

Immigrant and Minority Business Theories

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“Successful small businesses tend to be those created with a substantial investment of the owner’s financial capital along with strong educational credentials of business owners.” Asian immigrant business owners have invested more capital and have higher educational level than African-American or non-minority businesses, and they have much higher success rates.

Minority and immigrant self-employment reflect other economic opportunities and constraints. Through the 1960s and thirty years ago, small minority-owned retail and service businesses serving local populations had earning below that obtained by employed minority workers. Self-employment and small business ownership was a response to discrimination and blocked opportunities in the labor market, even for college-educated and professional Asian immigrants and African-Americans. As better employment opportunities arose after WWII, Asian Americans left self-employment.

The nature of minority owned businesses have changed in the 1990s, they are more diverse and more likely to serve broader, non-minority markets and be run by college educated owners. Growth in skill-intensive financial and professional businesses is marked. This trend is especially pronounced in the black business community. Growth in black college enrollment and an emphasis on degrees in business and technical fields fueled the transformation of black entrepreneurship.

Entry into small business is most common among people in their late thirties and forties after 15-20 years of work experience. Thus, the impact of increased black college enrollment took 15-20 years to translate in to a new wave of small business ownership. Similar trends have occurred among Asians, in terms of growing college enrollment and concentration in technical and business fields.

“Educational gains stand out as a major cause of the ongoing transformation of the minority business community; high growth fields for small business are those in which college graduate small business owners are numerous.”

While black businesses have moved from traditional mom-and-pop sectors to high yield businesses, Asian-American small businesses have grown at both ends of the spectrum. This reflects continued blocked opportunities for Asians due to language barriers and reluctance to recognize foreign credentials. Once educated Asian immigrants acquire the English skills and connections they need, they leave low return self-employment.

Four primary theories of self-employment tested:

1. **Human and financial resources—class resources**—help entrepreneurs overcome barriers to starting a business and ensuring success. Human capital, the owners’ skills, and financial capital (net worth) are the best predictors of small business formation and success.
2. **Social and ethnic resources**—flow from ethnic solidarity and comprise social networks, ethnic ideologies and inclinations, employer paternalism, etc. These ethnic resources may provide valuable resources that help co-ethnics create and succeed in business, e.g.,

knowledge of ethnic tastes, access to credit through social and kinship networks, and access to co-ethnic labor at low wages.

3. **Blocked opportunities**- is a push factor that directs people toward self-employment. Self-employment is measured against the opportunity cost of wage/salary jobs available to the minority or immigrant group.
4. **Government policies**- decline in federal enforcement of labor laws allowed immigrant businesses to take advantage of lower cost labor. Government procurement programs, lending programs and technical assistance have targeted minority-owned businesses and sought to support their creation and growth. .

The difference in self-employment rates between African-Americans and Asian immigrants is explained by neither differences in blocked opportunities nor differences in social resources. Rather, it is differences in class resources—human and financial capital—that primarily explain the differences.

His findings: people with a net worth of over \$100,000 and advanced educational credentials are most likely to become self-employed. Highly educated owners investing large sums of money into their businesses are most likely to remain in operation. Weaker, more failure prone Asian-immigrant businesses are more likely to rely on certain social resources.

“The combination of strong class resources and blocked mobility generates high rates of self-employment.”

Overwhelming evidence that financial barriers limit black business formation, growth and survival.

Implications of Bates' Conclusions

1. Effort at small business creation and growth will be most successful when targeted to entrepreneurs with strong human capital and financial resources.
2. Skilled immigrant or minority communities facing blocked employment opportunities present particularly strong target “markets” for small business development
3. Ensuring sufficient access to capital and adequate financial capital for the business are critical to business success
4. Improving the community's education levels and skills is vital to generating successful small businesses with good income generating potential
5. Effort to help people start new business might do best to focus on people with higher educational levels and extended work experience.
6. Businesses that focus exclusively on small minority or ethnic markets are likely to provide low, poverty level returns to their owners. Firms that serve broader markets and higher growth sectors will provide higher much better returns.

Waldinger

Model to explain immigrants' entry into business and their different fates. Model emphasizes the changing opportunity structure confronting immigrants, the distributions of resources, and the terms on which they are available to immigrants.

Historically, small business played an important role in the economic progress of several early immigrant groups to the US (Jews, Chinese, Italians, and Greeks)

Model built on two key dimensions: opportunity structures and the ethnic group characteristics. Opportunity structures: market conditions that favor products or services oriented to co-ethnics and situations where a wider, non-ethnic market can be served, and the routes through which access to business ownership is obtained.

Group characteristics: pre-migration circumstances, reaction to host society conditions, and resource mobilization.

The Opportunity Structure

Market conditions—the initial market for immigrants entrepreneurs is providing goods and services to the immigrant community based on their special preferences and adjustment needs. If immigrants businesses stay limited to this market, their growth is circumscribed because the size of the population is small and its incomes are modest, often poverty level. Due to limited employment opportunities and low barriers to entry, the environment in this market is difficult with a proliferation of many small units, over-competition, high failure rates, and scanty returns.

In some cases, the early ethnic market provides a platform for export and expansion into non-ethnic markets. Expansions into non-ethnic markets can then allow for further expansion into supplier and related businesses. The experience of Cubans in Florida typifies this scenario.

“the growth potential of immigrant business hinges on its access to customers beyond the ethnic community”

Business opportunities will be in areas not requiring large scale and entry costs, examples:

1. Underserved or abandoned markets, especially in urban centers & inner cities
2. Low economies of scale—including markets where “self-exploitation” and work long hours can be an advantage
3. Instable and uncertain business often serving smaller scale markets
4. Ethnic goods where there is demand in the non-ethnic market

Access to Ownership—is shaped by (1) the number of business ownership vacancies and the extent to which natives are seeking these slots and (2) government policies toward immigrants. As neighborhoods change composition and as successive generations of immigrants don't stay in their parents' businesses, new business vacancies arise. Government policies affected how easy it is to start a business and the terms under which immigrants can do so, as well as the settlement patterns and status of immigrants—effecting the market size and concentration.

Group Characteristics

Predisposing Factors-- Blocked opportunities elsewhere in the labor market. People who chose to immigrate are more likely to be risk takers, strongly motivated to improve their life, etc. Immigrants perception of adequate returns and status are different than native-born populations and thus they may be more willing to enter small businesses, even those with low returns.

Resource Mobilization—View of ethnicity as the social structure through which members of an ethnic group are attached to each other and how these social structures are used (to create and support businesses). Two broad components of social structures: 1. networks of kinship family and friendship; and (2) the interlacing of these networks with the economy, housing and civil society.

“the emergence of ethnic communities and networks may generate the infrastructure and resources for ethnic small businesses before a sneeze of group awareness development. Once in place, an ethnic business niche may give rise to or strengthen, group consciousness.”

Immigrants rely on connections to settlers to find housing, jobs, information, etc. As immigrant communities become concentrated, they gain the critical mass to support ethnic institutions—churches, mutual aid societies, trade unions, political clubs, etc.

Ethnic social networks—activating strong ties to kin's and co-ethnics is important to the formation and maintenance of immigrant firms. Strong ethnic identity and ties will help the immigrant business survive via receipt and transmittal of business support and information, credit associations. Business owners may also rely on trusted ties to co-ethnics for information on business permits, laws, sites, supplies, etc. needed to run their business. Networks also provide access to business partners, investors, and professional services.

Labor recruitment-immigrant businesses recruit secure a labor force through direct ties to the ethnic community, such as family members, new immigrant settlers, etc. The managers authority can also be enhanced by personal and ethnic loyalties among employees.

Trust among businesses of the same ethnic group may also permit greater cooperation among them.

Government policies also effect potential resource mobilization among ethnic groups, e.g., special loan programs, training and technical assistance programs, contract set-asides, etc.

- Explanation of difference in entrepreneurial activity among ethnic groups:
- Pre-migration characteristics—skill levels that immigrants bring, language skills relative to new country
- Migration characteristics—temporary or permanent migrants, settlement patterns—whether immigrants come with their families or by themselves
- Post migration characteristics—opportunity structures, the extent and type of pre-existing small business ownership among co-ethnics.

Ethnic Strategies to overcome obstacles to starting and operating small businesses:

7 problems: obtaining information (from owner's personal networks and indirect ties linked to their ethnic community), obtaining capital (personal savings and to a lesser extent rotating credit associations), acquiring training & skills (on the job often as an employee at a co-ethnic's firm), recruiting and managing workers (through family and co-ethnics, often unpaid and low paid), managing relations with customers and suppliers (drawing upon loyalty and offering special services), surviving business competition (four strategies—self-exploitation, expansion through opening more shops or growing by backward and forward in the production chain, ethnic trading associations, alliances with other families by marriage) protecting from political attacks (bribery, paying penalties, finding loopholes, and organizing protests).

Major Small Business Development Tools and Program Models. These options can be seen as different delivery mechanisms to provide business development services. List is suggestive, not exhaustive:

1. **Entrepreneurial Development Corporation:** a separate organization whose mission is to help entrepreneurs start and grow a business with a range of services, e.g., Mass Ventures in the Pioneer Valley.
2. **Financing Programs** - Focus on financing needs with some add-on management assistance. Examples: CDFC Venture Fund, KHIC, Evanston BIC
3. **Micro enterprise development & self-employment programs**-Training and financing to help individuals start a very small business, often targeted to low income persons, e.g. Working Capital, WEDCO
4. **Technical Assistance Programs** - focus on training and counseling services to help businesses, e.g. SBDC, SCORE. Can include peer assistance, mentoring, classes\workshops, one-on-one assistance, etc. Emergence of brokering and network approaches—NY Business Outreach Centers, Community Business Network. One-on-one assistance and case management role is key.
5. **Ombudsman Offices** – city offices to help business negotiate city regulations and resolve problems
6. **Small Business Incubators** - real estate based centers that combine low cost space, shared services, financing, and technical or management assistance under one roof, e.g., JPNDC Brewery, FCCDC Venture Center
7. **Business Networks and Associations**—provide informal and formal assistance among firms and joint-business arrangement, e.g., Berkshire Plastics Network, Western Mass. Food Industry Association.
8. **Direct business start-up or ownership by a community group.** A community organization directly starts or acquires a business to meet employment or service needs, e.g., Delta Foundation, PACE.
9. **Opportunity Creation (set-asides) for Targeted Business.** MHFA experience-- commitment to technical assistance, services, financing so firms can realize opportunity

Business Retention Tools and Program Models

Historically, these efforts have focused on retaining manufacturing jobs in cities.

1. **Business calling programs**--meet with firms one-on -one to understand their needs and problems=>follow-up to respond and address them. Can be a preventative pro-active approach.
2. **On-going dialogue and communications** with the manufacturers and businesses to identify issues and needs through regular roundtables, councils, etc.
3. **Planned manufacturing districts** and zoning restrictions to protect industrial districts and prevent conversion of industrial buildings and land to other use.
4. **Industrial park development** to provide industrial space for local firms=>new locations can provide a more planned approach; don't have to live with historical limitations conflicts, etc. may be able to develop industrial sites are better locations with better utility service, highway access, etc. Example: Boston Marine Industrial Park
5. **Redevelopment/reuse of vacant industrial buildings to house firms**, e.g. incubator space, multi-tenant industrial buildings. Example: Chicago's Fulton Carroll Center
6. **Brownfield redevelopment**—address contamination issues to reuse former industrial sites. Key tools:
 - a. subsidize cost of investigation and clean-up
 - b. clarifies liability issues and reduces liability of new users, e.g., Covenant not to sue, voluntary clean-up programs
 - c. tailor clean-up requirements to future use to reduce clean-up costs with deed restrictions to limit use and risks.
 - d. address lender liability
7. **Early warning systems**-identify problems before they occur and intervene to prevent plant closure or relocation. Naugatuck Valley Program, Washington State Program
8. **Address ownership issues** that can cause firm closures such as retiring owners. Assist with employee buy-outs; identify local firms to acquire company.
9. **Reducing utility costs** through both securing rate reductions by utilities or energy efficiency improvements via audits, incentives and financing to help firms improve their energy efficiency and reduce costs. Wholesale purchase of electricity, esp. in light of deregulation.
10. **Financing programs** targeted at retaining manufacturing jobs. Massachusetts Economic Stabilization Trust provides loans to address financial distress, ownership changes, turnaround from poor management, diversification

11. **Business/ Industrial Service Offices.** One-stop permitting, problem resolution, referrals with mission of retaining manufacturing jobs in the city. Also provides capacity to identify and respond to new situations.
12. **Job training programs** to ensure skilled labor supply. Machinists training issue in greater Boston, Hartford area.