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Organizational Membership and Business Success: The Importance of Networking and Moving Beyond Homophily

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Abstract

The homophily principle is that similarity breeds connection and affects the structure of personal networks in all kinds of social structures. The result is that networks become very homogeneous. The “birds of a feather flock together” limit social worlds because they restrict the movement of information received by people, the attitudes they form, and the interactions in which they engage. Research has shown that homophily is strongest in race and ethnic interactions, followed by divides in age, religion and gender. This paper examines organizational membership, business networking and homophily among entrepreneurs engaged in classic enterprises such as retail and service industries. The search for information and resources to improve entrepreneurial enterprises is a major task of the self-employed. Using a sample of black entrepreneurs, this work examines the impact of networking outside of the structure of homophily. We ask if this networking is perceived as improving the overall operation of the business. We examine the characteristics of entrepreneurs and how these characteristics affect the decisions to move outside of familiar homophily networks. Granovetter’s network theory of strong/weak ties is used to describe the process of networking in both types of voluntary organizations.

Homophily, which captures networks among people who are similar along a certain dimension, has added significantly to our understanding of why and how “birds of a feather flock together” (McPherson, Miller and Smith-Lovin 1982 1986; Woodard 1988) and influence social structure. This literature is expansive, and can be divided into scholars concerned with status homophily and value homophily (Lazarsfeld and Merton 1954). Our work falls into the value homophily, since we are concerned with how breaking “sameness” networks leads to better value creation for firms. This is measured by their membership in a black or white voluntary organization and the networking opportunities that emerge from their choice of affiliation.

Entrepreneurs who own classical enterprises, such as retail and personal services, experience many competitive challenges. Research has shown that when race is a variable, black entrepreneurs choose to network in non-black voluntary organizations to acquire support, contacts, useful information and credibility (Ostgaard and Bach 1996), and to find out about new products and when to enlarge a market (Falemo 1989). Networks are organized systems of relationships that can be defined as a specific kind of relationship that links sets of persons, objects or events (Nelson 1988; Szarka 1990). Most network research has been conducted on large owner manager manufacturing firms (Golden and Dollinger 1993; Human and Provan 1997) which conduct business in local and regional markets. Little research has been conducted on networking by small

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entrepreneurial firms in rural and low population urban areas, who sell a large variety of products in more varied markets and rely on primary groups and close personal ties, or homophily, for information and resources. Research has shown the importance of homophily on the structure of founding entrepreneurial teams; it has its greatest impact on the composition of the group (Ruef, Aldrich and Carter 2003).

An entrepreneur may be defined as an individual who, when he/she sees an opportunity will manage risks to establish and maintain a business (Bygrave and Hofer 1991). Although the findings have implications for all entrepreneurs, a black sample allows us to draw on the rich literature that stresses issues of homophily within the context of ethnic enterprises. This literature examines interaction between defined “ethnic” firms and organizations of the larger society.

A voluntary organization is defined as a formal organization irrespective of size in which membership is optional (McPherson, Miller and Smith-Lovin 1982; 1986; Woodard 1988). These organizations are classified by purpose into instrumental or task oriented, and expressive or social oriented.

The purpose of this paper is to develop conceptual characteristic frameworks that are associated with a black entrepreneur’s membership in a black or non-black voluntary organization and how the ethnicity of voluntary organizational membership influences the type of social and business networking.

Theoretical Considerations

The entrepreneurship literature has many examples, or cases, of the importance of “birds of a feather” flocking together, or homophily. For example, research on ethnic enclaves shows how people with the same nationality produce enclaves where interdependency among a broad range of businesses satisfies their mutual needs and furthers coordination and cooperation to reduce competition. This enclave effect has been prominent in America, where immigration has been one of the defining elements of the country (Butler 1991; Butler and Wilson 1988; Greene 1997; Portes and Bach 1985; Rhodes and Butler 2004). Many enclave communities are often at the pre-enclave stage where there is not a broad representation of businesses for interdependency among firms to occur. These communities have sub-economies that range in their development between enclave and pre-enclave economies (Butler and Wilson 1988). Despite the stage of development, there are protected market advantages based on ethnic loyalty that produces a captive market for labor and customers, facilitates ease of communication, encourages financial networking and creates trust in business dealings (Light and Rosenstein 1995).

An entrepreneur may have dense strong expressive tie networks composed of immediate family, relatives, and friends who share known information. There are also extended, less dense networks, with indirect weak ties to other aggregations and individuals in distant areas of a social system where new information is available (Dubini and Aldrich 1991; Granovetter 1973; 1983; Light and Rosenstein 1995). Membership in non-ethnic voluntary organizations may lead to instrumental weak tie contacts and new resources; membership in ethnic voluntary organizations may lead to both instrumental tie contacts and expressive strong tie contacts. The latter is more likely to provide access to widely known resources (Lin, Ensel and Vaughn 1981; Marsden 1988; McPherson, Miller and Smith-Lovin, 1986).

A debate exists over when strong and weak ties offer network advantages or disadvantages. Lin et al (1981) argued that since weak ties may link individuals to persons of higher social status, they could provide more and varied resources to individuals of lower social status. Other researchers contend that weak ties are not as effective for persons in vulnerable positions or those of lower socioeconomic status in society (Burt 1992; Granovetter 1983; Ibarra 1993). Both Burt(1992) and Ibarra (1993) have pointed out the advantage of weak ties may not apply to minorities networking in non-ethnic voluntary organizations because bias may limit the instrumental value of bridging ties to other parts of the social system that are linked to more densely connected individuals in the network. Other researchers found business owners who had strong tie networks with fewer diverse secondary networks had higher performing businesses than those in less dense weak tie networks with access to diverse information (Larson 1990; Ostgaard and Bach 1996).

Educational attainment of an entrepreneur affects network structure. Better educated entrepreneurs look outside their immediate environment to seek a broader set of network relationships from which to acquire information and resources (Aldrich, Reese and Dubini 1989; Donckels and Lambrecht 1997); diversity of networks are associated with greater profitability (Ostgaard 1996). Blacks who have more education and higher status occupations are more likely to join voluntary organizations than their co-racialists of lower SES status (Woodard 1988). In addition, the more educated are even more likely to join non-black organizations.

Through investing in interpersonal relationships with family and friends, a person acquires social capital (Coleman 1988) that may be tapped when assistance is needed. The provision of advice and help to an individual indicates prior exchange relationships that create network resources (Hofferth and Iceland 1998). Ethnic entrepreneurs, as do those from the majority group, acquire social capital in the employment of family members, friends and co-ethnics as paid, low paid or unpaid employees whose involvement is influenced by the degree of mutual solidarity among family and community members (Butler and Greene 1997; Greene and Butler 1996). American entrepreneurs of Chinese (Zhou 1992), Cuban (Portes and Bach 1985), Korean (Min 1988), Pakistani/Ismaili (Greene 1997) and Japanese (Levine and Rhodes 1981) ancestry rely on the employment of family and co-ethnics, or homophily, who make long term contributions to the development of their businesses (Upton and Heck 1997). The employment of relatives is often a necessity when discrimination reduces job opportunities outside the ethnic community (Levine and Rhodes 1981).

Entrepreneurs in the homophily tradition, which gives less emphasis to financial success, maybe more involved in the life and organizations of their community and are more concerned about contributing to the welfare of the community (Chaganti and Greene 2002). Cummings (1999) shows that entrepreneurs who conducted their business outside of the black community were consistently more successful than blacks who limited their business solely to members of the black community.

The customer base of entrepreneurs, in the tradition of homophily, is influenced by their decision of whether to immerse themselves primarily into their community and its organizations or to integrate into the dominant society. Immersion into the culture and institutions of the ethnic community provides ethnic resources and loyalty (Greene

1997) and the trust of co-ethnic customers based on shared experiences (Fukuyama 1995). The protected market theory states that racial communities create ethnic solidarity and ethnic social networks (Cummings 1999; Light and Rosenstein 1995) that encourages an ethnic entrepreneur to fulfill the special needs of their co-ethnic customers. In contrast Dyer and Ross (2000) found black entrepreneurs operating in a homophily tradition had an ambivalent attitude toward co-ethnic customers. This is because they perceived those who, on the one hand provided the benefit of ethnic loyalty and, on the other the drawback of expected preferential treatment. When upwardly mobile immigrants, as self-employed Japanese, became more culturally integrated in American society they were more likely to attract white customers and to improve business performance by joining mixed ethnic organizations (Woodrum, Rhodes and Feagan 1980).

The type of business strategy employed influences the kinds of scanning behavior entrepreneurs use to make contacts. A marketing strategy that emphasizes service to the customer requires an external focus by acquiring information on customer needs (Kohli and Jaworski 1990; Pineda, Lerner, Miller and Phillips 1998; Slater and Narver 1994). The type of information sought and most frequently found come from person-to-person networking (Brush 1992) through individuals affiliated with different organizations (Falemo 1989). We bring this literature to bear on our modeling of homophily entrepreneurship, including fund raising, resources from governmental agencies, customer generation outside of the homophily group, and paid or non-paid employers.

Methods

Sample

The respondents are black American small business owners living in Texas. They were initially selected from lists of entrepreneurs recorded with the Black Chambers of Commerce. Eighty percent of the sample of 133 respondents was collected from two neighboring cities forming a total metropolitan area population of 237,132 (U.S. Census Bureau 2002). In city 1 the total population is 121,123, with a black population of 5,593, that represents 4.6 percent of the population of the city and 45 percent of the total black sample. In city 2, the total population is 116,009, of which the black population number is 8,101 or 7 percent. This represents 35 percent of the sample. Four percent of the sample came from a city of 242,628 with a black population of 18,602 or 7.6 percent of the population of the city. The remaining 16 percent came from small rural communities of 25,000 or less, where the black population was less than 1 percent. In cities 1, 2, and 3, the black business was located primarily in areas with large black populations where most of the customers were black with a geographically adjacent Hispanic population.

In the rural communities of 25,000 or less, the small black population did not form a community. They were dispersed in different sections of the towns where black entrepreneurs did business with a variety of ethnic groups. The samples were drawn from numerically and proportionally small black populations that do not represent the overall percentage of the U.S. black population seen in urbanized areas and in the emerging black high tech and manufacturing industries in large cities. The businesses in the sample represent the traditional lines of retailing and personal service businesses.

The demographic characteristics of the sample included 62 percent males and

38 percent females, marital status, 65 percent married and 35 percent single, and a mean education level of 13.7 years.

Instrument

A self-administered survey was distributed to the respondents. The survey consisted of 80 questions that included multiple indicators of concepts ranging from family background and socialization to business ownership, organizational affiliation, and involvement. The survey also measured motivation for going into business, personality characteristics, community, and family support for business activity, prior entrepreneurial experiences of respondents, and those of family members.

Factors associated with successful business operation, strategies used in business and subjective perceptions of business performance were included.

Dependent Variables

There are two indicators of networking through voluntary organization membership based on the ethnicity of the organization. The first indicator reads, "Do you currently belong to any organizations that are predominately composed of members who are African American?" The response categories were yes and no with 51 percent answering yes and 49 percent answering no and 9 no responses. The second indicator of networking through voluntary organizations reads, "Do you currently belong to any predominately non-African American organizations? Since all the non-African American organizations were white, we will hereafter refer to them as white voluntary organizations. The respondent categories were yes and no with 35 percent answering yes and 65 percent answering no and 20 no responses.

Independent Variables

Statistical analyses were performed on the relationship between all the measures in the survey with the organizational affiliation measures. Among the statistically significant measures used in the analysis, the following concepts and their indicators predicted variations in one or both of the dependent variables. An item that reads, "How many years of schooling have you received?" measured level of educational attainment. The response was number of years of education. One relative assistance measure reads, "Do any of your relatives assist you in cooking and/or doing housework?" "Yes" and "no" were the response categories. Another relative assistance measure reads, "Do any of your relatives work in the family business as paid employees?" The response categories were yes and no. The following three questions have response categories of much help, some help, and no help. "Any help you may have received from immediate family members?" "Any help you received from friends that are a member of your ethnic group?" "Any help from government programs in the United States?" "Thinking of your customers, in general, about what percent of your customers fit into the following groups?" The response categories are African American, Caucasian, Mexican American, Asian, and other. "Considering how long you have been in business, how successful do you think you have been so far?" The response categories are very successful, moderately successful, moderately unsuccessful, and very unsuccessful. "Which best describes your business strategy, low prices, better service, better selection, better quality, better advertising, target customers, superior location, better facilities, unique service/product?" The response categories are one for the most important, 2 for the second most important and 3 for the third most important.

Statistical Analysis

The two dependent variable response categories are yes and no and are coded 0 and 1. Binary dependent variables make logistic regression an appropriate type of analysis. The independent variables were measured either on a continuous scale or when dichotomized by yes or no responses were made into dummy variables.

The cultural context of this study provides insight into how the race of voluntary organizational membership affects group social interaction. This study was conducted in a small to medium sized West Texas towns with a black population of 7.6 percent or less where the cultural context included a strong historical business enclave that flourished during the decades of legal segregation. This business legacy, especially for middle age blacks, represents a strong community enterprise model. Because of historical and current experiences, including the end of legal segregation, social networking through predominately white voluntary associations has increased. Therefore, larger numbers of black entrepreneurs belong to white voluntary organizations.

Results

We begin the analysis by examining the characteristics of entrepreneurs associated with the choice to move from homophily, or continue to flock with the familiar group. This is done in Figure 1, which presents the characteristics of two conceptual models designed to describe the relationships of independent variables that are associated with the choice of the race of voluntary organizational affiliation.

In Model A, the dependent variable is membership in a white voluntary organization. The first characteristic shows that entrepreneurs with a higher educational level have an increased likelihood of joining a predominantly white voluntary organization than a predominantly black voluntary organization. The second characteristic shows that entrepreneurs who received help from immediate family members have an increased likelihood of joining a predominately black voluntary organization than a white voluntary organization. The third characteristic shows that entrepreneurs who received help from black friends have an increased likelihood of joining a white voluntary organization than a black voluntary organization. The fourth characteristic shows that entrepreneurs who received help with cooking and housework from relatives have an increased likelihood of joining a white voluntary organization than a black voluntary organization. The fifth characteristic shows that entrepreneurs who received help from government agencies have a decreased likelihood of being a member of a white voluntary organization than a black voluntary organization. The sixth characteristic shows that entrepreneurs whose relatives worked as paid employees have an increased likelihood of joining a white voluntary organization over a black voluntary organization. The seventh characteristic shows that entrepreneurs who have a higher percentage of Caucasian customers have an increased likelihood of belonging to a white voluntary organization than a black voluntary organization.

In Model B, membership in a black voluntary organization is the dependent variable. The first characteristic shows a weaker positive association between less education and membership in a black voluntary organization than a white voluntary organization. The second characteristic shows that when customer service is a primary marketing strategy respondents have an increased likelihood of belong to a black voluntary organization than a white voluntary organization. The third characteristic shows

that a higher percentage of black customers are associated with an increased likelihood of belonging to a black voluntary organization than a white voluntary organization. The fourth characteristic shows that respondents who perceived their businesses as not too successful have an increased likelihood of belonging to a black voluntary organization than a white voluntary organization.

**Figure 1. Characteristics Associated With Membership In
A Voluntary Organization According To Ethnicity**

**Model A. Characteristics Associated With Membership
In A Predominately White Voluntary Organization**

- | | |
|---|-----------------|
| 1. Higher educational attainment (+) ----- | |
| 2. Help from immediate family (-) ----- | |
| 3. Help from friends in ethnic group (+) ----- | Membership in |
| 4. Help in cooking & housework from relatives (+) ----- | Predominately |
| 5. Relatives work as paid employees (+) ----- | white voluntary |
| 6. U. S. government programs (-) ----- | organizations |
| 7. High percentage of Caucasian customers (+) ----- | |

**Model B. Characteristics Associated With Membership In
Predominately Black Voluntary Organization**

- | | |
|--|-----------------|
| 1. Lower level of educational attainment (+) ----- | Membership in |
| 2. Marketing strategy of service to customer (+) ----- | predominately |
| 3. High percentage of black customers (+) ----- | black voluntary |
| 4. Perception of business success (-) ----- | organizations |

These early results can be grounded in the Granovetter's theory that describes how different social networking contacts are made, and the distinction between strong and weak tie strengths (Granovetter 1973). He argued that social networks are composed of clusters of people who differ by two types of tie strength, weak instrumental ties, or strong expressive ties. He emphasized that weak instrumental ties are efficient only when they form low-density bridges to clusters of low intimacy acquaintances that provide access to new ideas and different information that stimulate innovation and mobility. In strong tie high density (i.e. cohesive) networks, composed of family and friends, there is ease of interaction because they are motivated to help each other with specific contributions and information that is widely known (Granovetter 1973 1983). Strong ties provide most of the influence, speed, and credibility of information flows and are the primary factor in decision-making; weak ties provide novel information. Individuals will use the interplay of both weak and strong tie networks of unequal strength to attain results and to mediate the demands of competing political, professional, and ethnic groups for their allegiance.

In a community where homophily is high, there can be structural restraints on opportunities which affect success. The racial characteristics of the voluntary organization membership and its tie strength may affect the benefits an entrepreneur receives. Black Americans who join a predominantly white voluntary organization are more likely to acquire weak instrumental tie networks with whites. This links them to members of

a social system that crosses bounded groups and social categories that can provide them with new information and resources. Black entrepreneurs who remain in networks of homophily may prefer membership in black voluntary organizations. This will enable them to have a mixture of weak instrumental ties and strong expressive tie relationships, the latter from which they are more likely to acquire commonly held information. Further analysis reveals interesting theoretical predictions.

Table 1 presents the independent variable characteristics measures associated with the dependent variable “Do you currently belong to any predominantly white voluntary organizations?” The findings indicate that for each additional year of education, the respondent is 1.38 times more likely to be a member of a predominately white voluntary organization. Those respondents who received help from immediate family members are only .189 times as likely (or 5.28 less likely to be a member of a predominately white voluntary organization). Similarly, those who receive help from government programs are .216 times as likely (4.63 times less likely) to be a member of predominately white voluntary organizations. Respondents who report they receive much help from friends who are members of their ethnic group are 4.57 times more likely to belong to predominately white voluntary organizations. Respondents who indicated that they received help with cooking and/or housework from a relative are 4.11 times more likely to be members of predominately white voluntary organizations. Respondents who have relatives working in the business as paid employees are 4.35 times more likely to be a member of a predominately white voluntary organization.

Table 1.
Determinants of Membership in Predominantly White
Voluntary Organizations by Self-Employed Black Americans

Independent variables	B coef Model	Odds ratio
Education	.321***	1.379
Help from immediate family	-1.664**	.189
Friends in ethnic group	1.559**	4.754
U.S. government programs	-1.533*	.216
Received assistance in cooking and housework from relatives	1.414*	4.114
Relatives work as paid employees	1.469*	4.346
Percentage of white customers	.014*	1.014
R2 (Nagelkerke)	.420	
N	133	

***P=<.0001 **P=<.001 *P=<.05

The percentage of white customers has a positive effect on joining a predominately white organization. For each percentage increase in the proportion of white customers there is a 1.4 percent increase in the odds of the respondents being a member of a predominately white voluntary organization. This is a multiplicative term, meaning

that 50 percent difference in the percentage equates to a 2.02 times increase in the odds ($e.0141*50 = 2.02$). The accuracy of the model indicates that because of disproportionate respondents in each group, we should compare our modest prediction accuracy to the maximum by-chance accuracy rate. This simple guessing should enable us to guess at least 70 percent of the group membership accurately (the size of the largest group). Our model has an accuracy rate of 81.2 percent; that is an increase of approximately 16.2 percent and is much better at predicting the non-membership group (90.3 percent) than it is the membership group (60 percent). The full model has a modified R square (Nagelkerke) of .420.

Table 2.
Determinants of Membership in Predominantly Black
Voluntary Organizations by Self-Employed African Americans

Independent variables	B coef.	Odds Ratio
Years of schooling	.1374**	1.147
Service	.7261*	2.067
Percentage of black customers	.0112**	1.011
Perceptions of business success	-.7738**	.461
R2 (Nagelkerke)		.169
N	133	

*P=<.1 **P=<.05

In Table 2 the dependent variable, membership in predominately black voluntary organizations, is regressed on years of education, business strategy of providing service, percentage of customers who are black and perceptions of business success. Fewer years of education has a significant positive effect on being a member of a predominately black organization. Each year of education increases the logistic odds by 14.73 percent of belonging to a predominately black organization. This is a multiplicative term, so to compare two people, one of whom has four more years of education, we take the original coefficient from the model (.1374) and multiply it by 4, which equals .5496. To determine the odds ratio we exponentiate this value, $e.5496 = 1.73$. Thus, a person with four additional years of education is 1.73 times more likely to be a member of a black voluntary organization.

Respondents who value service as a key component of their business strategy are 2.06 times as likely to be a member of a predominately black voluntary organization. For each percentage increase in the proportion of respondents who have a higher percentage of black customers, the odds of the entrepreneur being a member of a predominately black voluntary organization increases by 1.01. This is a multiplicative term meaning that a 50 percent difference in percentage of customers who are black American translates into an increase in the likelihood of 1.75 times ($e (.0112*50) = 1.75$).

Perceptions of business success is coded into a dummy variable where, “if the respondents consider their business very successful” is coded 1, and coded 0 if the

respondent answered moderately successful, moderately unsuccessful, or very unsuccessful. Missing values are also coded 0. Respondents who state that they consider their business very successful are 2.17 times less likely to be a member of a predominately black voluntary organization.

The by-chance accuracy rate for this model is just over 50 percent. Our model has an accuracy rate of 66.92 percent, which is an increase of about 33.6 percent--a very respectable increase in accuracy. The full model has modified R square (Nagelkerke) of .169.

Discussion and Conclusion

The findings show the characteristics associated with a black entrepreneur's grounding in volunteer organizations that are characteristic of homophily or the movement away from homophily. We examined whether or not they had membership in a black or white voluntary organization and, how Granovetter's theory of strong and weak ties can apply to social and business networking in these voluntary organizations (Granovetter 1985: 95) (Johansson and Monsted 1997) that differ by race.

Social capital is a group level sociological measure which in the present study shows that social resources and advice are provided for a black entrepreneur by a self-help network of supportive kin, peers and community subgroups (Fratoe 1988). The findings show a positive association between black friends who provided help with the business and membership in white voluntary organizations. Friends encouraged black entrepreneurs to expand their networks outside of the black community to further their business. Relatives who worked as paid employees in a respondent's firm are associated with an entrepreneur's membership in a white voluntary organization. Ethnic minority entrepreneurs acquire important social capital in the use of family members, friends and co-ethnics as paid, low paid or unpaid employees that furthers community mutual solidarity (Butler and Greene 1997; Greene and Butler 1996). Relatives and friends in an entrepreneur's social support network recognized a black group's inequality in social capital resources in comparison to other ethnic groups (Fratoe 1988) and encouraged networking in a white voluntary organization. Lin et al (1990) observed that a segment of black entrepreneurs who wished to achieve social mobility outside the black social structure joined white voluntary organizations to acquire contacts that could provide them with new opportunities.

In contrast, help and advice from immediate family members is associated with an entrepreneur's affiliation with a predominately black voluntary organization. Immediate family members may encourage offspring to join strong expressive-tie high density black voluntary organization networks where connections between co ethnics provides ease of access to information and opportunities, and to avoid possible rejection and discrimination that may occur with membership in white voluntary organizations.

A positive association existed between increased education and membership in white voluntary organizations. Better educated black entrepreneurs have a wider network, which allows them to rely less on the information and resources only from of co-racialists in black voluntary organizations. Some post-secondary education and increased public school integration has led to greater interaction with whites, which by definition lead to increase racial interaction. . Better educated black entrepreneurs use instrumental weak tie connections through membership in white voluntary organi-

zations because they are more efficient in acquiring bridges to new contacts and new information outside the black community. Lower educational levels have an association with membership in black voluntary organizations. Less educated blacks may not have interacted with whites in post secondary educational institutions and would feel more comfortable in black voluntary organizations where expressive strong ties and instrumental weak ties provided access to information to assist in serving customers in the ethnic community. The mean educational level of respondents is 13.7 years. The lack of college degrees among the respondents suggests persons with higher educational levels are likely to leave a small, limited resource, black community for large metropolitan areas where there are greater opportunities in emerging high-capitalized black information technology and manufacturing businesses (Bates 1993;1997).

The findings showed black entrepreneurs who had received help from the U.S. government were less likely to belong to white voluntary organizations. Black entrepreneurs who turned to government agencies for help did not feel it was necessary to network in white voluntary organizations for new opportunities. Since there was no significant association between receiving help from the government and membership in black voluntary organizations, this suggests that assistance from the government reduced the need to network in voluntary organization whether white or black. While we did not ask on the survey what type of government aid was given, the researchers observed that the government gave technical advice, but provided few financial loans. In small black communities with traditionally underfinanced retail and personal service businesses the government was often hesitant to provide loans because of high failure rates (Bates 1993).

Blacks who reported their businesses were unsuccessful were more likely to have membership in predominantly black voluntary organizations than white voluntary organizations. Most respondents were reluctant to provide financial information on their survey. A reviewer may dismiss self-reports of success without supporting annual sales and financial returns; however, no consensus exists over whether objective measures are sufficient to define business performance (Murphy, Trailer and Hill 1996). Some researchers contend that subjective evaluations do not differ much from objective measures (Venkatraman and Ramanujam 1986) and they remove response bias due to participants not answering sensitive financial questions (Besser 1999). Among the objective definitions are staying in business (Van de Ven, Hudson and Schroeder 1984; Reid 1991) the amount of sales and financial returns (Duchesneau and Gartner 1990; Kalleberg and Leicht 1991; Tigges and Green 1994) and the introduction of new and quality products (Venkatraman and Ramanujam 1986). Objective financial measures are criticized because small business owners may be unwilling to reveal accurate and specific information related to their financial condition and they do not always equate financial performance with business success (Kotey and Meredith 1997). Subjective views of success include personality characteristics and managerial skills (Ibrahim and Goodman 1986), an internal focus and belief that one has control over business results (Brockhaus 1980) and the personal satisfaction of owning a business (Solymossy 1997) irrespective of financial returns (Cooper and Artz 1995).

The respondents in the present study operated small, under-financed, traditional personal service and retail businesses located primarily in small black communities

including some mixed racial areas with a clientele of moderate socioeconomic status. Respondents had a limited opportunity to grow and improve business performance. Under these conditions objective measures of financial success are less important than subjective perceptions (Bates 1993).

Black entrepreneurs whose marketing strategy was to provide personal service to customers are more likely to belong to black voluntary organizations. Membership in a co-racial organization provided greater ease of communication and trust across a wide range of strong and weak tie networks that could contribute to customer loyalty and a statement of ethnic communal solidarity. Since small black business owners and members of black voluntary organizations had many shared cultural experiences, they could identify with and through personalized service satisfy their particular needs. No significant relationship exists between one particular marketing strategy and membership in a white voluntary organization. It may be a black entrepreneur will satisfy white customer needs through a variety of marketing strategies with not one standing out as important.

When black entrepreneurs have a large percentage of white customers, they are more likely to join predominantly white voluntary organizations. In this environment they can make instrumental weak tie contacts to more distant parts of the social system to acquire new information, new resources and attract more customers by learning of the needs of their white customers. A drawback is that interaction in white voluntary organizations may put constraints on ease of interaction leading to superficial and less dense expressive relationships. Black entrepreneurs who have a high percentage of black customers are more likely to join black voluntary organizations where they have both expressive strong tie and instrumental weak tie relationships that produce information and resources widely known in a small black community.

The future of black business growth is for entrepreneurs to enter the emerging markets. However, there is still a role for small traditional black businesses. Boyd (1990) has pointed out that the presence of traditional small undercapitalized business in communities where blacks represent a small proportion of the population has important non-economic value because they act as role models for youth and aspirant entrepreneurs and support the value of work. Wilson (1987) viewed traditional black business as moderating the impact of economic down turns by supporting customary norms and reducing the psychological impact of separation from the larger society.

This study has shown that a large number of black small business owners have membership in white voluntary organizations, a situation that would have been unheard of in the recent memory of older respondents. Formerly, whites could do business within the black community while blacks were restricted to the black community. Since a number of respondents had a large percentage of white customers this would suggest there is some degree of social and economic racial integration in the communities studied. This is not to deny that when engaging in traditional black business enterprises, institutional discrimination continues to limit black business development in comparison to other ethnic groups (Butler and Wilson 1988; Butler 1991; Woodard 1988; 1997).

Implications for Further Research

Scholarship has recognized a need to conduct further research on the prospective dimension of membership in a voluntary organization and entrepreneurial networking; where a researcher would actually follow an entrepreneur in their acquisition and use of contacts; and how these contacts would affect the kind of resources acquired (Beggs and Hurlbert 1997). Of course, variation by homophily groups would also be important.

For all groups grounded in homophily, gross dollar revenue data should be collected to supplement self-report perceptions of business success. This will allow financial comparisons to be made of businesses owners who had membership in expressive homophily voluntary organizations with those who had membership in instrumental voluntary organizations in a larger context.

Further research should determine what type of help is received by entrepreneurs from the U.S. government, whether technical assistance or loans or both, and what were the requirements to receive help. These issues should all be wrapped around the theoretical concept of homophily, and how the movement away from homophily affects the success of the enterprise.

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