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Managing diversity in minority business enterprises: the impact of employee homogeneity on financial performance

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Abstract

Purpose – The purpose of this paper is to investigate the impact of employee homogeneity on the financial performance of minority business enterprises (MBEs). It is widely postulated that MBEs tend to hire minorities that resemble the ethnicity of the founder(s) and that this is beneficial by helping to decrease minority unemployment rates as well as providing new opportunities to minorities that they might not otherwise receive at White-owned firms.

Design/methodology/approach – The study used hierarchical linear regression on archival data of 271 MBEs to determine if employee homogeneity will be a factor in understanding their financial performance. The authors also conducted exploratory interviews with a convenience sample of MBEs to gain insight into the concept of employee homophily.

Findings – The research uncovered that as homogeneity increases, MBE financial performance decreases, and this effect is more pronounced the longer the MBE is in business.

Research limitations/implications – The data set is cross-sectional in nature and lack the perspective and clarity of time. The paper only contains a small set of exploratory interviews. The most significant implication from the study is that a lack of diversity decreases the long-term financial viability of MBEs which is to counter mainstream arguments that speak only to the positive aspects of MBEs Chiring their own.

Originality/value – The research builds on the scant literature on the impact of diversity within MBEs. It also provides guidance to MBEs by suggesting they be strategic in diversifying their employee base in order to improve performance.

Keywords Diversity, Homogeneity, Homophily, Minority business enterprise, Firm performance

Paper type Research paper

Introduction

The US Small Business Administration (SBA) defines a minority business enterprise (MBE) as one owned by individuals who are socially disadvantaged (i.e. have been subjected to racial or ethnic prejudice or cultural bias because of their identity as members of a group) and economically disadvantaged (i.e. socially disadvantaged individuals who have not been able to compete due to diminished opportunities to obtain capital). This definition pertains to businesses owned by African Americans, Hispanic Americans, Native Americans and Asian Pacific and subcontinent Asian Americans (see SBA.gov).

MBEs in the US are experiencing substantial growth in numbers and continue to outpace the rate of growth of all US business starts (US Census Bureau, 2015). However, there is also reason for concern. While total revenue for MBEs in the US is increasing, their revenue lags significantly behind that of their nonminority counterparts. On average, annual revenue for

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nonminority, employer-based firms are more than double that of minority-owned firms. To illustrate the disparity between the two groups, average gross revenue for employer-based MBEs in 2015 was approximately $1.15m, while average gross revenue of nonminority, employer-based firms surpassed $2.3m (US Census Bureau, 2015). One only has to look at the changing US demographics to see that America's competitiveness will increasingly depend on the performance of MBEs. Undoubtedly, the economic imperative exists for researchers and practitioners to better understand the factors that influence the financial performance of MBEs if this revenue disparity is to be addressed.

Existing research suggests that we take an individual-level perspective and look at the MBE owner to understand the financial performance of minority firms. For example, Bates and Robb (2013) and Fairlie and Robb (2008) found that difficulty in obtaining startup capital, lower levels of general education and the limited business experience of the minority business owner explained significant variations in the performance of MBEs vs their nonminority competitors. Still other research has focused on industry-level factors to explain the performance of MBEs. For example, Smith and Tang (2013) found that complex and volatile industry environments have a greater negative impact on the performance of African American firms than on their White-owned counterparts. The authors attribute their findings to a competitive disadvantage possessed by most MBEs, as they attempt to acquire critical resources necessary for growth.

However, we chose to complement the existing individual- and industry-level MBE research by examining a firm-level variable of employee homogeneity, defined as the ethnic/minority similarity of employees with that of the MBE founder. Despite research findings and organizational initiatives aimed at promoting diversity, substantial evidence exists that minority firms tend to hire employees from the same ethnicity or race of the owner, leading to less employee diversity (Bates, 1988; Lowry and Holland, 2005; US Census Bureau, 2002). The tendency for minority firms to hire minorities from the same ethnicity or race of the owner is even greater in newly formed, entrepreneurial teams (Ruef *et al.*, 2003). This should come as no surprise when one considers that entrepreneurs tend to start ventures with people within their immediate network who have characteristics similar to their own (Martinez and Aldrich, 2011; Witt, 2004). More specifically, we ask the question, is employee homogeneity a significant factor in explaining the financial performance of MBEs.

We organize the paper as follows. First, we discuss the theories of social capital and social networks, which underlie homophily theory. We then present our current understanding of employee homogeneity, leading to our set of hypotheses associating employee homogeneity with MBE financial performance. Next, we describe our method for testing our hypotheses using a sample of 271 MBEs. In order to garner a deeper understanding of the contextual influences of employee homogeneity, we conducted exploratory interviews with a convenience sample of MBEs. Finally, we present our findings and conclusions.

Theory and literature review

Social networks and social capital

Business owners are connected to other individuals through social ties and interpersonal relationships that form a social network. It is widely known that social networks can provide useful information and access to influential individuals who possess useful resources (Granovetter, 1973). It is through these social networks that business owners gain access to intangible resources such as valuable business information and knowledge (Birley, 1985; Phillips *et al.*, 2013). The social networks in which business owners are embedded determine with whom they discuss their business, what Ho and Pollack (2014, p. 435) call the "business owner's out-degree centrality; their in-degree centrality, or who approaches them about their business; and what social capital they access (Lin, 1999b, p. 471) and capture"

(Lin, 1999a, p. 28). Lin (1999a, p. 39) defines social capital as "investment in social relations by individuals through which they gain access to embedded resources to enhance expected returns of instrumental or expressive actions." This suggests that social capital is a critical resource for firms, and that the investment in that capital is expected to affect firm performance and generate a return (Stam *et al.*, 2014). Therefore, if used strategically, these social resources may be leveraged by a business owner to improve performance.

Granovetter (1973) argues that strong ties in social networks lead to knowledge and information that are redundant because of the similarity of the individuals in the network, their frequent interaction and the network's density; they are characterized by "information paucity" (Ahuja *et al.*, 2009, p. 944). Weak ties, on the other hand, provide a greater flow of diverse and different ideas, knowledge and information because the individual has ties with wider-ranging networks that are different, dissimilar and more varied than the individual's focal network; they are characterized by richer and "better social resources" (Lin, 1982, p. 134). It becomes evident, then, that to maximize one's social capital, one should have as diverse and large a network as is possible in order to increase the quantity and quality of resource flows through the network.

Homophily theory

It is normative for individuals to interact with similar others rather than diverse others (Lin, 1982). Thus, the saying "birds of a feather flock together" aptly applies to this phenomenon. This quotation describes the concept of homophily (Lazarsfield and Merton, 1954). The theory of homophily is based on the principle that "contact between similar people occurs at a higher rate than among dissimilar people" (McPherson *et al.*, 2001, p. 416). Interpersonal connections that are low in homophily more commonly form our perception of group, team or organizational diversity.

In the early research on homophily, ethnographers studied small groups to determine all of the ties among group members (McPherson *et al.*, 2001). Lazarsfield and Merton (1954) distinguished between two types of homophily: *value-based homophily* and *status-based homophily* (McPherson *et al.*, 2001). Value-based homophily describes network connections based on internal states presumed to shape behavior, such as values, attitudes or beliefs. Status-based homophily describes network connections based on major socio-demographic dimensions such as race/ethnicity, sex or age.

Initial network studies found significant levels of status-based homophily associated with demographic characteristics of race and ethnicity (Bott, 1928; Loomis, 1946). McPherson *et al.* (2001) found strong racial and ethnic homophily that spanned a range of relationships and organizations (Ibarra, 1993). Here again, the positive impacts of homophily can be found. Louch (2000) found a significant correlation between the race of an individual and his or her reported set of confidants.

Relative to status-based homophily associated with race and ethnicity, it is important to distinguish between *baseline homophily* and *inbreeding homophily* (McPherson *et al.*, 2001). Baseline homophily is the number of similar ties that would be expected by chance. Due to the higher percentage of Whites in the US, baseline homophily for this majority group results in much more racially homogeneous ties than for any other ethnic or racial group. Said more practically, low levels of diversity based on race are the statistical norm for the majority group. Meanwhile, inbreeding homophily is the number of similar ties over and above the expected baseline value. Reasons for homophilic values over the baseline include the strategic choice of an individual to establish certain ties, or possibly structural factors such as education, income and other social class variables (Blau, 1977).

We often find levels of inbreeding homophily when assessing ethnic/racial ties among minority groups (Shrum *et al.*, 1988). Mollica *et al.* (2003) point out that ethnic/racial homophily is particularly salient among racial minorities because they are often marginalized in social and occupational settings, and these homophilic relationships can serve as an important source of social support. One would expect minorities to have ties with majority members as a result of baseline homophily, but minorities pursue inbreeding homophily, which counteracts baseline homophily, leading to more homogeneous groups (Marsden, 1988). An example of this phenomenon can be found in a team study by Kim and Aldrich (2006, p. 87), which "found that minorities had a significantly higher tendency toward homogeneity than do whites" when forming teams. In addition, there was little change over time in the composition of the teams they looked at and, if there was any change, it tended to make the teams even more homophilic than they were.

Previous network research has primarily focused on White-owned firms when assessing the impact of homogeneity or heterogeneity on firm performance (Murray, 1989; Pitcher and Smith, 2001). To date, the literature has produced mixed results, from negative to positive to curvilinear relationships (Harrison and Klein, 2007; Jackson and Joshi, 2004; Laursen *et al.*, 2005; Steffens *et al.*, 2012). However, there has been some research that examined ethnically owned firms and the impact of homophily on firm performance (e.g. Ruef *et al.*, 2003; Boston and Boston, 2007). Ruef *et al.* (2003, p. 211) found that "minorities have a significantly higher tendency toward homogeneity than do whites" on entrepreneurial founding teams. Boston and Boston's (2007) survey of black entrepreneurs found that fast-growing firms (gazelles) had fewer black employees than non-gazelles, i.e. slow-growing or no-growth companies.

Our research focuses on status-based homophily within MBEs in a broader context, beyond the typical examination of dyadic relationship ties based on ethnicity/race. More specifically, we examine the impact of MBE founders hiring employees that look like themselves (homophily) and how those hiring decisions affect their performance (Bates, 1988, 1994b; Manshor *et al.*, 2003). Previous research has shown that entrepreneurs tend to start ventures with people within their immediate network who have characteristics similar to their own (Martinez and Aldrich, 2011; Witt, 2004). Said differently, MBE homophilic hiring practices lead to a homogeneous workforce that resembles the founder.

Hypotheses development

As we have mentioned, homophily leading to employee homogeneity has been shown to have both positive and negative effects. However, there is reason to believe that MBE employee homogeneity that mirrors that of the minority founder is more likely to lead to negative performance of the firm (Fairlie and Robb, 2008). One's social resources are a function of group membership, and members of minority groups are often likely to hold a lower level of individual social resources (Ibarra, 1993). In addition, "the pervasive fact of homophily means that . . . information that flows through networks will tend to be localized" (McPherson *et al.*, 2001, p. 416). Translated to the enterprise, this lower level of social resources and limited information flow may result in MBEs having fewer resources available from which to choose. This can be witnessed in research showing that overly dense networks impede the ability of MBEs to grow (Hoang and Antoncic, 2003; Kontos, 2004). This is not the case for White-owned firms, however. For them, dense ethnic/racial connections are not detrimental. Their opportunities are not constrained by having more baseline homophily (Casey, 2012).

In this research, we recognize that homophily can result in a higher level of trust, shared understanding and interpersonal attraction than would be expected among less similar individuals (Ruef *et al.*, 2003). However, since MBE founders tend to hire people with similar demographic/ethnic backgrounds, we suggest that this activity will lead to a company with employees with similarly dense social networks coupled with lower levels of education. We postulate that this will lead to poorer performance as compared to MBEs with less employee homogeneity (Bates, 1988; Boston and Boston, 2007; Lowry and Holland, 2005). We posit this based on the premise that nonminority employees at MBEs may not necessarily mirror the characteristics of the founder and are more likely to have characteristics that may include higher levels of education, networks with weak ties and structural holes and access to more financial and information resources that will enable their organization to have a competitive advantage over MBEs with a homogenous employee base (Burt, 1992; Fairlie and Robb, 2010; Granovetter, 1973). More recently, Casey (2012, p. 256) found that "African American and Hispanic business enterprises will be more likely to have a homogenous [*sic*] stock of social resources."

Therefore, we hypothesize the following:

H1. Employee homogeneity will be negatively related to MBE financial performance.

According to Hite (1998), network ties during firm emergence are likely to have more homophily, particularly given that ties during this stage are socially based (Larson and Starr, 1993). Hite (1998) proposed that entrepreneurial firms with decreasing homophily of ties, as the firm moves from emergence to viability to early growth will be more successful because dyadic ties will become established based on their ability to provide specific resources rather on their similarity to the entrepreneur or firm. We believe this principle has particular application to employee homogeneity within MBEs. As the MBE advances through the firm life-cycle – from birth to adolescence to maturity – social resources need to become less dependent on the homophilic ties of the minority business owners. An example of this phenomenon can be seen from research showing that growth orientation requires ethnic entrepreneurs to invest outside their ethnic enclave (Galbraith and Stiles, 2006).

Therefore, we hypothesize the following:

H2. Firm age will moderate the relationship between employee homogeneity and MBE performance.

The majority of MBEs are relegated to service-based businesses characterized by high competition and low margins (Bates, 2001). In 2005, Lowry and Holland (2005) conducted an in-depth analysis of MBE firms in the US and found MBEs are vastly overrepresented in the personal service area(s) of business. They posit that lower startup costs and fewer barriers to entry may help explain this higher propensity for service-based MBEs. One would expect that a service-based business, by virtue of being a service, will have a greater reliance on social ties when compared to firms that manufacture and/or distribute a product. A greater reliance on social ties leads to the increasing importance of developing heterophilic ties in MBEs.

Therefore, we also hypothesize the following:

H3. Business type will moderate the relationship between employee homogeneity and MBE performance.

Lastly, we investigated the interaction between human capital and homogeneity on the financial performance of MBEs. Hansen and Wernerfelt (1989) found a strong positive relationship between financial performance and organization size. Transaction cost economics (Williamson, 1981), the resourced-based view (Barney, 1991) and human capital theory (Lepak and Snell, 1999) all posit that human capital is an important part of firm success, especially as it relates to a firm's ability to develop and maintain a sustainable competitive advantage. A sufficient number of competent employees are required in any organization in order to implement new technologies, strategic plans and/or policies. Historically, compared with White-owned firms, MBEs have been smaller (i.e. financially, in number of employees and in the size of their social networks) throughout their life-cycles, with a more homogeneous workforce, which some scholars have attributed to their inability to compete with their White-firm counterparts (Lowry and Holland, 2005).

To that end, we hypothesize the following:

H4. Number of employees will moderate the relationship between employee homogeneity and MBE firm performance.

Method

The empirical context of this study is minority businesses that belong to a well-known national minority business network whose mission is to provide business certification and business development opportunities for their MBE membership. The network is headquartered in New York City and is an organization comprising 24 affiliate and regional councils across the country. Specifically, our data come from MBEs who belong to an affiliate council that services the Midwest. Archival data for the study were collected through an email request made by the authors to the regional council president. The data disclosed that 271 MBEs were registered in the regional MBE network for the year 2017. To insure the integrity and accuracy of the information provided by the MBEs to the local council, the data are certified by a third-party financial auditing firm. This extra level of scrutiny assisted the authors in establishing the reliability of the self-reported information provided by the privately held MBEs.

The 271 minority business owners in our data set identified their firms as African American (66%), Hispanic (13%), Asian Indian (13%), Asian Pacific (7%) and Native American (1%). Average annual sales are approximately $2m. The average number of years in business is 14, and the mean number of employees is 22. Sixty-two percent of the MBEs are in service-related industries. Employee homogeneity within the sample set ranged from 5% to 100% with a mean of 61%. A breakdown of employee homogeneity ranges reveals 41 MBEs (15%) with employee homogeneity between 5 and 24%, 64 MBEs (24%) with homogeneity between 25 and 49%, 83 MBEs (30%) with homogeneity between 50 and 74% and 83 MBEs (30%) between 75 and 100%.

Variables

Our dependent variable, MBE performance, was measured by self-reported annual revenue verified by income tax returns. Many scholars have found it challenging to conduct empirically rigorous research on entrepreneurs and SMEs as compared to publicly traded companies' due to the lack of verifiable financial information such as stock price, ROI or ROA (Burt, 2000). Although the literature posits the aforementioned as better measures of performance, MBEs are almost always private entities and do not disclose any more data than that of sales numbers (NMSDC, 2018).

Our independent variable, employee homogeneity resulting from ethnic/racial homophily, could not be measured against a baseline since we do not know what percentage of employee homogeneity, we would expect to find out of the total population of MBEs in the US. We therefore used an absolute value of employee homogeneity by calculating the ratio of minorities to nonminority employees within the firm. Firm age was measured by the self-reported number of years in business. Number of employees was also a self-reported measure. Business type was measured as a dichotomous variable (0 = *manufacturing/distribution related*; 1 = *service related*). Manshor *et al.* (2003) found that race was a major factor in the decision of a manager whether or not to hire a candidate. Therefore, we controlled for the ethnicity of the business owner. Ethnicity was a self-reported, categorical assessment (African American; Hispanic; Native American; Asian Indian; Asian Pacific and Native American). Prior to conducting inferential statistics, we first employed a Cook and Weisberg test for heteroscedasticity and had no significant findings. We subsequently conducted a variance inflation factor (VIF) analysis to assess for multicollinearity. All variable results were <2, which indicates no significant multicollinearity problems.

Results

Table 1 presents the means, standard deviations, correlations and coefficients for the control, independent and dependent variables. We find that annual revenue is negatively related to employee homogeneity and positively related to firm age and number of employees.

To test our hypotheses, we followed guidance from Aiken and West (1991) and utilized hierarchical regression analysis. Table 2 shows the regression results of the control variable (owner ethnicity) entered in step 1, followed by the independent variable (employee homogeneity) in step 2 and then our moderator variables (firm age, service related, and number of employees) in step 3.

Hypothesis 1 proposed that employee homogeneity will be negatively related to the MBE performance. There is a significant and negative relationship between employee homogeneity and annual sales ($\beta = -0.34$, $p < 0.001$). Therefore, hypothesis 1 is supported. Hypothesis 2 proposed that firm age will moderate the relationship between employee homogeneity and MBE performance. There is a significantly negative moderating effect on the main effect with annual sales ($\beta = -0.20$, $p < 0.01$). Therefore, hypothesis 2 is supported. Hypothesis 3 and hypothesis 4 proposed that business type and number of employees, respectively, will moderate the relationship between employee homogeneity and MBE performance. However, neither business type nor number of employees had a moderating effect. Therefore, hypotheses 3 and 4 are not supported.

Post hoc analysis

Most MBE research has aggregated different ethnic categories into one designation (i.e. minority firm). Based on previous research, we believed that Asian firms would outperform African American and Hispanic firms (Fairlie and Robb, 2010; Bates, 1989); therefore, we compared the various MBEs by ethnicity utilizing one-way ANOVA and post-hoc Tukey analysis. This additional step provided an opportunity to build upon the scant literature comparing the performance of MBEs by their ethnic categories – African American, Asian (includes both Asian Indian and Asian Pacific) and Hispanic (Bates, 1989; Robb, 2002). For the sake of parsimony, Native American data were not included in the post hoc analysis due to only receiving a 1% response rate. As it related to ethnicity, homogeneity of variance was violated ($p = 0.001$); thus, a non-parametric Kruskal-Wallis test was conducted. The findings indicate that sales performance did not vary across ethnic groups, KW(2) = 5.28, $p = 0.071$.

Exploratory interviews

We conducted exploratory interviews with a convenience sample of MBEs to gain insight into the concept of employee homophily. An exploratory interview is a method of inquiry that

Variables	Mean	S.D.	1	2	3	4	5
1. Annual sales	2,006,779	2,420,990					
2. Owner ethnicity	0.64	1.02	0.16**				
3. Homogeneity	0.61	0.30	−0.36**	−0.30**			
4. Firm age	14.36	9.27	0.34**	0.11	−0.32**		
5. Service related	21.98	69.68	−0.02	0.00	0.06	−0.02**	
6. Number of employees	0.62	0.49	0.20**	−0.01	−0.12*	0.12	−0.04

Note(s): *$p < 0.05$. **$p < 0.01$. two-tailed test. S.D. is standard deviation

Table 1. Descriptive statistics and correlations ($N = 271$)

Table 2.
Hierarchical regression models estimating effects of owner ethnicity, homogeneity, firm age, service-related businesses and number of employees on annual sales ($N = 271$)

Variables	Model 1			Model 2			Model 3		
	B	SE	B	B	SE	B	B	SE	β
Owner ethnicity	382,922	143,504	0.16***	151,569	141,941	0.06	141,927	140,197	0.06
Homogeneity				−2722,994	4,819,610	−0.34***	−28,356,260	6,762,860	−0.35***
Homogeneity × Firm age							−1543,560	461,890	−0.20***
Homogeneity × Service related							−426040	4,206,360	−0.00
Homogeneity × Number of employees							−5,750	53,020	−0.00
(Constant)	1,760,917	172,152		19,350,480	1,659,250		18,298,150	2,296,480	
F		7.12***			19.93***			10.51***	
R^2		0.03			0.13			0.17	
Change in R^2					0.10***			0.04***	

Note(s): $^*p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$. two tailed test seeks to understand social phenomena within the context of the participants' perspectives and experiences (Wengraf, 2001). Specifically, we conducted semi-structured interviews with five minority business owners attending a large minority business conference. Semi-structured interview questions centered on their levels of employee homogeneity, changes in homogeneity over time, strategic decision making when hiring employees and the influence of homogeneity on performance.

Annual firm sales for the minority business owners interviewed range from $250,000 to $20m, with average sales of $6m. The age of their firms ranged from 10 years to 25 years, with an average age of 14 years. Their average number of employees is 27. The firms are in the logistics, distribution, manufacturing, printing and military contracting. Supporting research suggesting that MBEs tend to hire their own, an interviewee stated, "I also feel an obligation to hire, mentor, and enhance the skillsets of minorities. If I do not take the extra time to work with them, who will?" In support of social network theory and strong ties, another interviewee stated, "I had to start out within my own network, which happened to be primarily comprised of minorities." Related to our hypothesis on the moderating role of firm age, an entrepreneur we interviewed who provides athletic wear to businesses and schools stated - "As my business grew over time to support mostly suburban high schools' athletic sportswear needs, I received a lot of requests from these high school students and other locals (who do not look like me) to work for me. In an effort to represent the customers I was serving, I began to hire a few non-minorities." Although we did not find quantitative support for our hypothesis linking business type to the relationship between employee homogeneity and MBE performance, an MBE owner whose business focuses on chemical distribution and manufacturing stated –

> "I think in the short term, hiring a lot of minorities hampered my company's performance because my company functions in the technical aspects of logistics for food and pharmaceutical companies. Broadly speaking, many of my customers have the perception that minorities do not have a strong foundation in chemistry and supply chain and simply do not know or understand the importance of how to properly 'build out' a truck in order to maximize efficiency while at the same time ensuring safety by abiding by all the rules of Hazardous Analysis Critical Control Points (HACCP), HAZMAT, and the Food Safety Modernization Act (FSMA). Taking it a step further, many of the purchasing managers I have met over the years seem more comfortable dealing with MBEs on low margin and low volume opportunities."

We are cautious not to draw too many conclusions from an exploratory study comprising such a small set of interviews. A potential next step in this research could involve interviewing a larger sample of MBE owners to gain their perspectives on the pros and cons of hiring people from their own racial/ethnic group. A detailed content analysis could provide the opportunity to further explore the phenomenon through a case study approach (Wengraf, 2001). Conducting case studies would be an appropriate extension of our work because little research exists regarding MBEs' hiring decisions and how those hiring decisions can impact financial performance (Bonoma, 1985; Eisenhardt and Graebner, 2007; Ketokivi and Choi, 2014). Furthermore, case studies can provide descriptions that detail a phenomenon "in its natural setting" as well as help to understand the "dynamics present within single settings" that can then be compared across firms, industries, countries and time (Benbasat *et al.*, 1987, p. 370).

Findings

We hypothesized that employee homogeneity resulting from ethnic/racial homophily will be negatively related to MBE performance, as measured by annual sales. We further hypothesized that this relationship will be moderated by firm age, business type and number of employees. Utilizing data from 271 MBEs, we found support for the significant negative relationship of employee homogeneity with MBE firm performance, and this relationship was found to be moderated by firm age only. Specifically, as employee homogeneity increases MBE performance decreases, and this effect is more pronounced the longer the MBE is in business.

We did not find support for business type as a moderator between employee homogeneity and MBE performance. It may be that we did not adequately capture the nuances of business types with a simple dichotomous categorization of service-related and nonservice-related businesses. For example, within the service-related field there is a significant difference between an MBE engaged in high-level IT consulting and one in the business of janitorial services. Future research should attempt to further categorize and test a more substantial list of business types. Neither did we find support for number of employees as a moderator between employee homogeneity and MBE performance. Our results may be attributed to the way we assessed employee homogeneity as a ratio of minority employees vs nonminority employees. Would a 100-employee firm with a 60/40 ratio of minorities to nonminority employees have the same effect as a 1000-employee firm with the same 60/40 ratio or a firm with 10 employees and the same ratio?

Discussion

Exploratory interviews with several MBE owners provided additional insight into our hypotheses by revealing that MBE owners may strategically make decisions about their level of employee homogeneity. Phillips *et al.* (2013) explain how homophily can be consciously and strategically used by an entrepreneur in the formation and growth of a venture. Therefore, while substantial evidence suggests that minority firms tend to hire predominately minority employees (Bates, 1988; Lowry and Holland, 2005; US Census Bureau, 2002), MBEs may want to review their strategic choice of having a homogeneous workforce similar to the owner. The practical implication is not that minority business owners seeking to compete favorably with their White-owned counterparts should hire fewer minorities from similar demographic/ethnic backgrounds, but rather that the economic benefits of having a diverse workforce also apply to MBEs (e.g. a more qualified pool of candidates, better decision making, innovation and higher growth). Simply put, successful organizations need multiple sources of information – employees of like background are likely to have the same ideas about production processes, strategy and other important factors necessary for firm success. Employees of different backgrounds may bring in diverse perspectives and ideas on how to run the organization effectively. We recognize the inherent conflict this strategic choice would have on countering the benefits derived from MBEs hiring primarily minority employees (e.g. lowering minority unemployment; providing opportunities for minorities who have experienced barriers to advancement in White-owned firms; providing the social, mental, emotional and physical support to counteract the stress minority business owners face; Campbell *et al.*, 1986; Granovetter, 1982; Mollica *et al.*, 2003). However, the strategic decision to implement a more heterogeneous workforce may enhance an MBE's financial performance (Boston and Boston, 2007; Gargiulo and Benassi, 2000), particularly in the midst of environmental changes (Pfeffer and Salancik, 1978; Porter, 1980). The increased financial performance of the MBE has the potential to result in the firm's ability to hire more employees, both minority and nonminority.

What is the best way to educate MBEs on the importance of diversifying their workplace, and how best to guide them to do so strategically? There is little doubt that advising MBE firms to diversify their overall workforce can be a controversial proposition. The answer may lie with the social capital inherent from participation in various minority business networks. Hundreds of minority business networks exist in the US, operating at the national, regional, state and local levels. Some well-known minority business networks include the *National Minority Supplier Development Council* (NMSDC) and *US Hispanic Chamber of Commerce*. Social capital derived from networks based on minority subgroup linkages often act as sources of trust and support (Putnam, 2000). Minority business owners may be more likely to draw upon minority business networks because they can interact with other minorities (Mehra *et al.*, 1998). In addition, establishing meaningful relationships through such networks has been found to improve MBE performance by increasing opportunities to secure financing, access potential customers and receive specialized education (Zimmer and Aldrich, 1987; Shane and Cable, 2002).

Many of these networks offer educational training for its membership to help ensure their competency and competitiveness of its MBE membership. To that end, minority business networks, like NMSDC, are best positioned to educate MBEs on the importance of strategic hiring to ensure that the racial/ethnic makeup of their founding team and overall employee workforce is diverse.

The theory of "critical mass" may also be relevant to our findings (Kanter, 1977). Specifically, instead of viewing employee homogeneity as a dichotomous concept, future research may explore if an inflection point is triggered by a relative change in employee homogeneity within MBEs. In other words, do MBEs have to achieve a range or percentage of employee diversity before a corresponding increase in financial performance can be realized. Such research would mirror work by Fredette and Bernstein (2019) that found a curvilinear relationship between ethno-racial diversity in nonprofit boards and fiduciary performance.

There are some limitations of our study. Some research suggests that poor-performing firms are more likely to hire minority candidates (Hill and Thomas, 2010). Therefore, it could be argued that lower MBE financial performance leads to higher levels of employee homogeneity. Our data set is cross-sectional in nature and lacks the perspective and clarity of time. To address this deficiency, we suggest our research be expanded into longitudinal studies capturing annual sales and changing levels of homogeneity over several years to help validate our initial findings. Despite these limitations, our findings clearly show that homogeneity matters when it comes to the financial performance of MBEs.

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