2010). What the U.S. Census Bureau does not provide is a distinction between businesses classified as successful and those classified as unsuccessful. Also, characteristics identified as belonging to business owners in general fail to answer the research questions, “What are the characteristics of a successful non-minority-owned business? Can these same characteristics be found in successful minority-owned businesses?” To answer these questions, further research must be conducted.

When selecting a framework that would best address the research questions, pre-existing frameworks were taken into consideration: SWOT analysis, forced-field analysis, the Value Chain, the Boston Box, and the Ansoff matrix, suggested by Jankowicz (2005). Each of these models offers different solutions to help businesses analyze their practices, some focusing on profitability of products and market growth, others on identifying factors that may be favorable or unfavorable.

According to the *Financial Post* (Research and Markets, 2010), SWOT Analysis is a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities, and Threats (SWOT) involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective, internal factors being the strengths and weaknesses internal to the organization and external factors being the opportunities and threats presented by the external environment.

SWOT Analysis is a strategic planning technique used to assess the internal and external environment in which a company operates and competes. Internal environmental factors are classified into strengths and weaknesses, while external environmental factors are classified into opportunities and threats.

Force Field Analysis, according to Bridgefieldgroup.com, is “A problem-solving technique that identifies the forces for and against a specific problem and assigns weights to each individual force to determine a total score on each side.”

The website LeanMean-Manufacturing.com defines Value

Chain Analysis as “A method to identify all the elements in the linkage of activities a firm relies on to secure the necessary materials and services, starting from their point of origin, [to] manufacture, and to distribute their products and services to an end user.”

The Boston Box, also known as the Growth-Share-Matrix, was developed by the Boston Consulting Group (BCG) and is a portfolio management tool.

CONCLUSION

Characteristics of businesses identified by authors of the literature reviewed here varied from article to article, many of the characteristics dealing specifically with the purpose for that particular research. So, the exclusion of characteristics does not necessarily imply they lack relevance to the success of businesses. This is why further research is needed to determine not only if successful businesses possess the characteristics identified in review of the literature, but to also identify additional characteristics that may also exist.

It is then at that time that characteristics can be compared between minority-owned businesses and majority-owned businesses.

In response to the characteristics discovered during research, it was determined that a mailing list will be obtained from a government publication, listing minority entrepreneurs in the Ann Arbor and Metro Detroit Area. From that list, 100 entrepreneurs would be randomly selected and given a questionnaire that would include a mixture of scaled, multiple choice, open-ended, and rank-order questions directly regarding the characteristics identified during the literature review.

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