ABSTRACT

Researchers and policy-makers have reviewed the effects that entrepreneurship has on wealth creation across various regional contexts. Typically, entrepreneurship has been associated with higher levels of prosperity and is often the best ‘cure’ for socioeconomic ills within a community. However, the United States (U.S.) has seen a peculiar phenomenon in that minority-owned firms tend to underperform white-owned firms in general. This disparity hampers both the economic prosperity for the affected groups and the U.S., overall.

The literature does present reasons why minority firms underperform white firms in general. Some explanations for the performance gap between minority and white firms are: (1) differences in wealth levels between minority and white business owners, (2) location of many minority businesses in primarily minority and low-income areas, (3) evidence of racism in lending decisions made by banks and importantly, (4) the propensity for many minority entrepreneurs to be ‘discouraged borrowers’, who need money but do not apply for loans. Of these various reasons, the discouraged borrower phenomenon is of particular interest for this study because being a discouraged borrower is a cognitive bias that may be reformed. As such, it is a factor that a minority entrepreneur can be aware of and control much easier than is the case with the other factors, such as lower wealth levels, or uneven playing fields because of racism.
The psychological reasons for discouraged borrowing have not been extensively studied in the literature, and are virtually silent with regard to minority entrepreneurs. This dissertation fills this gap by examining three constructs with the opportunity to explain discouraged borrowing and its impact on performance: (a) how varying levels of entrepreneurial orientation (EO) affect minority entrepreneur levels of discouraged borrowing (b) how varying levels of EO influence the trust levels of minority entrepreneurs for partners of different ethnicities (c) and how the trust levels of minority business owners for business partners who are not of the same ethnicity (co-ethnic) influence social capital and ultimately firm performance. EO is used because strategic orientation is critical for a firm’s success and high levels of EO have been shown to be associated with higher levels of firm performance. An argument will be made that higher levels of EO are also associated with higher levels of both trust and performance for minority entrepreneurs.

This dissertation uses two models – the first is a multivariate model to show the direct effects the sub-dimensions of EO have on a minority entrepreneur’s propensity to be a discouraged borrower and firm performance. The second is a structural equation model (SEM) to show the role that Interracial Distrust plays in influencing a minority entrepreneur’s social capital, willingness to use bank loans, and firm performance.

The dissertation provides evidence that EO and Interracial Distrust are competing factors – EO has positive association with firm performance both directly (as shown in the multivariate model) and indirectly but through several channels (as shown in the SEM model). Conversely, Interracial Distrust appears to be negatively correlated with any of the channels associated with greater firm performance. This suggests that although Interracial Distrust may well be a learned response to negative behaviors with white partners who engage minority entrepreneurs, care must still be taken on the part of the minority entrepreneur to adopt productive relationships with external business partners and bankers for the greatest odds of success.