

**An Economic Sociology of Entry Barriers:
Business Entry and the Inner City Market**

A Dissertation Proposal by

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A b s t r a c t

Entrepreneurship theorists concern themselves with important questions about the evaluation of business opportunities. How is an opportunity evaluated? Why do some entrepreneurs see business opportunities where others do not?

In this dissertation, I propose a theory of social and institutional entry barriers to explain these differences for inner city markets. To summarize, I argue that inner city markets pose a challenge for business managers and entrepreneurs because many do not understand how to address significant social and institutional factors. These factors influence the structure of business opportunities in inner cities. It is the structures around the business opportunity that make the inner city business opportunities different from other business opportunities. Business opportunities in the inner city markets are more influenced by these social and institutional forces than the traditional market and therefore different business strategies are necessary to address them.

Secondly, I theorize about the relationship between the entry strategy and the performance of the firm. Business strategy in inner city markets will follow patterns consistent with overcoming social and institutional entry barriers. In other words, those entrepreneurs whose background and experience give them superior knowledge and capabilities within an inner city market will build more successful firms than those without this knowledge and capabilities. The entrepreneurs that build firms more adept at overcoming social and institutional barriers to the inner city market will be more successful than those without.

The contribution of this dissertation to entrepreneurship theory is its use of the lens of economic sociology to define how the existence of 'social' and 'institutional' entry barriers structures the business opportunities of inner cities. These types of entry barriers influence the decision to enter a new market and the entry strategy chosen for inner city markets.

Entry barriers to new markets have been classically defined in terms of cost advantages, product differentiation, capital requirements, switching costs, and access to distribution channels. (Porter 1980; Karakaya & Stahl 1991) These types of barriers, however, do not explain the breadth of challenges and opportunities afforded to firms seeking to enter new markets.

I make the case in this dissertation that entry barriers fall into three categories. Traditional entry barriers described by Bain (1956) and Porter (1980) conform to the classic economic barriers described above. These economic barriers, originally intended to explain aspects of industry structure, have been extended to explain competition in market structure. To this economic entry barrier, I add two dimensions: social and institutional entry barriers. Social entry barriers such as networks of resources and access to appropriate workforce are related to the social structure of the market. Institutional entry barriers such as political stability, order, norms, and values, are related to the institutional structure of the market.

I borrow the concept of embeddedness (Granovetter 1985, 1992) from economic sociology to explore how both social and institutional entry barriers influence the decision to enter new markets and the entrance strategy. To this end, I theorize how these economic decisions can be embedded within the social and institutional structure of the market. This theory broadens the concept of entry barriers to explain why firms that are able to overcome economic entry barriers may not successfully enter new markets.

This dissertation develops propositions concerning the nature of business opportunity and business entry in inner city markets. I ask three important questions. First, what factors influence the decision to enter for firms interested in entering inner city markets? Second, for those that enter, what is the relationship between these entry barriers and the entrance strategies they use to enter? Third, how do these entrance strategies relate to firm performance? I employ three different research methodologies to answer these questions: interviews, vignettes, and survival analysis of empowerment zone data.

P r o l o g u e

INNER CITIES: PAST, PRESENT, AND FUTURE

May 24, 2001; 4:30 PM

As I sit in the Starbuck's coffee at the corner of 125th street and Lenox Avenue in Harlem, it is the end of the workday. People are making their way to the subway station on the corner. Others are on their way to the shopping spots of 125th street. A number are tourists interested in Harlem as a historical landmark. Children taking the long way home from school are crossing the street recklessly. Local residents are walking home or making their way to their evening jobs.

More than 80% of the faces are of people of color: Hispanic, Caribbean, and African. Some are recent immigrants sporting their native apparel in defiance of popular culture. Most are U.S. citizens by birth or by naturalization. Five languages are clearly heard over the din of the street: English, Spanish, French, Wolof, and Patois (Creole or other).

When I turn my attention back to the coffee shop I notice that every seat of the Starbuck's is full. Some are reading books or are reading papers. Others are meeting friends after work. A few are conducting business meetings or on their mobile phone. I know from recent discussions I have had with those involved in local economic

development that this Starbucks Coffee is one of the sales leaders for Manhattan. It rivals the Wall Street location.

Back to the street corner: in a span of 10 minutes four tour buses full of international tourists hailing from Japan, Germany and France have rode past. Because of its historical significance, Harlem has become a tourist destination for those visiting New York Cities. Several tour companies take tourists on Harlem jazz tours, gospel tours, architectural tours, and literary tours. To capitalize on the rise of tourism, new shops have emerged in this community specifically targeting the tourists.

But there is more to see at this corner. As I survey the business activity at this corner, I make the following observations.

- A large billboard advertising *oldnavy.com* and a new shopping mall known as Harlem USA.
- Five new shops opened in the last three years: Sterling Optical, Starbucks (where I'm seated), a Slice of Harlem (a pizza restaurant), Bayou (a Cajun restaurant) and Avenue (a clothing store).
- On one corner, one of Harlem's most colorful characters plays music, dances, and bounces a small rubber ball. He is there every day. Most of the local people are used to his antics.
- Several "business" men and women pass the window to the Starbucks selling watches, jewelry or other items.
- Seven abandoned storefronts can be seen from here on Lenox Avenue, south of 125th street. They are graffiti vandalized and trash is strewn in front of them.
- The offices of the Upper Manhattan Empowerment Zone (UMEZ) and BRISC (a UMEZ sponsored business center) overlook this corner above the Sterling optical.

Journalists and politicians are calling all of the new activity in this area the "New Harlem Renaissance." As I sit and take in the view at this corner, I wonder if this is part of a rebirth so long awaited for this and other inner cities.

Chapter 1

INNER CITY BUSINESS OPPORTUNITIES: PROMISE OR PARADOX

“The rising tide raises all boats.”

-

Inner city business opportunity is currently drawing more than its share of attention. Journalists have well documented the success of the communities that have been revitalized through the establishment of business enterprise and empowerment zones. Recent headlines have exclaimed:

“Big Store, Seen as Interloper, Wins Over a Neighborhood”

“An Urban Revival in the Midwest?”

“The Rising Tide”

This type of coverage has renewed interest in the topic of urban renewal and the question, “Are cities on the rise?”

Two thought leaders in this area, Paul Grogan and David Rusk, have chronicled their prescriptions for urban revitalization. In *Comeback Cities*, Harvard’s Grogan (2000) argues that four trends have led to the recovery of many inner city communities: the development and expansion of grassroots neighborhood revitalization efforts, the ‘rebirth’ of private markets in the inner city, the drop in crime and the decentralization of public schools, welfare system, public housing and other bureaucracies are major

contributors to the revitalization of America's inner cities. This analysis highlights the significance of institutional issues in inner city community economic development.

In *Inside Game/Outside Game* Rusk takes a different approach to inner city development. He stakes the future of urban centers on the use of "inside" and "outside" political and economic strategies by metropolitan areas. His research and case studies demonstrate how cities can stem the tide of urban decay by reintegrating the urban center with the suburbs. He writes,

Despite the revival of many downtown business districts in the 1980s and 1990s, more and more city neighborhoods became warehouses for the region's poor, particularly blacks and Hispanics. With shrinking tax bases and burgeoning service needs, many inelastic city government slid into fiscal crisis. (Rusk 1999:5)

To combat these threats to inner city economic vitality, Rusk argues that municipalities should strive to be 'elastic': cities that are able to annex and/or coordinate suburban resources into the city limits. This approach limits suburban sprawl and taps into the potential of regional economies in addressing the needs of inner cities. This is the 'outside game.'

The good news is that both analyses have merit. Grogan and Rusk represent authors that have recorded the triumphs and tribulations of inner city communities urban centers. They are perhaps the most optimistic of the authors who write about the future of inner cities. It seems that the "rising tide" has managed to raise inner city boats and several communities have benefited from this increased activity. New businesses have entered these markets bringing products and services to underserved consumers. New jobs have been created. In the Upper Manhattan Empowerment Zone boasts the creation

and retention of 2,400 jobs in the Harlem- Washington Heights- Inwood communities (UMEZ 2001).

And yet, the tide has not reached every inner city. Disparities exist amongst America's major urban centers: New York, Baltimore, Philadelphia, Pittsburgh, Los Angeles, and Chicago. Major retailers have been more willing to enter inner city markets in Harlem, New York than anywhere else in the nation. Major neighborhood employers¹ (supermarkets, department stores, movie theaters, factories, and financial institutions) have stayed away from North and West Philadelphia, South-side Chicago, East and West Baltimore. Minor neighborhood employers are only now entering the inner city market. How can we explain these disparities? How are business opportunities in one inner city market different than business opportunities in other places? The answers to these questions are important to the future vitality of the inner city.

Inner city business development policy for these and other cities can be broadly categorized into one of two strategies. The first strategy attempts to attract firms from outside of the inner city to the inner city. Often, these policies provide economic incentives that firms use to justify their risk. The second strategy provides existing or start-up inner city firms with the access to financial capital. The goal in both cases is for businesses to locate their firms within the city limits. As Edward Koch, former Mayor of New York City stated early in his first term, "The main job of municipal government ... is to create a climate in which private business can expand in the city to provide jobs and profit." (Katznelson 1981:4) Because of the ability for new businesses to employ

¹ The terms *major neighborhood employers* and *minor neighborhood employers* originate in research conducted by Bingham and Zhang (2001).

residents and provide products and services to a community, business entry into the inner city is of critical importance for the economic development of inner cities.

The Past, Present, and Future

Business entry into the inner city market, in my assessment, is a complex picture where images of the past complicate the possibilities of the future. The corner I have described in the prologue is an allegory of the past, present and future of America's inner cities. Each of the businesses I have highlighted portrays the realities of inner city business. They represent the constraints and opportunities of a new and an old economy.

The Past

The past is represented by the graffiti vandalized and dilapidated store fronts. Inner city businessmen and women have closed their stores and left their buildings in despair. Social scientists have argued that this scene is problematic. When businesses leave a community, the community loses its vitality as evidenced by the eminent urban sociologist William Julius Wilson (1996) work on jobless ghettos. His analyses of communities on the south side of Chicago are masterful studies of the social and economic constraints and challenges present in America's inner cities. One resident of a south-side Chicago neighborhood of Woodlawn described their neighborhood in these words,

“I was just really appalled. When I walked down Sixty-third Street when I was younger, everything that you wanted was there. But now, coming back as an adult with my child, those resources are just gone, completely ... And ...housing, everybody has moved, there are vacant lots everywhere.” (Wilson 1996: 5)

Sixty-third Street of Chicago South Side was a thriving business district in the middle of the 20th century. It has since deteriorated into an array of abandoned storefronts, dilapidated housing and disrepair. As one of the Wilson's graduate researchers writes,

“The commercial strip has been reduced to a long tunnel of charred stores, vacant lots littered with broken glass and garbage, and dilapidated buildings left to rot in the shadow of the elevated train line. At the corner of Sixty-third Street and Cottage Grove Avenue, the handful of remaining establishments that struggle to survive are huddled behind wrought-iron bars ... The only enterprises that seem to be thriving are liquor stores and currency exchanges, these “banks of the poor” where one can cash checks, pay bills and buy money order for a fee.” (Wilson 1996: 5)

For the average American, this description fits their image of inner city business development. Inner cities have not been the scene of significant business development for much of the last 40 years. A ride through many of America's inner cities will validate this observation.

When we consider the pre-1960s world of America's inner city, it was different place. Black “ghettos” had significant business activity. In the UPFLS study, Wilson's subjects make reference to these “better times.”

“[There were all kinds] of stores up and down Sixty-third Street, and it was, you know, just a fun place. Then when I came back in the seventies, it was like ... barren. It was totally different from what I remembered.” (Wilson 1996: 5)

The story of the Chicago inner city is a familiar one for America's large urban centers. It is a story of the cycle of boom and bust that follows the prevailing social and economic patterns of America's history. Fairchild (2001), in his study of inner city entrepreneurs in

Harlem, theorizes that the confluence of social capital flight, low-valued human capital and racial/ethnic segregation have lead to the formation of the inner cities typified by urban decay and disorder.

And this is not only an American problem. Note the tone of this researcher from Britain:

... there has been little progress in addressing the pressing challenges of severe job losses and household deprivation, and in revitalizing the worst of the public housing estates and neighborhoods or private rented housing. These neighborhoods have high rates of lone-parent families, child poverty, and teenage pregnancy. There is still too much damp, cold housing – with dramatic and depressing health impacts, including ‘winter deaths’ of older people. Finally, the decline of traditional manufacturing continues to haunt, with vacant buildings and derelict, contaminated land characterizing many inner-city neighborhoods. An outflow of jobs from the old inner cities to new suburbs and expanding country towns continues into the new millennium. (Carley 2000: 274)

These patterns of social and economic decay are a past that is not easily conquered by programs and policy. As a result, inner city markets become isolated and underserved.

Recovery comes to these communities slowly, if at all. Herein lies the paradox.

Underserved markets can be growth areas for new and existing businesses but most entrepreneurs will not consider business opportunities in these markets. Business activity in inner cities continues lag behind its suburban counterpart.

The Present & Future

Recently, policy makers have created programs that begin to attract businesses to the inner city market. The present is represented by the co-existence of these firms with some of the conditions of the past. In the prologue, I describe the retail clothing,

restaurants, and fast food establishments that are in and around 125th street. A few blocks away some families continue struggle to meet their needs and soup kitchens, churches, and community organizations are trying to meet them at their needs.

Until recently, those that have seen the promise of inner city entrepreneurship have come from communities outside of Harlem (and in many cases from other nations). Many of the shops in the 125th street corridor are operated by Asian and middle-eastern vendors with limited social ties to the Harlem community. In recent years, shops in the West 116th Street corridor have been opened by West African immigrants who live in the same community. These entrepreneurs follow patterns consistent with the work on ethnic entrepreneurship (Aldrich 1990), ethnic enclave economies (Portes 1989), and inner city entrepreneurship (Gittel and Thompson 1999) conducted by sociologists.

The Upper Manhattan Empowerment Zone (UMEZ), Old Navy, Avenue and Bayou represent the future of inner city markets. Serious efforts to attract and retain new establishments to Harlem by UMEZ have been rewarded. Other efforts to bring major neighborhood employers such as Pathmark Supermarkets and Magic Johnson Theaters have been successful. According to UMEZ officials, major retail chains such as Old Navy, the Disney Store, Sprint, Avenue and Starbucks Coffee are recognizing the potential market in the untapped inner city consumer. The entry of these types of businesses is certainly a positive step toward revitalizing the economy of impoverished and jobless inner cities.

Inner City Business Research: An Overview

Andressen (1971) pioneered inner city business research in *Inner City Business*. His case study delved into the business development issues of entrepreneurs in Buffalo, New York. He demonstrated the importance of social issues (specifically race and racism) in the business development of an inner city. Aldrich (1973) followed this work with a study about the patterns of business ownership and employment in the “Black ghetto.” He found that the white-owned businesses were larger than the Black-owned businesses, that they dominated the labor market of the ghetto, and were more likely to hire “outsiders” than Black owners. Aldrich concludes that these issues exacerbated the tension found in many inner city communities. That tension has undermined many of the efforts to revitalize these communities.

During the same period, a related line of research was established by Ivan Light. The seminal work *Ethnic Entrepreneurship in America* (Light 1972), describes the “protected market” theory of ethnic communities. “Protected Markets” is the term used to describe the culturally based tastes and preferences of ethnic minorities that can *only* be served by co-ethnic enterprise. Light’s work led to a number of studies of the ethnic economy and ethnic entrepreneurship. Aldrich et al (1985) extended this line of research by adding a second dimension to the protected market hypothesis. Aldrich and his colleagues contend that ecological factors contribute to creating a protected market, specifically, ethnic segregation. This approach has been used to study Cubans in Miami (Portes 1987), conflict between Korean business owners and the Black community (Light and Bonacich 1988), Asians shop owners in Britain (Aldrich 1977; Aldrich et al 1985),

the garment industry (Waldinger 1989), African American in Miami (Wilson and Portes 1980) and Dominicans in Washington Heights (Portes *****).

Because ethnicity and residential segregation factor so prominently in the theories of ethnic entrepreneurship, some have argued that it is just as valid in inner cities (Wilson and Martin 1982). My research does not support this argument in two respects. First, the modern inner city is not a protected market any more. Franchises, chain stores, and major retail stores are seeking and finding business opportunities in inner city markets. As these entrepreneurs enter inner city markets, business scholars are at a loss for explaining the patterns being shaped by the inner city market.

Second, most of the ethnic enclave/ protected market literature presupposes specific patterns of ethnic immigration and entrepreneurship. According to Portes and Light (1994) entrepreneurs in ethnic enclave economies will reap similar returns to non-ethnic entrepreneurs outside of the ethnic enclave economies by employing co-ethnic workers and using extensive trust networks to gain competitive advantage. In today's inner city markets, some of the firms in inner cities are owned and operated by ethnic entrepreneurs who hire co-ethnics. Many, however, are not. Therefore, we must revisit these theories of ethnic entrepreneurship if we are to apply them to patterns of business entry and strategy in inner cities.

Other scholars consider the social organization of the inner city to be central to understanding behaviors and institutions. William Julius Wilson (1996) has written extensively about the urban poor and the social structure of the ghetto. He concludes that the same forces that created the urban ghetto create the dire circumstances that plague

members of the 'underclass.' Venkatesh (2001) would agree with this assessment. In *American Project* he provides insight into the development of community structure in the urban ghetto as the formal and informal economy, the social and anti-social interact.

Katznelson's (1981) study of Washington Heights reminds us of the tightly coupled nature of the political and the social structure of a community. His research explores the distinctly American division of work life from community life. The social structure of the urban community influences everything in the place. Therefore, patterns of community structure will have significant influence on the patterns of business development.

There is little work on business strategy in inner cities and no work on business entry. The literature I have just reviewed leads me to propose a new direction for this research, one that seeks to understand how these social and institutional patterns impact business entry.

The context of the inner city is also relevant for business scholars. First, studies of the inner city are dated (Aldrich 1973; Andressen 1971) and do not take into account changes in the national economic environment. Furthermore, recent studies have lacked theoretical depth (Porter 1995, 2000; Dymski 1997). Second, many of the related studies in this area focused on ethnic enterprise/entrepreneurship but, this lacks the new reality of non-ethnic enterprises in inner cities. Most of these studies are not from business schools and do not bring multi-disciplinary perspectives (business strategy and entrepreneurship) to bear on this issue. Third, there is renewed interest in inner cities by policy makers. Business scholars who have developed theoretical arguments concerning the business

entry and development in inner cities would better inform them. A major contribution of this work is to theorize how these patterns of economic, social and institutional forces have implications for managers of the firm and entrepreneurs who develop businesses in the inner city. This is the focus of this dissertation.

The “Inner City”

Researchers have chosen different terms to describe the same (or similar) subject area that I call the inner city. The term *ghetto* or *urban ghetto* has been used to describe areas of high poverty, unemployment and racial and ethnic segregation. The term in recent years has fallen out of fashion. It is a casualty of political correctness.

A more general term, *urban*, has been used liberally to describe all manner of issues and problems within cities. Urban areas are often contrasted with suburban areas. The term urban is characterized in the economic, sociological, and policy literature so many different ways it has lost its explanatory ability. In terms of socioeconomic variables, urban areas have the very rich and the very poor, the highest and lowest levels of education, and are cosmopolitan in nature.

Urban core is a term that seems to be prevalent in cities of the West and Mid-West. In Kansas City, the area of highest poverty and lowest business development is known as the urban core.

In recent studies conducted by economists Bingham and Zhang (2001), the term *central city neighborhood* was used. Their research studies the economies of neighborhoods within cities at the zip code level. The draw back of this term is that many of the neighborhoods they studied were not in the center of the city.

I have chosen the term *inner city* primarily because the term does not have the baggage associated with it that the others do. The places I am focusing upon are *within* the city and not outside the city. It is a term that does not connote race or ethnicity. It is a term that allows me to capture the location specific issues I theorize about in this work.

It also is consistent with terms used by others interested in business development issues namely Michael Porter's (1995) work on inner city competitiveness, Gittel and Thompson (1999) work on inner city business development, Fairchild (2001) on inner city entrepreneurs, and the work of Ross and Boston (1996) along with others.

For the purposes of this dissertation, I define inner cities to be neighborhoods that have historically had high poverty (>20%), high unemployment (>15%) and low business development. This distinguishes my definition from those that use ethnicity and race to determine inner city locales. The social and institutional factors I discuss in this dissertation exist in neighborhoods regardless of the racial or ethnic composition of the place.

A Theory of Business Entry

Scholarly research about inner city business development by business scholars has not addressed the link between the perception (or evaluation) of the business opportunity, the decision to enter and the exploitation strategy. By exploring the patterns of entrepreneurial activity I can provide some insight into how inner city business development is unfolding in a new economic environment. Ultimately, this research can

begin to uncover some of the successful strategies for inner city business development and point policy makers toward what works and why.

To explain these differences amongst firms I look to the context for clues. In this dissertation, I propose a theory of social and institutional entry barriers to inner city markets. In summary, I believe that inner city markets pose a challenge for business managers and entrepreneurs because many do not understand how to overcome significant social and institutional factors. To that end, I believe that the entrepreneurs background traits and business opportunities are proxies for their ability to understand inner city business opportunities and exploit them. It is not enough, however, to predict differences amongst entrepreneurs. To trace these differences back to the traits of the entrepreneur does not gain us very much by way of theory building. Traits are not theory. They point a theory. It is the thesis of this dissertation that a theory of social and institutional entry barriers explains how the entrepreneur's perception of the business opportunity influences the decision to enter inner city markets.

Secondly, I develop hypothesis about the relationship between the entry strategy and the performance of the firm. Business strategy in inner city markets will follow patterns consistent with overcoming social and institutional entry barriers. In other words, those entrepreneurs whose background and experience give them superior knowledge and capabilities within an inner city market will build more successful firms than those with out this knowledge and capabilities. The entrepreneurs that build firms more adept at overcoming social and institutional barriers to the inner city market will be more successful than those without. I operationalize this by gathering data on the

structure of business opportunity and entry strategies used by entrepreneurs in the inner city markets of New York and Baltimore.

Other 'New' Markets

To this point, I have concentrated on explaining how a theory of social and institutional entry barriers applies to the inner city context. Are inner cities the only “new” markets that entrepreneurs and business managers need to consider? No. Five categories of “new” markets exist in America’s economy: ethnic markets, ethnic economies, ethnic enclave economies, inner cities, and urban markets.²

The first is highlighted in the June 11,2000, *Business Week*. One commentator notes that African-, Asian, and Hispanic American consumers account for an estimated \$1 trillion of spending power. Members of minority groups account for 79 million of the 281 million in the 2000 census. This is what is called the *ethnic market*.

A variation of the first “new” market is called the *ethnic economy*. Light and Karageorgis (1994: 648) explain that an ethnic economy “exists whenever an immigrant or ethnic minority maintains a private economic sector in which it has a controlling ownership stake.” What distinguishes an ethnic market from an ethnic economy is the ownership stake. While ethnic market is typically described in terms of spending power, aggregate retail dollars, or consumer marketing efforts that relate to specific ethnic groups, it does not imply ownership, entrepreneurship or self-employment. The term ethnic economy is reserved for this distinction.

² In reality, these markets are not “new” at all. They have just been ignored or villified for so many years that most businesspeople and entrepreneurs have forgotten about them. The term “new” markets was

Ethnic Minorities Only	Ethnic Market Ethnic Economy	Ethnic Enclave Economy
Ethnic Minorities and Others	Urban Market	Inner City
	Not Location Specific	Location Specific

Figure 1: Conditions where Social & Institutional Entry Barriers Exist

The third “new” market is the *ethnic enclave economy*. Portes and his colleagues developed a definition that applies the ethnic economy term to a geographical area. (Portes and Jensen 1989; Portes and Sensenbrenner 1993; see Light and Karageorgis 1994 for a review.) Ethnics and their businesses cluster around ethnic enclaves. Two well-documented examples of this concept in action are Miami’s “Little Havana” community and New York’s Washington Heights and Chinatown neighborhoods. These communities meet the conditions of ownership, geography, and ethnicity.

The fourth “new market” is not exclusive of non-ethnics. In general, *inner cities* are defined as parts of metropolitan areas that have high levels of poverty, unemployment, and concentrations of ethnic minorities and immigrants when compared to the rest of the metropolitan area. (Andreasen 1971; Aldrich 1973; Porter 1995; Fairchild 2001) Fairchild (2001), in particular, used a three-force process model to

coined by those in the Clinton Administration who were promoting inner city renewal and business

define how inner cities come into existence. The three forces are 1) low-value human capital, 2) residential segregation and 3) lack of sustainable social organization. This definition provides indications of how to stem the tide of deterioration within inner city communities.

The fifth “new” market is composed of ethnics and non-ethnics. The *urban market* is a phenomenon facilitated by the export of urban culture – music, clothing, styles, philosophy, literature, values, etc. – through the media. The urban market has no geographic boundaries. Its consumers are just as easily found in metropolitan areas as they are in middle-America, suburbia, or rural areas. Because of its infancy, business academics are yet to rigorously address this phenomenon.

There are obvious areas of overlap in this typology of “new” markets. Ethnic enclaves fit with ethnic economies but all ethnic economies are not ethnic enclaves. Inner cities may have ethnic enclaves but all ethnic enclaves may not be considered inner cities. The ethnic consumer market has overlaps with all of the markets defined but those in the urban market or inner city may not be ethnic.

Although these five “new” markets are not mutually exclusive to one another, they do fall easily along two dimensions presented in Figure 1: ethnicity and location. This characterization of consumers, markets and economies is helpful because it demonstrates the multiple conditions where social and institutional entry barriers exist. A theory of social and institutional entry barriers sheds some light on how some business

managers and entrepreneurs have been successful in addressing these markets and why most have not.

Organization of this Dissertation

This dissertation is organized as follows. Chapter 2 provides a theoretical overview of the theory of social and institutional entry barriers. Chapter 3 uses interview data to bolster the theoretical arguments proposed in Chapter 2. Chapter 4 describes a vignette study used to understand how perceptions of inner cities can be the first entry barrier for entrepreneurs seeking business opportunities. Chapter 5 presents a study of entry strategy and inner city business survival. Chapter 6 reviews the findings from each study and considers their significance in the context of the theory of social and institutional entry barriers. Chapter 7 concludes this work by presenting future directions for the study of the economic sociology of entry barriers.

Chapter 2

AN ECONOMIC SOCIOLOGY OF ENTRY BARRIERS

Entrepreneurship theorists concern themselves with important questions about the evaluation of business opportunities. How is an opportunity evaluated? Why do some entrepreneurs see business opportunities where others do not?

In this chapter, I propose a theory of social and institutional entry barriers to explain these differences for inner city markets. To summarize, I argue that inner city markets pose a challenge for business managers and entrepreneurs because many do not understand how to address significant social and institutional factors. These factors influence the structure of business opportunities in inner cities. It is the structures around the business opportunity that makes the inner city business opportunities different from other business opportunities. Business opportunities in the inner city markets are more influenced by these social and institutional forces than the traditional market and therefore different business strategies are necessary to address them. The entrepreneur's background traits and business experience serve as proxies for their ability to understand inner city business opportunities and exploit them.

Secondly, I theorize about the relationship between the entry strategy and the performance of the firm. Business strategy in inner city markets will follow patterns consistent with overcoming social and institutional entry barriers. In other words, those entrepreneurs whose background and experience give them superior knowledge and capabilities within an inner city market will build more successful firms than those with

out this knowledge and capabilities. The entrepreneurs that build firms more adept at overcoming social and institutional barriers to the inner city market will be more successful than those without.

I have chosen, in this dissertation, to use the lens of economic sociology to define how the existence of ‘social’ and ‘institutional’ entry barriers structure the business opportunities of inner cities. These types of entry barriers influence the decision to enter a new market and the entry strategy chosen for inner city markets. In this chapter, I begin by detailing a theory of entry barriers that includes the economic, social and institutional dimensions.

This chapter is organized as follows. First, I review relevant management and organization theory including a discussion of embeddedness and entry barriers. Second, I draw on the concept of embeddedness to develop a theory of social and institutional entry barriers and explain why they are important to entrepreneurs. Third, I develop propositions that predict how economic, social and institutional entry barriers influence the decision to enter. Fourth, I develop propositions that explore the relationship between entry strategy for new markets and firm performance. I conclude with a brief discussion of the contribution this work makes to strategic management, organization and entrepreneurship theory.

Theoretical Background

There are very few theoretical perspectives concerning the nature of business opportunities in inner cities. Most of the work has been related to questions of equitable

access to capital and start-up financing (Bates 1993; 1996; 1997; 2000; Butler, 1991; MBDA 2000). One review article on the subject of inner city business development and entrepreneurship concludes,

Research on inner-city business development has not proceeded far enough to serve as a useful guide for policy. Most of the research has been and continues to be on exceptional inner city enclaves; business conditions and outcomes, with inadequate consideration of social and political contexts; and the direct economic and employment benefits of inner city business development, or more specifically the lack thereof. (Gittel and Thompson 1999: 508).

As a result our explanations of inner city business activity and entrepreneurship in the inner city has suffered.

After many years of practitioner-oriented work, scholarly research is emerging in the field of entrepreneurship. The most recent research can be broadly placed into three categories – those that study the people (entrepreneurs), those that study the process and those that study the entrepreneurial or business opportunities. Business opportunity is often construed in the literature to be related to the entrepreneur herself. The resulting line of research explores the patterns of traits associated with entrepreneurship. However this “traits” perspective lacks a theoretical thrust.

There are other gaps in this research area. Missing from most studies of entrepreneurship (Shane 2000 being a notable exception) are discussions of the discovery process and the interaction between the entrepreneur and the opportunity. This is important to inner city business research because many entrepreneurs do not discover business opportunities in inner cities. Is there something special about the business opportunity in inner cities that makes them different from other opportunities? This question was partially addressed by theorists in the Austrian tradition of economics.

The Austrian approach to entrepreneurship emerges from a strong critique of neo-classical economics (Kirzner 1997). In this critique, proponents of the Austrian approach argue that the neo-classical approach cannot accommodate entrepreneurship into its theories of equilibrium. Following the Austrian theorists Kirzner (1997) and Hayek (1945), I believe that markets are more often in disequilibrium than in equilibrium. Disequilibria in the economic, social and institutional environment lead to entrepreneurial opportunity. Alert entrepreneurs will discover these opportunities more readily than those who are not alert. Shane (2000:450) summarizes the Austrian approach in three points.

- 1) People can not recognize all opportunities
- 2) Information about opportunities determines who becomes an entrepreneur
- 3) The process depends on factors other than people's ability and willingness to take action

This tradition of entrepreneurship is relevant to the analysis of inner city business opportunity where it is clear that equilibrium conditions do not exist. Wealth, income, employment, human capital, social capital, and business development are not evenly distributed in any city. The inner city is severely impacted by declines in the economy. Principles of equilibrium, supply and demand often cannot be applied to the informal economy that exists so prevalently in the inner city.

The Austrian tradition is especially salient for entrepreneurs in the inner city because it is not the ability or willingness of the entrepreneur that stymies inner city business development. More often than not, it is the perception of these barriers to entry that retards the business development. It is these perceptions and the disequilibria around

the business opportunity that makes inner city business opportunities different from other business opportunities. Business opportunities in the inner city markets are more influenced by these social and institutional forces than traditional markets.

Rather than explain these differences in terms of the individual entrepreneur, I am arguing (in line with the Austrian tradition) that the fundamental patterns of the business opportunity in the inner city make it difficult for any entrepreneur to 1) identify and evaluate a business opportunity, and 2) be successful. I theorize that the perception and evaluation of inner city business opportunity are a result of the social and institutional factors. As a first step toward developing a theory of *social and institutional entry barriers* I will place this theory in the context of existing theories of entry barriers to markets and economic action.

Entry Barriers

I focus on “entry barriers” for this research because it is the other side of the opportunity coin. Entry barriers represent some of the criteria entrepreneurs use to evaluate business opportunities once they are discovered. The perception of these entry barriers will influence the entry decision. Inner city business opportunities are best analyzed in the context of the social and institutional factors that help to create them. To discuss this theory in terms familiar to business scholars I call these factors social and institutional entry barriers. These entry barriers can be a source of competitive advantage for entrepreneurs familiar with the market. They can be detrimental to those outside of the market.

The concept of barriers to entry is well documented in the literature of economics and business. As early as 1907, economists John Bates Clark wrote about keeping “potential competition” at bay. Bain (1957) coined the term “barriers to new competition” in the seminal work on the subject. Scherer (1980), Porter (1980) and others have clearly stated the importance of five barriers to entry in business strategy: capital requirements, cost advantages, switching costs, distribution access and proprietary assets. These barriers are tangible and generally address the issues of economies scale and scope.

The implication of this work instructs firms to create and deploy mechanisms of deterrence that would prevent competitors from entering your market. Researchers from various perspectives have considered the efficacy of such entry barriers in small business economics and entrepreneurship (Acs and Audretsch 1988; Acs 2000; Casson 1982: Chapter 7), strategic management and industrial economics (Porter 1980; Schmalensee 1981; Harrigan 1981; Wagner 1994; Klepper and Simons 2000), and organizational theory (Carrol, Bigelow, Seidel and Tsai 1996; Tucker, Singh, and Meinhard 1990; Haveman 1993; Hannan, Carroll, Dundon, and Torres 1995).³

Porter (1980) presented a typology of entry barriers that has become the backbone of strategy theory. Today, when we teach business strategy and entrepreneurship in business schools, we explain that entry barriers serve two functions. First, an entry barrier deters the focal firm from entering new markets. Simply, if the barriers are “too high”, a firm cannot (will not) enter the market. Second, we describe entry barriers as

³ For a recent review of this literature see Han, Kim and Kim (2000) or Karakaya and Stahl (1989).

something that should be erected behind the focal firm to protect it from competitors seeking to enter your market. This is explained to be the major investments, learnings and innovations that are made, found and implemented within the firm that are difficult to imitate outside of the firm. These types of barriers to entry, however, do not explain the breadth of challenges and opportunities afforded to firms seeking to enter new markets.⁴

Notably absent from the well-established definition of entry barrier is any discussion of the types of barriers not related to market structure. Casson (1982) comes the closest to addressing the entry barriers beyond the economic in his explanation of four strategies entrepreneurs use to erect barriers to competition. The first is to use a patent or license. This constitutes, to use economic terms, a statutory monopoly. A second option is to monopolize a critical resource that is important to business. Third, an entrepreneur can commit to addressing the market with such a scale that competitors cannot enter without making incredible investment. The last one he presents is a “goodwill” strategy. He writes, an entrepreneur, “can build goodwill toward himself in the early stages of exploitation, and thereby hope to make his trading partners suspicious of any competitors who appear.” (Casson 1982:119)

In both Casson and Porter’s representation of entry barriers, entry barriers are a means toward guarding against the threat of competition. However, as Karakaya and Stahl (1992) present, entry barriers may exist for firms entering new markets whether

⁴ It should be noted at this point that my analysis has one underlying theme. This research specifically considers the nexus of consumer and geographical markets. The theories developed in this work, are well suited for describing economic action within ethnic enclaves, ethnic economies, and inner city markets. In other words, I will not be examining industrial markets or industrial structure in this work. That ground has been well covered by others.

they were erected by competing firms or not. In some markets, these barriers to entry are just as difficult to overcome as those strategically placed by competitors.

To advance my argument I propose that entry barriers fall into three categories. The traditional entry barriers described by Bain (1956) and Porter (1980) conform to the classic economic barriers described above. These economic barriers are related to market structure (i.e. structure-conduct-performance of Scherer 1980). I call the second type of entry barrier, social entry barriers. Social entry barriers such as networks of resources and access to an appropriate workforce are related to the social structure of the market. The third type of entry barriers are institutional entry barriers (i.e. norms, values, order) and are related to the institutional structure of the market.

Embeddedness and Entry Barriers

My approach to analyzing the entry barriers to inner city markets is drawn heavily from Granovetter's (1985, 1992) path breaking work on embeddedness. He developed the embeddedness concept to be a more descriptive of economic behavior than the under-socialized treatment by neo-classical economists or the over-socialized treatments of some sociologists. The contribution he made to both economics and sociology establishes a balanced and more realistic approach to the "sociology of economic life." (Smelser 1973; Granovetter 1992) In other words, the extremes do not serve us well. The under-socialized approach assumes that all actors will resort to profit maximizing, interest seeking behavior when engaged in economic action. This rendition does not allow for the influence of social structure or issues of trust. It is an atomistic approach to describing actors.

In the over-socialized account, human action is completely influenced by the opinions of others. The actor is socialized for norms and behaviors that represent the desires of the group and not necessarily the interest of the individual. This approach leaves little room for pursuits of individual interests. Embeddedness captures both possibilities by placing economic action in a social context. Transactions between individuals and firms are embedded in the relationships between the actors. Embeddedness allows for the possibility of trust, opportunism, malfeasance, or order exist side by side.

My analysis of entry barriers and strategy in inner city business environments shares Granovetter's conclusion: economic action takes place within a social and institutional structure. I have chosen to use this perspective to theory development because I believe that theories that include economic sociology lead to more complete explanations of business strategy and action. Inner city business environments, in particular, lend themselves to this approach because of the complexities of issues within economic development.

Michael Porter's work on inner city economic development places business squarely in the middle of any attempt to revitalize a community (Porter 1995, 2000). Furthermore, he believes that large- and medium- sized businesses need to lead the way. In some cases, these firms are the same businesses that fled the inner cities 30, 40 or 50 years ago. In other cases, these firms are recently established and seeking new markets. (Porter 1995) His attempt to promote the advantages of the inner city has moved many managers and some entrepreneurs to consider inner city markets for their business.

In one of the original works on inner city business, Buffalo, New York is profiled.

Alan Andreasen describes inner city business in these words:

The character of a community's business system is determined by a complicated, continually changing set of *economic* and *social* factors. At the most general level it is determined by supply and demand. First, demand for business services, must exist in the form of a population with spending power and a particular tastes and wants. To meet this demand, a supply of entrepreneurs must appear and assemble the necessary land, buildings, labor and capital. *Frequently, this amounts to taking over an existing business; sometimes it means beginning an entirely new enterprise.* (Andreasen 1971:6; emphasis added)

My work for this dissertation begins where Andreasen ends this thought. What factors influence the entry decision? Once the decision has been made to enter, what strategies are used to enter? Before forming propositions to address these questions, it is important define the language I will use throughout this analysis.

Types of Entry Barriers

Economic Entry Barriers are those entry barriers defined by Harrigan (1981) as investments in a business that build up its technology, resources, and competitive advantage to a level where it is difficult for others to compete. In this case, the deterrent is financial (economic) in nature. Examples of economic entry barriers include cost advantages, product differentiation, capital requirements, customer switching costs technology investment, and R&D investment.

Social entry barriers prevent an entrepreneur from using the social network of relationships that exist within a market to their advantage. These inter-firm, employee-employer, formal economy-informal economy and other firm-to-resource relationships

are embedded in the social structure of the market. Examples of social entry barriers include appropriate labor markets and local business networks.

Table 1: Examples of Social Entry Barriers

Social Entry Barriers	Examples of Social Entry Barriers
Lack of access to local network of business owners	<ul style="list-style-type: none"> • Memberships in local business owners organization • Access to informal trust networks
Lack of access to local network of business organization and resources	<ul style="list-style-type: none"> • Relationships with local business development organizations • Relationship with local banking institutions
Lack of access to local networks of community-based and social organizations	<ul style="list-style-type: none"> • Relationships with faith based community development organizations
Lack of access to political infrastructure	<ul style="list-style-type: none"> • Relationships with local political figures
Lack of access to pool of labor and talent	<ul style="list-style-type: none"> • Relationship with workforce development organization

Institutional entry barriers prevent an entrepreneur from knowing or accommodating the rules, norms and values that contribute to the culture, order and practices of a market. They occur at multiple levels in a market and dictate the relationship between a firm and the consumer and the firm and the community. These are related to the institutional structure of a market.

Ingram and Clay (2000) define institutions as the norms and values that form the basis of order and help to smooth interactions amongst actors. Governmental systems and churches are grand extensions of these norms and values that have been codified and passed from generation to generation.

On a more micro-level, actors in an environment where there is uncertainty seek to find some common rules of conduct that will solve the problems of malfeasance and

opportunism. (Ingram and Clay 2000) The interactions between businesses and residents in inner city communities is one full of unspoken norms and rules. These institutions are clearer to those who are embedded within the institutional structure than to those outside of it.

Table 2: Examples of Institutional Entry Barriers

Institutional Entry Barriers	Examples of Institutional Entry Barriers
Lack of knowledge of local norms, values and culture	<ul style="list-style-type: none"> • Knowledge of cultural holidays and celebrations
Lack of social order	<ul style="list-style-type: none"> • Significant criminal activity • Abandoned housing (“broken windows”)
Lack of government/quasi-government “attention” that creates an “environment for business”	<ul style="list-style-type: none"> • Lack of significant business presence and low self employment
Lack of active financial markets	<ul style="list-style-type: none"> • Redlining of neighborhoods • Inactive banking community

These institutional entry barriers are further clouded by perceptions and prejudgments of inner cities. When asked what is the most significant disadvantage of the inner city, inner city business owners cited crime as their number one choice. (Inc 2000) Is this real or perceived crime? Rarely do people gather data on city crime rates. They make their judgments on the basis of their perceptions.

This is the essence of the broken window hypothesis that Grogan (2000) refers to in *Come Back Cities*. Inner cities have suffered from decreases in social organization and patterns of poverty for so long that certain norms and values have become part of their existence (Wilson 1996). Kelling and Coles (1996:242) describe this problem in these terms,

Disorder demoralizes communities, undermines commerce, leads to abandonment of public spaces, and undermines public confidence in the ability of government to solve problems; fear drives citizens further from each other and paralyzes their normal, order-sustaining response, compounding the impact of disorder.

This influences the perception of opportunities for business. Some entrepreneurs will not consider inner city markets because they do not believe there is business opportunity there.

From the consumer's perspective, certain businesses have been guilty of inflating their prices to the point of extorting unusually high profits from the community. Some have provided less than professional services and poor quality products to inner city consumers. These historical precedents have severe sociological impacts and influence the structure of the opportunities for business development and economic growth.

(Wilson 1996; Aldrich 1973, 1990)

The process to change these norms and values for those representing more productive and beneficial approaches for community and business is a delicate dance. Understanding these institutions is critical for business success. The lack of mutual understanding poses a serious entry barrier to the inner city market.

Social and institutional entry barriers are especially active mechanisms in inner city markets where the formal and the informal economy are tightly coupled. Portes and others have explored the intricacies of the informal market. (See Portes 1994 for a review.) The formal economy is supposed to be regulated, predictable and able to smoothly transact in a near-pure market. The informal economy is not regulated, irregular and more prone to the idiosyncrasies of personal relationships. Because of this tight coupling and the ebb and flow of economic and social conditions inner city markets

pose an enormous challenge to the entrepreneur or business manager. An entrepreneur may overcome many economic entry barriers and neglect to address the social entry barriers of their market. Their long-term success is improbable. Business managers may predict increasing revenues from an inner city location but soon be disillusioned when their business is isolated within the community. Each of these situations speaks to the importance of social entry barriers for inner city business development.

To review, the economic sociology of entry barriers is a research stream that explores the structures *around* business opportunities. It includes the perception of entry barriers as an important consideration for business development. It re-defines the term entry barriers to include economic, social and institutional dimensions. These concepts are best explored through a study business entry into inner city markets. Economic entry barriers will exist in all markets at all times. They can be erected by competitors or exist prior to any firm entering the market. Nevertheless, when a market has historically been underserved or avoided, social and institutional entry barriers are particularly high for those with little experience. Competitors do not erect social or institutional entry barriers. They exist in these markets because of sociological, historical and demographic reasons.

Figure 1 presents the direction that this analysis takes from here. First, the perception and evaluation of these business opportunities by entrepreneurs will influence the decision to enter a new market and the entry strategy. Second, the strategy chosen to overcome these entry barriers will influence performance. I present hypotheses about the mechanisms of influence in the next two sections.

The Economic Sociology of Entry Barriers

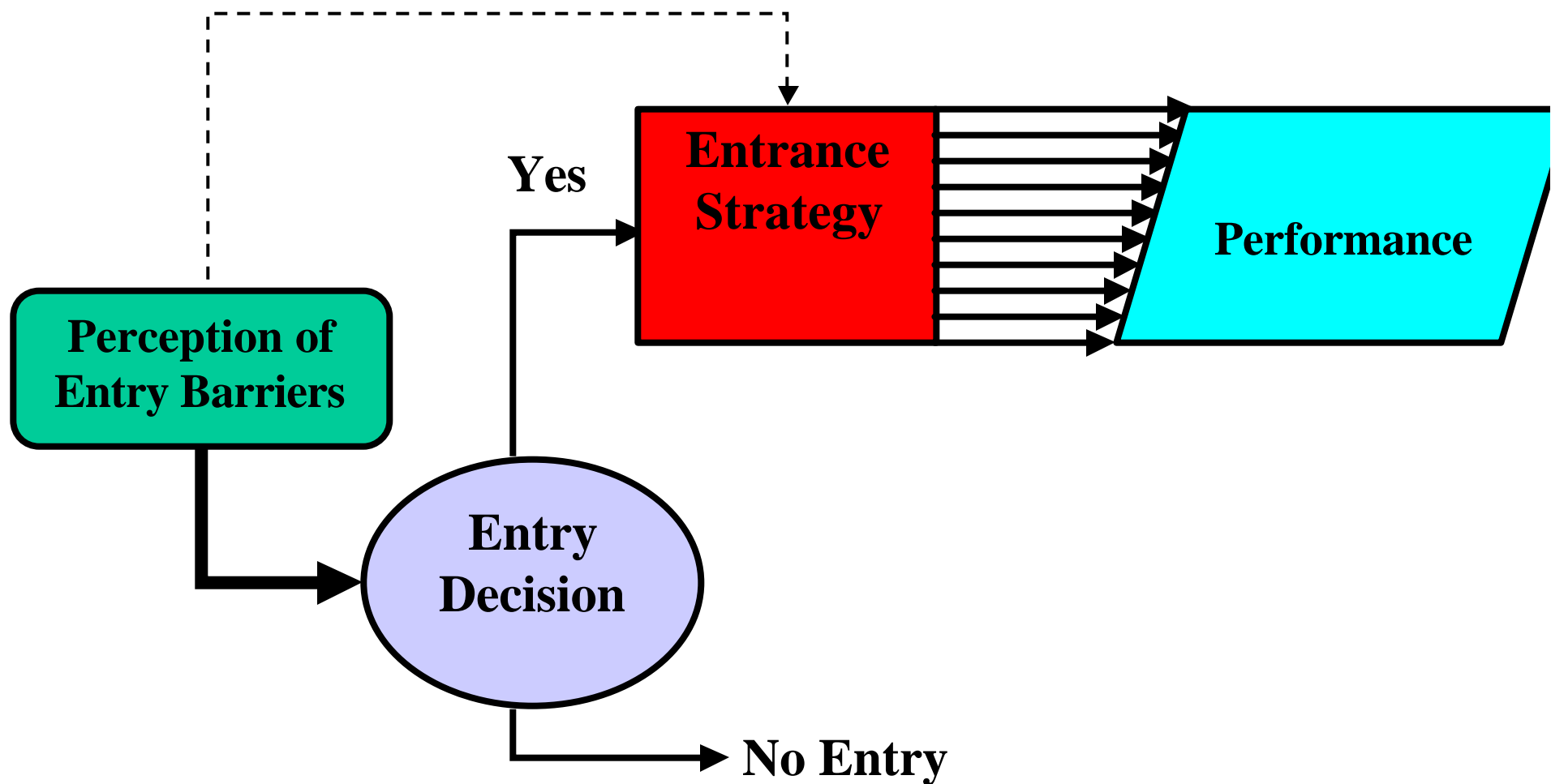


Figure 2: Framing the Research Stream

Entry Barriers and the Entry Decision

I analyze entry barriers and the entry decision from the perspective of the entrepreneur. To do so, I construe entrepreneurship and entrepreneurial action very broadly and make little distinction between business managers and founders of new businesses. The coordination of resources to approach a new market is an entrepreneurial activity whether it is within a firm or in a new venture. (Shane and Venkatamaran 2000)

Business managers of large and medium corporations may have financial and other resources at their disposal that small business owners and entrepreneurs will not. However, large firms and medium firms are inertial and will be challenged to move quickly enough to exploit business opportunities (Hannan and Freeman 1977). In both cases, business managers and business owners are searching for new markets to enter and exploit.⁵ It is this search for new opportunities that makes them both entrepreneurs.

Casson (1982:121) reminds us that the entrepreneur searches for opportunities in the business environment based upon “wide ranging” background information from their own experience and from intentional searches. These personal experiences and intentional searches form the basis of the entrepreneur’s *perception* of any opportunity. Once an opportunity is identified, a decision must be made to exploit it or not. This decision is influenced by the entrepreneur’s *perception* of what is required to exploit the opportunity. The entrepreneur asks herself strategic questions: What are the benefits of going after this opportunity? Do I have the resources to take advantage of this

⁵ The term exploit is not used in the pejorative sense. In non-academic circles, the term exploit has an entirely negative connotation. The entrepreneurship and business strategy literatures use it to describe the actions taken to apply ones resources to finding and strategic advantage of an entrepreneurial opportunity.

opportunity? What are the risks? Are there any barriers to me exploiting this opportunity? It is this last question that is the focus of this dissertation.

When multiple entrepreneurs see the same opportunity, all of them will not pursue it. Small business owners and business managers seeking to enter an inner city market, facing the same opportunity, will need to make a decision: enter by committing your personal or the firm's resources towards a new market or not. To make this decision, entrepreneurs are influenced by their perceptions about the opportunity and then perform their own risk calculus to choose between the alternatives. (Kahneman & Tversky, 1979; Boyle and Shapira 2001)

If the entrepreneurial stance (intentional search) and one's experience are preconditions for opportunity identification, then it is the perception of entry barriers that influences the decision to pursue an opportunity. When these barriers to entry are low or are easy to overcome, then the decision to enter will be made, *ceteris paribus*. When these barriers to entry are perceived to be insurmountable because the entrepreneur does not know how to overcome the barriers they see, then the decision will be not to enter the market.

Casson (1982) argues that experience will greatly influence how an opportunity is perceived. It follows that the entrepreneurs experience will also influence how an entry barrier is perceived. For any business decision makers, experience has two dimensions: business and social. Business experience relates to experience in managing, owning or being employed in business. Social experience is life experience gained through family groups, educational systems or other social units. Relevant experience in either category

can be valuable in the arena of inner city business development.⁶ Either category can enhance a decision maker's ability to identify and overcome social, economic, and institutional entry barriers. Non-relevant experience may limit one's ability to see barriers to entry or business opportunity. In other words, entrepreneurs with limited inner city experience may have a blind spot for the social and institutional barriers to entry. They may also overlook how specific social and institutional factors enhance a marginal business opportunity. If they happen to identify these barriers to entry, it is unlikely that they will know how to overcome them.

Following the Austrian tradition, I argue that it is the entrepreneurial stance (intentional search) and one's experience that are preconditions for identifying new markets. Once the market has been identified, it is the perception of entry barriers to that new market that influence the decision to enter. My research focuses on entrepreneurial actors that are searching for new opportunities. Therefore, I conclude that the critical dimension influencing the decision to enter an inner city market will be the entrepreneurs experience in or with the inner city. This experience forms the basis of their perception of the barrier to entry.

This leads to the following proposition relating perception of entry barriers and the decision to enter:

Proposition 1: Entrepreneurs with experience in inner cities will evaluate business opportunities based upon economic, social, and institutional entry barriers. Therefore, they are *more* likely to enter inner city markets than those without inner city experience.

⁶ Relevant experience will be operationalized in future chapters.

Entry Strategies and Performance

Once the decision is made, entrepreneurs are engaged in exploiting an opportunity choose a strategy to enter the market. This strategy is the focus of this section. Karakaya and Stahl (1991) formulate a contingency theory for firms seeking entry into international markets. More challenging market conditions call for partnership strategies such as joint ventures, co-marketing, and distribution arrangements. When a firm does not want to share control with a partner, they may employ acquisition strategies.

The same principle applies for the entry strategy for inner city markets. Entrepreneurs choose from several strategies. Firms that use *solo* strategies bring their own resources to bear in a new market. They establish their presence without partnerships and without acquiring another firm. Firms that use *partnership* strategies find business, community, or government partners in the new market. These relationships have various arrangements (explored thoroughly in the next chapter).⁷ Firms that use *acquisition* strategies seek to grow their business by acquiring successful firms in a target area. Acquisition strategies gain some of the benefits of partnerships while maintaining control of the acquiring firm. When these strategies are used, an entrepreneur can overcome the social and institutional entry barriers to inner city markets. Overcoming these entry barriers will lead to successful entry and firm survival.

Experience and Partnership

⁷ I define partnership to be the arrangement that brings two or more entities together as equity stakeholders in a joint venture, new or existing business. In rare cases, partnership may not include a share of equity. Sharing of the risks and reputation of well-established community entities may also constitute partnership.

I theorize that these differences across entrepreneurs are explained by a theory of social and institutional entry barriers. Entrepreneurs can use several strategies to overcome these barriers with varying levels of success. For those entrepreneurs and firms with limited inner city experience, partnership strategies will increase firm performance. Local partnership provides the tools to overcome social and institutional entry barriers. Non-local partnership may address economic and institutional entry barriers but not social entry barriers to a particular market.

For those entrepreneurs with significant experience in inner cities, solo strategies can be effective if they have enough financial resources to overcome the economic entry barriers. Entrepreneurs with experience in inner cities may also choose to identify a partner to gain access to financial or social capital. Partnership may enhance firm performance if their partner provides access to networks or resources that were unavailable to the entrepreneur before. Experience and partnership will work together to increase performance in inner city markets.

Overcoming Institutional Entry Barriers

Institutional entry barriers prevent an entrepreneur from knowing or accommodating the rules, norms and values that contribute to the culture, order and practices of an inner city market. These barriers to entry can be overcome if the entrepreneur has inner city business or social experience. Business experience includes entering other inner city markets, operating businesses in the target market or interfacing regularly with inner city consumers. Social experience includes living, working or growing up in inner city communities. I find both types of experience in the small and

medium business owners found in Harlem, New York and Baltimore, Maryland. These entrepreneurs have the requisite experience and use it as the basis of their competitive advantage while employing solo strategies.

On the other end of the business spectrum, large and medium sized businesses are returning to the inner city markets they once fled. Because of the demographic changes in many urban places, the inner cities of today do not resemble the inner cities of the 1950s and 1960s. Entering the inner city market in the 21st century is different situation than before. Those firms and entrepreneurs who do not have business or social experience in inner cities will face institutional entry barriers that can spell disaster.

I argue that strategy to successfully overcome institutional barriers to entry for firms with limited inner city experience is to seek a partner firm or acquire a firm that understands the culture, norms, and values of the place. Local partnerships or local acquisitions are particularly helpful in overcoming this entry barrier because they provide knowledge of the target market. Non-local partnerships may also be helpful if the partner has conducted business in inner city communities with similar demographics to the target market but not as helpful as local partnership.

Overcoming Social Entry Barriers

Social entry barriers prevent an entrepreneur from using the social network of relationships that exist within an inner city market to their advantage. They can be overcome by partnership strategies. Partnership provides access to inter-organizational networks that were not available to one of the partners. When partnerships are made between inner city firms or organizations and firms outside of the inner city, the inner

city partner becomes a source of local knowledge and norms (as discussed in the previous pages) and valuable networks. For firms with limited inner city experience, partnership strategy can be source of competitive advantage by linking resources to the firm not possible before the partnership.

Partnerships in inner city markets can be described along two dimensions: type of partnership and location of partner. First, partnerships can fall into three categories: community-based organizations, (i.e. churches, development corporations, neighborhood associations, etc.), other business people or entrepreneurs (through franchise opportunities or other co-ownership arrangements) and with local government or quasi-government agencies (municipal government, empowerment zones, etc.). Examples abound for each of these types of partnership. I will explore them in detail in later chapters. Second, partnership firms or organizations can be located within the inner city market or outside of the market. Partners located in inner cities will have access to local networks of firms and people.

An example of this is the arrival of a Pathmark Super Center in Harlem. Pathmark had limited experience with inner city communities and no experience with Harlem. As large food retailer and chain store they are ever vigilant for new opportunities and have the financial resources to overcome any economic entry barriers. When considering entering the inner city market of Harlem, New York, it was clear that their lack of local experience (institutional entry barriers) and local contacts (social entry barriers) was a deterrent. Wisely, they sought to partner with the Abyssinian Baptist Church's Community Development Corporation before pursuing the opportunity further. The Abyssinian Development Corporation helped to facilitate real estate transactions and

made links to community organizations wary of this large business coming into the community. These organizations were links to potential employees and consumers who looked for some signal of legitimacy. This partnership has been valuable for both Pathmark and the CDC because business and community goals have been met. This example points to the following proposition.

Proposition 2: Partners with local inner city experience will enhance performance more than partners with non-local inner city experience.

Overcoming Economic Entry Barriers

Partners located outside of the inner city may be important links to resources not available within the inner city, especially financial capital. They are especially helpful when overcoming traditional economic entry barriers.

Economic entry barriers are financial in nature. They are the investments in a business that build up its technology, resources, and competitive advantage to a level where it is difficult for others to compete (Harrigan 1981). Classically, economic entry barriers include cost advantages, product differentiation, capital requirements, customer switching costs technology investment, and R&D investment. All of these require financial capital.

The issue of access to capital has been well covered in the literature of inner city entrepreneurship and economic development. (See Aldrich 1990 and Bates 1995 for a review.) Economic patterns of inner city communities point to the inability of local entrepreneurs to gain access to local financial capital and they will therefore seek partners beyond the boundaries of the inner city. Therefore,

Proposition 3: Non-local partnerships will enhance performance when local entrepreneurs require access to financial capital.

Contribution to Theory and Practice

To this point I have introduced the topic of inner city business development, and presented a theory of social and institutional entry barriers. In the next chapter I will use interview data to bolster the theoretical arguments I have proposed. The subjects for these interviews are entrepreneurs (both business owners and business managers) in New York City and Baltimore. This data will be supplemented by data gathered from the databases of the Upper Manhattan Empowerment Zone, Empower Baltimore Initiative and the Initiative for a Competitive Inner City.

This dissertation contributes to three overlapping areas of research. It contributes to entrepreneurship as defined by Shane and Venkataraman (2000) by adding a more theoretical perspective to the pursuit of new opportunities. I contribute to economic sociology by demonstrating the usefulness of the embeddedness construct. Portes and Sensenbrenner (1993:1321) point to the “theoretical vagueness” of the embeddedness concept. This research lends credence to the concept of embeddedness by presenting a theory that relates the categories of barriers to the market entry decision and entry strategy through the mechanisms of relational and structural embeddedness.

Lastly, I contribute to business strategy by adding depth to a construct well established in the field. Entry barriers should no longer be construed as purely economic.

They can be embedded within both social and institutional structures and have serious implications for the strategic management of the enterprise.

A p p e n d i x

RESEARCH METHODS OVERVIEW

In this section I will provide an overview of the methods I will use to test my propositions about the perception of business opportunity and business entry. The first section discusses the interview protocol developed to better understand the issue of the inner city entrepreneur. The second section details the vignette study. The third section presents a survival analysis of firms in the inner city. The fourth section describes the human subjects protection and anticipated IRB review process.

Interviews

I am using a semi-structured interview methodology to explore the issues that entrepreneurs face when evaluating and exploiting inner city business opportunities. According to Fairchild (2001) this interview methodology provides structure, flexibility, and probing. Additionally, it is a method that leads to understanding the contextual issues around business entry. This provides a preliminary validity check during theory development.

Interview Subjects

Interview subjects can be described as inner city entrepreneurs and outer city entrepreneurs with establishments in the inner city. Entrepreneurs who are from the

communities they serve or have significant inner city business experience are considered inner city entrepreneurs (Fairchild 2001). All others business owners or managers are considered non-inner city or outer city entrepreneurs. I argue in this dissertation that this distinction is important and that the interviews I conduct will bring to the forefront the different perspectives that inner city entrepreneurs and entrepreneurs from the outer city have when considering business opportunities. By interviewing entrepreneurs in the inner city with different backgrounds I will explore how they see business opportunity in inner cities and understand local patterns of business development. In order to have a cross-section of perspectives I propose conducting a minimum of 12 interviews – two in each of the four categories presented in Figure 1 below.

	Inner City Entrepreneurs	Outer City Entrepreneurs with Establishments in IC
Newly Formed Firms (< 2 years)	<i>I</i>	<i>II</i>
Established Firms (>2 years)	<i>III</i>	<i>IV</i>
Firms not founded in the inner city	<i>V</i>	<i>VI</i>

Figure 3: Proposed interview categories

By conducting interviews that represent the various types and stages of firms in the inner city, I will have a better understanding of the business entry decision. Category I is for inner city entrepreneurs in newly formed businesses. They will provide insight into the process of opportunity evaluation at start-up from the perspective of the inner city entrepreneur. Category II is for recently established businesses with

entrepreneurs/owners/ managers from outside of the inner city. Category III and IV represent the well-established businesses in the inner city. They will provide a historical perspective about inner city business environment before the arrival of the empowerment zone. Category V and VI represent firms that were interested in founding a business in the inner city but did not. Figure 2 presents the proposed interview subjects that fall into these categories.

	Inner City Entrepreneur	Outer-Inner City Entrepreneur with Establishments in IC
Newly Formed Firms (< 2 years)	<i>Charles Martin – Word Wear Telly Smith – UniTech Owner – Music Hut, Harlem</i>	<i>Manager – Old Navy Owner – Bayou Restaurant Owner – Mailboxes Etc.</i>
Established Firms (>2 years)	<i>Steve Cotman – Stix Furs Herman Smalls – SFS Owner – Small Grocery Store</i>	<i>Manager - CVS/Rite Aid ADC/Pathmark Representative Owner – McDonalds Franchise</i>
Firms not founded in the inner city	<i>TBD</i>	<i>TBD</i>

Figure 4: Proposed interview subjects

The interview protocol is purposely loose. It allows for gentle probing on key points and for the interviewee to talk at length about their own business experience. The protocol is detailed in the following pages.

The Interview Protocol

Purpose of the Interview

“To interview entrepreneurs in the inner city.”

Verbal Informed Consent

“Do I have permission to record this interview? Do I have permission to use quotes from this interview in my dissertation?”

Background Information

What is your name? Your title?

Where do you live? Did you grow up there?

Where is your business?

What is the highest level of education that you achieved?

What is your race/ethnic group? (Self-identified)

Interview Questions

1. Describe your business.
 - a. What events lead to you founding your business?
 - b. What kind of products/services/information do you sell?
 - c. When did you start the business?
 - d. Where is it located? Is it a home-based business?
2. Why kind of business experience did you have before you founded this business?
3. Do you have any business partners? If so, how many? What kind of business experience do they have?
4. Do you have any employees? If so, how many?

5. Did you set your business up in the inner city?
If yes, go to question 6, 7, and 8; If no, go to question

6. What were the three main obstacles that you faced in setting up your business in the inner city?
7. What did you do to overcome those obstacles? Be as specific as possible.

8. What obstacles did you face after your business was underway?
9. What did you do to overcome those obstacles? Be as specific as possible.
10. Do you think anyone with your experience could run a business like yours?
11. What do you wish you knew about running your business in this part of the city before you opened your doors?
12. What makes your business different than one of your competitors downtown (or elsewhere)?

13. What prevented you from opening your businesses in the inner city?

Thank you for your time.

Vignette Study

The focus of this study is to explore the influence of the entrepreneur's perception of the market on their decision to enter. The perception of the business opportunity is the first entry barrier for inner city markets.

Proposition 1: Entrepreneurs with experience in inner cities will evaluate business opportunities based upon economic, social, and institutional entry barriers. Therefore, they are *more* likely to enter inner city markets than those without inner city experience.

I will test this proposition through a vignette study.

Vignette studies are particularly useful when exploring the factors that influence the decision-making or judgment making processes of subjects. (Alexander and Becker 1978). They have been used in social psychology research and when designed correctly provide a lens into the perceptions of the respondents. (Barter and Renold 2001; Martin and Polivka 1995; Alexander and Becker 1978) Barter and Renold (2001:4) present the following guidelines for using vignettes for social research:

1. “Stories must appear plausible to participants.
2. Stories need to avoid depicting eccentric characteristics and disastrous events, and should instead reflect ‘mundane’ occurrences ...
3. Vignettes need to contain sufficient context for respondents to have an understanding about the situation being depicted, but be vague enough to ‘force’ participants to provide additional factors that influence their decisions.
4. Participant’s ability to engage the story may be enhanced if they have personal experience of the situation described.
5. Vignettes must be presented in an appropriate format ...
6. Participants may initially provide socially desirable responses and only after probing will they reveal how they truly believe.
7. It is important that the stories presented in the vignettes are readily understood, are internally consistent and not too complex.
8. In some circumstances it may be desirable to include a control vignette to see if any significant differences emerge.”

With the exception of guideline #3, this study will follow Barter and Renold’s guidelines for vignette research. I propose that the experience with the inner city market (the setting) is a significant factor that influences the perception of the business opportunity. Therefore, I will seek subjects various levels of experience with the inner city market. In this section I will address the setting, subjects, manipulations and preliminary predictions.

Setting

The setting for the vignette will be an inner city market in a nearby community. Subjects will be asked to evaluate a business opportunity (a music store or a movie theater) based upon information I provide. To establish the setting I will use a video of the proposed location for the new store and a 1-2 page description of the business opportunity including market data.⁸ After reading the information and viewing the video,

⁸ This 1-2 page business opportunity description is currently under development and should be ready for review in mid-December.

subjects will be asked to answer several questions about their interest in pursuing such a business opportunity.

Subjects

The central premise of this study argues that an entrepreneur's experience shapes how an entrepreneur perceives and evaluates business opportunities. Given the same information, the entrepreneur's decision to enter will be based upon her perception of the details. To that end, subjects will be a representative group of entrepreneurs and business managers (or future managers) who might be engaged in evaluating business opportunities. Subjects will be invited to participate in this study from two types of venues: university MBA/EMBA programs and community business associations. These two types of venues offer a set of entrepreneurs and current (or future) executive decision makers with a variety of experiences with inner city markets. Business students and business owners will share some fundamentals of managing the enterprise. By using an established organizational network I will also have ample representation of members of minority groups. Efforts will be taken to make sure that there is variation of inner city business experience within each group. The current list of places I will recruit subjects from is below.

MBA/EMBA PROGRAMS

Executive MBA Class – Loyola College (2 classes – 50 people)

Evening MBA Class – Loyola College (1 class, 25 people)

MBA Students – Columbia Business School (~50 people)

COMMUNITY/REGIONAL BUSINESS ASSOCIATIONS

National Black Chamber of Commerce – Baltimore Chapter (~20 people)

Harlem Venture Group/e-Biz Program Participants – Harlem, NY (~20 people)

Baltimore Chamber of Commerce Members (~40 people)

Women Entrepreneurs of Baltimore⁹ (~25 people)
Korean Business Owners Association* – Baltimore Area – (~20 people)

Manipulations

To test my proposition about the significance of experience in the inner city market on the perception of business opportunity, I will create a vignette story. This story will describe the business opportunity, market, and location for a music store in an inner city. There are four versions of the same story with a manipulation of the barriers to entry as I have described them in Chapter 2. The four conditions are described in Table 1.

Table 3: List of conditions and manipulations

	Type of Condition	Description of Condition
Condition #1	No Barrier	Low crime, and well-prepared workforce
Condition #2	Social Entry Barrier	Workforce issues
Condition #3	Institutional Entry Barrier	Disorder and Crime Rates
Condition #4	Both Institutional and Social Barriers	Workforce and Disorder

To increase the number of data points, each subject will be asked to read a primary and a secondary vignette. The primary vignette will present information about the business opportunity. The subject will then be asked three questions:

1. On a scale of 0 to 10, how would you rate this business opportunity? Why?
2. Would you pursue this business opportunity? Why or Why Not?

⁹ Pending

3. What are the major challenges in pursuing this business opportunity?
4. What other information would you like to have to make this decision?

The secondary vignette will present additional information to the subject and ask them to re-evaluate the business opportunity. The additional information will be manipulations of the entry barrier variable.

Order effects may be an issue for this study. Subjects who consider the “no entry barrier” condition before one of the “entry barrier” conditions may be biased. Subjects who To address order effects, there will be 12 versions of the questionnaires that vary the order of the primary and secondary vignettes. In the first version, Condition #1 will be paired with Condition #2 and so on in accordance with the chart below.

1-2	1-3	1-4
2-1	2-3	2-4
3-1	3-2	3-4
4-1	4-2	4-3

Preliminary Predictions

After conducting the vignette study across several populations of subjects, I believe the results will reflect patterns I describe in the theory of social and institutional entry barriers (Chapter 2). Table 2 outlines the predictions by condition and across subjects.

Table 4: Prediction of vignette results

	Subjects With Experience	Subjects Without Experience
No Barrier	+	+
Social Entry Barrier	+	-
Institutional Entry Barrier	0	-
Both Social and Institutional Entry Barrier	0	-

+ = Entry, - = No Entry, 0 = No prediction

Survival Analysis

The purpose of this study is to explore the factors that influence the survival of firms in the inner city. This follows the vignette study that addresses the perception and evaluation of business opportunities. Does the partnership strategy work for entrepreneurs from the outside the inner city? Are these partnerships formed for access to capital only? These questions are captured in the following propositions:

Proposition 2: Partners with local inner city experience will enhance performance more than partners with non-local inner city experience.

Proposition 3: Non-local partnership will also enhance performance when it is for financial reasons

The survival analysis of this dissertation follows the work on founding and failures by Freeman, Carroll, Hannan (1983) and Ingram and Inman (1996) and presupposes three points:

- The survival of the firm is a measure of performance.
- Entrepreneurs with successful business strategies remain in business.

- A failed firm indicates a failed strategy.

Through an analysis of the survival patterns we can explore the factors that lead to the survival of inner city firms.

Data

This analysis will focus on firms that were founded in the Upper Manhattan Empowerment Zone from 1996 to 2001. This data is available from Columbia University's Department of Architecture and Planning via the Empowerment Zone Monitoring and Assistance Program.¹⁰ An example of the data available is in Table 1.

Table 5: Example of data from EZMAP

ESTABLISHMENT NAME	ST. NO.	STREET	ZIP	PHONE	CENSUS TRACT	NO. OF EMPLOYEES	SALES	SIC
XYZ SUPERMARKET	1333	SAINT NICHOLAS AVE	10033	1234567	0269	20-49	1-499	5411

This data is available for 1996, 1999 and 2001 and has over 6,000 entries for each year. From this data, a list of firms founded during this period can be created. More data will be collected on these firms via surveys and secondary sources. The goal of this intensive data gathering effort is to produce the data set below for each of the firms that were founded during this period.

Table 6: Proposed data structure for survival analysis

Variable Name	Coding
Industry	Dummies for industry
Retail	Yes=1, No=0
Partner	Yes=1, No=0
Community Partner	Yes=1, No=0
Business Partner	Local=1, Non-local=0
Government Partner	Local=1, Non-local=0
Partner-local	Local=1, Non-local=0
Financial Partner	Local=1, Non-local=0

¹⁰ I am seeking a comparable set of data for the Baltimore Empowerment Zone.

Entrepreneurship Experience	Years
IC Experience	Local=1, Non-local=0

This will be particularly challenging for the firms that were founded *and failed* during this period. Data on failed firms is often difficult to find but through various community and business networks these firms and their entrepreneurs will be sought. I will take the following steps to create a representative data set.

1. Receive data from EZMAP for 1996, 1999, 2001
2. Create list of firms founded from the data set
3. Determine which firms failed during the period
4. Survey of firms for additional info on partnership & financials
5. Investigative work on failures (hopefully this is for a small fraction of the firms).
Use secondary sources as necessary
6. Clean data
7. Run the following models through an event history analysis

Table 7: Proposed data models

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Industry	X		X	X	X
Retail	X		X	X	X
Partner	X		X	X	
Community Partner		X		X	
Business Partner		X		X	
Government Partner		X		X	
Partner-local			X		X
Financial Partner			X		X
Entrepreneurship Experience				X	X
IC Experience				X	X
IC Experience X Partner	X				

Preliminary Predictions

I predict the following results from the survival analysis in accordance with the theory developed in Chapter 2.

- Survival will be enhanced by partnership (Model 1 & 2)
- Survival will be more enhanced by local partnership. (Model 3)
- Inner city experience will enhance survival (Model 4 & 5)
- Partnership is good but local partnership is better. (Model 1 & 3)

- Non-local partnership will also enhance performance when it is for financial reasons (Model 3)

Human Subjects Protection – IRB Review

The studies presented in this methods overview will be conducted with human subjects who are entrepreneurs or MBA/EMBA students. Therefore, it is subject to review by the Institutional Review Board (IRB). In this section, I will discuss the steps I will take to insure the protection of human subjects and the procedures I will use to comply with IRB review.

Qualitative Interviews

The interviews conducted for this dissertation will be in accordance with standard interview procedure.

Before the Interview

Prior to the interview, subjects will receive a letter that will explain the benefits, confidentiality, contact information of my dissertation advisor, and make it clear that their participation is voluntary.

During the Interview

At the beginning of the interview, subjects will be told about the purpose of the interview and will be informed that the interview is being recorded. They will be asked if they are aware of the recording and if they are “OK” with it. It will also be explained that quotations from the interview may appear in my dissertation and in future publications

without specific identifying information. In lieu of written consent, the subject's consent will be captured on tape.

IRB Review

Because the interview poses “minimal risk”, the interview protocol described above falls into the IRB category for expedited or administrative review.

Vignette Study

The vignette study described in this methods overview will be conducted with subjects in a university classroom setting and with members of community and business associations. Participation will be voluntary and all participants will be informed that the results will be used for my dissertation research.

IRB Review

This study falls into the category of an exempt study because no personally identifying data is collected on any subjects. If the IRB determination is not for exemption then I will move for an expedited review because this study entails “minimal risk” to the participants. I will also request a waiver of informed consent because this type of research involves minimal risk, will not adversely affect the rights and welfare of subjects, is not practical without the waiver and participants can request the aggregate results after the study is complete.

Survival Analysis

The survival analysis described in this methods overview is based upon data previously collected by Columbia University's Empowerment Zone Monitoring and

Assistance Project (EZMAP). The cover letter that accompanies each survey will let subjects know that this research is about “inner city business development” and that their participation will “help policy makers make better decision about funding and initiatives.”

IRB Review

This study falls under the expedited review process of the IRB. It involves minimal risk. I will also request a waiver of informed consent because this type of research involves minimal risk, will not adversely affect the rights and welfare of subjects, is not practical without the waiver and participants can request the aggregate results after the study is complete.

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