

## Problems Encountered by Ethnic Entrepreneurs: A Comparative Analysis Across Five Ethnic Groups

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**D**espite growing interest in the difficulties encountered by ethnic entrepreneurs, very little research has yet been done on the subject. This article attempts to fill the gap. A total of 715 Chinese, Italian, Indian/Sikh, Jewish, and Vietnamese entrepreneurs from Montreal, Toronto, and Vancouver were surveyed for the research. The results show that ethnic businesses tend to face the same problems as other businesses, which consequently does not appear to justify the development of support programs specifically for ethnic entrepreneurs. However, this study of established businesses does not consider failed or nascent businesses, which may have experienced additional problems. Further research is required to examine these issues. Also, given the unique social and business dynamics that exist within the ethnic communities studied, support programs should be directed through the networks of these communities.

In the last two decades, the interest shown by governments and researchers in ethnic and immigrant entrepreneurs has grown. There are a number of reasons for this, but all share a common goal, namely to highlight the place and impact of ethnic businesses in the economies of their host countries.<sup>1</sup>

In the United States, for example, ethnic businesses are present in large numbers, and appear to have maintained their vitality (Montgomery 2005; Waldinger 1989). Indeed, immigrant entrepreneurs are said to be responsible for the revitalization of trade in some peripheral regions and smaller towns (Stauber 2001; Lachman and Brett 1996). One study also revealed that businesses owned by women from the ethnic minorities grew three times faster than all other firms in the period 1987 to 1996 (Mesa and Boles 1997). In addition, the ethnic diversity of Silicon Valley's businesses has given the area a global advantage in terms of marketing, and has generated significant dividends (Menzies, Brenner, and Filion 2003; Saxenian 1999; Engardio and Burrows 1997). Immigration is seen as a major strength, helping reinforce the economy by promoting the arrival of younger, more innovative, and more entrepreneurial immigrants (Davies 2005; Ehrenhalt 1993). Lastly, researchers have also suggested that ethnic businesses have made a significant contribution to the growth of exports, the development of a global vision, and the creation of interna-

tional contacts by American firms (Mandel and Farrell 1992).

A report, submitted by a committee formed to study the reasons for quicker high technology start-ups in the United States compared with the United Kingdom, pointed to, among other things, the larger numbers of talented immigrants in the United States who were willing to take risks (CSFI: The future is small 1997). A Canadian study by Head and Ries (1998) reported that exports by immigrant entrepreneurs to their country of origin were 10 times as high as exports by all Canadian exporters in the period 1980 to 1992. One of the reasons put forward by the authors was that immigrants have more knowledge of and better access to the markets in their countries of origin. Another Canadian study (Helley and LeDoyen 1994) reported that, generally speaking, immigrants find it easier to create their own businesses than locals (Field 2003; Light and Rosenstein 1995; Stiles and Galbraith 2003; Thonney 1988; Trista Resources Ltd. 1989; Waldinger, Alrich et al. 1990; Ward and Jenkins 1984).

If such observations do in fact reflect reality and are not simply isolated or one-off phenomena, then there is good reason to take a serious look at what can be done to give effective support to entrepreneurship, venture creation, and business expansion in ethnic communities. One way of doing this is to extend our knowledge and understanding of the problems faced by ethnic entrepreneurs. There are three main reasons why such an approach is relevant. First, we know that the entrepreneurs' own understanding of their problems affects their strategic choices and hence the performance of their businesses. Second, a better understanding of these problems would help public authorities to formulate and implement policies and programs that are more appropriate to the needs of the businesses. And third, researchers themselves would be better able to direct their research efforts.

The research presented here examines the nature and development of the difficulties encountered by Chinese, Italian, Jew, Sikh, and Vietnamese entrepreneurs, with a view to identifying implications for the content and use of support policies for ethnic businesses.

### Analysis of the Literature

If it is true that ethnic businesses make a real contribution to economic growth in their host countries, then there is a real

need to support them as they face their problems to increase both their survival rate and their effectiveness. Unfortunately, very little information is available on the nature of the problems they encounter. This may be due in part to the fact that most research on the subject has focused in the past on the characteristics of the entrepreneurs and their businesses, and on the determinants of venture creation and success.

The data available on the problems encountered is either partial or very general in nature. For example, some authors explain the high venture creation and self-employment rates in ethnic communities as a means of integration in the face of rejection and discrimination by the host community (Rajam and Tienda 2003; Light and Rosenstein 1995; Menzies, Filion, Brenner, and Elgie, in press; Mohammed 1988; Toulouse and Brenner 1990; Waldinger, Alrich et al. 1990). This type of explanation also suggests implicitly that ethnic entrepreneurs face fairly significant social difficulties in their business practice. It is for this reason that they work long hours and accept lower wages, even if their education is above average (Trevor 2000; Light and Bonacich 1988).

In a comparative study of Chinese entrepreneurs in Calgary and Armenian entrepreneurs in Los Angeles, Ray, Momjam et al. (1988) note that ethnic entrepreneurs face three types of problems: access to start-up funding, adaptation to local standards, and nostalgia. These difficulties are less marked in the Chinese communities, due partly to the major role played by the ethnic network in providing social and financial support, but also to the fact that Chinese communities tend to make very little effort to adapt to the local culture. Research has also shown, generally, that immigrant entrepreneurs make little use of government networks and support services (Brenner, Célas, and Toulouse 1992a and b) or of the host society's business associations (Québec 1993). Immigrants who do not have the capital they need obtain it in the form of loans from within their communities, through community institutions, relatives, or family members.

A literature review on small and medium-sized business reveals basic references to the problems encountered. Two main points emerge from the literature. First, business failure is explained to a large degree by the owner-managers' inability to solve problems (Castaldi 1986; Dollinger 1985; Dun and Bradstreet 1987; Gaskill, Van Auken et al. 1993; Ibrahim and Goodwin 1986). And second, the nature and especially the scope of the problems also vary according to the development stage of the business (Churchill and Lewis 1983; Kazajian 1988; Kurato and Hodgets 1989; Lorrain, Belley, Ramangalahy, 1994). A number of problem classification models have been proposed. They are examined in greater detail below.

Following a survey of 91 respondents, Gaskill, Van Auken et al. (1993) divided the difficulties leading to small business failure into four groups: strategic management, marketing,

competitive environment, and growth. Based on a two-step survey involving a sample of 257 entrepreneurs and owner-managers, Taylor and Banks (1992) used factorial analysis to identify eight groups of problems: human resources, competitiveness, productivity, costs generated by legal constraints, financial needs, tax policies, international competition, and the consumption of illegal substances. Respondent entrepreneurs said the main problems were the costs generated by legal constraints, financial needs, and tax policies.

Tepstra and Olson (1993) produced one of the most interesting studies on the subject. Following a survey of 121 small business owner-managers, the authors drew a distinction between start-up problems and growth problems. They developed a comprehensive grid that covered nine categories of problems: obtaining outside funding, internal financial management, marketing and sales, product development, production, general administration, human resources management, the economic environment, and the legal environment. The dominant problems at the start-up phase were related, in decreasing order of importance, to marketing, obtaining outside funding, and internal financial management. At the growth stage, the dominant problems were related to marketing and sales, financial management, human resources management, and general administration. A study by Huang and Brown (1999), involving 973 SMEs, confirmed the findings of Tepstra and Olson (1993). Lastly, in a study carried out between January and March 2000 of 4,044 small business-owner-managers in the United States, 10 main problems were identified: cost of health insurance; federal taxes on business income; locating qualified employees; unreasonable government regulations; Social Security taxes; state taxes on business income; workers' compensation costs; federal paperwork; cash flow; and cost of natural gas, gasoline, and fuel oil (Dennis, 2000). For the purposes of this study, we used the grid developed by Tepstra and Olson (1993), which we improved.

## Methodology

The method selected for this research was the field interview with questionnaire. The total sample at the end of the four-year research period (which began in 1999) comprises 1,429 respondents, which included 718 ethnic entrepreneurs and 711 nonentrepreneurs. We only report on the entrepreneurs in this study. The survey was carried out in three of Canada's largest cities: Montreal, Toronto and Vancouver. Five different ethnic communities are involved, with approximately 50 entrepreneur respondents per community in each of the three cities. Ethnicity was by self-identification (e.g., Chinese Canadian and Italian Canadian). This article describes the results obtained from the survey of Chinese, Italian, Jewish, Sikh, and Vietnamese entrepreneurs.<sup>2</sup> The entrepreneurs sample is comprised of 718 respondents of which 21 percent

were Chinese, 18 percent Italian, 18 percent Sikh, 21 percent Jews, and 20 percent Vietnamese.

The survey questionnaire was produced by adapting and improving the methodology tested in the work of Brenner, Célas and Toulouse, 1992a and b; Toulouse and Brenner 1990. It is divided into two parts: the first is designed to identify the respondent's sociodemographic profile and the second to elicit his or her entrepreneurial experience.

To maximize response rates and reliability, the questionnaire was administered in person by interviewers from the same ethnic community as the respondents. This approach helped eliminate language and cultural barriers, promoted a climate of trust, and led to the identification of new respondents. The data presented in this article were obtained from 1999 to 2003. They relate to the Chinese, Italian, Jew, Sikh, and Vietnamese communities in the three Canadian cities mentioned earlier.

### Data Analysis

The data were processed in two stages. First, we used descriptive statistics to identify the characteristics of respondents, their activities, and their entrepreneurial experiences. Second, we used  $\chi^2$  tests and variance analysis tests (ANOVA) to make comparisons based on the status, city of residence,

gender, and level of education of respondents. In most of the open questions, we grouped the responses together to facilitate the reading of the results.

### Findings

In the following sections we will look successively at the characteristics of respondents and their businesses, and the nature of the problems they faced.

### Sociodemographic Characteristics of Respondents

Of the 718 entrepreneurs who participated in the questionnaire survey, 161 (22%) were born in Canada and the others were born mostly in the country of ethnic origin. Three-fourths (74.4%) of the respondents were men. The average age of the respondents is around 44 years. Most were educated beyond high school level. Overall, not only were they well-educated, they were also professionally experienced, having an average of 11 years of work experience, 3.7 years before moving to Canada and 7.5 years after arrival. There was a high percentage of respondents who said a member of their immediate family (father, mother, or family) owned a business (42.2%). The main language spoken at home was neither English nor French.

**Table 1. Financing Problems and Sources at Start-up**

Variables Analyzed	Total Sample		Comparisons Between Ethnic Groups										$\chi^2$ F anova.
	Average Frequency	%	Chinese	%	Italians	%	Sikhs	%	Jews	%	Vietnamese	%	
<i>How Business Was Acquired</i>													
Purchased	152	21.2	38	25.2	27	20.0	22	16.2	19	12.6	46	31.7	19.679***
Created	529	73.7	106	70.2	99	73.3	110	80.8	122	80.8	92	63.5	17.502**
Inheritance	29	4.0	5	3.3	5	3.7	2	1.5	10	6.6	7	4.8	5.211
Other	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	-
No answer	8	1.1	2	1.3	4	3.0	2	1.5	-	0.0	-	0.0	-
<i>Initial Investment</i>													
Total amount (10 <sup>3</sup> )	291.8	3967.7	116.5	288.5	150.9	500.9	210.4	743.1	816.4	8446.0	107.6	143.8	0.795
Percentage invested	76.4	31.1	85.1	26.6	78.2	29.5	71.7	29.4	72.8	35.2	74.9	31.8	4.038**
<i>Sources of Financing</i>													
Own investment	62.2	37.7	70.5	33.8	62.3	39.9	62.7	33.6	55.6	40.7	59.6	38.6	3.021*
Bank loan	17.3	29.2	10.4	22.2	22.3	33.8	14.0	22.2	22.4	32.5	17.9	31.5	4.455***
Family loan	12.4	24.2	17.1	27.0	9.8	22.3	8.8	17.8	12.9	25.6	12.9	25.6	2.478*
Governmental loan	0.6	5.4	0.6	4.7	0.2	1.8	0.2	1.8	1.1	8.6	0.9	6.1	0.890
Loan from ethnic group	3.6	13.8	-	0.0	0.7	5.3	8.8	20.8	2.4	10.6	2.9	13.3	6.425***
Loan from nonethnic group	0.3	2.9	-	0.0	0.0	0.0	0.7	3.6	0.0	0.0	0.5	4.5	1.371
Other sources	2.8	13.7	1.9	12.1	2.2	12.4	1.4	9.9	3.5	15.2	4.7	17.3	1.303
*: $p \leq 0.05$ **: $p \leq 0.01$ ***: $p \leq 0.001$													



### **Business Characteristics**

Most of the businesses were in retail (32.3%), services (27%), restaurant (12.9%), and wholesale (9.4%) sectors. The businesses represented employed an average of 6.2 full-time employees. Of these businesses, 71.2 percent have a turnover under \$500,000.

### **Financial Problems at Start-up**

Because of the major role played by financial problems in the small business sector, it is relevant to focus on them to gain a better understanding of the features of ethnic businesses.

The total initial investment was, on average, \$291,800. A part of this amount (31.1% on average) was financed by the entrepreneur. Significant differences were noted in the contribution of the entrepreneurs. Chinese entrepreneurs invested significantly less initially (26.6%) than Sikhs (29.4%), Jews (35.2%), and Vietnamese (31.8%). They also invested significantly less of their own money (33.8%) than the Jews (40.7%), and the Vietnamese (38.6%). The Chinese entrepreneurs also got significantly less loans (22.2%) than the Italians (33.8%), the Jews (32.5%), and the Vietnamese (31.5%). Chinese entrepreneurs got significantly more money for their business (27%) from family loans compared to the Italians (22.3%) and the Sikhs (17.8%). Very little use was made of government sources (5.4%) and loans from nonethnic groups (2.9%).

### **Problems Related to the Business Environment**

The results reported in Table 2 were produced by processing data collected from a semiopen question in which we asked

entrepreneurs whether they thought Canada was a good country for entrepreneurs, and why. Just 21.4 percent of the respondents said Canada was not a good country for entrepreneurs, compared with 62.3 percent who said it was and 16.4 percent who were undecided. The following explanations are limited to the reasons for the negative perception. We grouped the factors evoked into five categories, including four main categories; namely political, social, economic and legal factors. Other factors were placed in a separate category.

The table allows two main observations to be made. First, a greater number of economic factors tend to be mentioned by the respondents. Second, the problems experienced by entrepreneurs are of various types. Three main problems can be discerned: (1) high taxation rates (mentioned by 14.8% of respondents); (2) rules and regulations (2.8%); and (3) the limited size of the market (2.7%).

### **Problems Related to Business Management**

Using an open question, we asked respondents to list the four main problems they faced. This approach proved to be more appropriate than the traditional method, which consisted of asking respondents to assess their perception of the importance of a range of predefined problems listed in the questionnaire. We based our approach on the hypothesis that ethnic entrepreneurs could face problems other than those generally reported in small business studies.

Codification of the responses allowed us to identify 107 types of problems experienced at start-up, and 117 types of problems experienced at the time of the survey. For the pur-

**Table 2. Problems Linked to the Environment**

<b>Political Factors</b>		<b>Social Factors</b>		<b>Economic Factors</b>		<b>Legal Factors</b>		<b>Other Factors</b>	
<b>Types</b>	<b>%</b>	<b>Types</b>	<b>%</b>	<b>Types</b>	<b>%</b>	<b>Types</b>	<b>%</b>	<b>Types</b>	<b>%</b>
Rules and regulations	2.8	Small population	2.3	Limited market size	2.7	Taxes	14.8	Better in USA	0.9
Political situation unfavorable to small business	1.9	Too much bureaucracy	0.4	Low purchasing power	0.9			Unionism	0.7
Political situation unfavorable to investment	0.4	Difficulties keeping competent employees	0.3	High cost of wages	0.9			Many obstacles	0.6
				Economic stagnation	0.9				
				Financing	0.9				

poses of our analysis, we divided the problems into 11 categories using the grid developed by Tepstra and Olson (1993). We identified problems related to:

1. Business financing: Capital, investment, turnover, cost-effectiveness, and costs
2. Marketing: Customer base, needs identification, advertising, pricing, customer service, customer solvability, and payment collection
3. Human resources: Skills, wages, experience, manpower, unions, and employee relations
4. Production: Supplies, transportation, suppliers, product type and quality, maintenance, and technology
5. Strategic management: Location, risk management, business survival and growth, and the search for information
6. General administration: Accounting, supervision, time management, activity start-up, and product security
7. Networking and partnerships: Contacts, recourses, and cooperation with partners
8. Institutional and legal environment: Laws, government policies and procedures, taxes and income tax, technical standards
9. Social environment: Integration, discrimination, trust, and communication
10. Economic and competitive environment: Rental costs, economic situation, competition, purchasing power, market size, and market trends
11. Other factors: Climate and luck

Table 3 presents the results obtained, followed by a selective commentary.

### Problems Related to Businesses

Economic environment problems remain the dominant concern. Roughly 34 percent of the entrepreneurs surveyed reported facing this problem. On the other hand, problems related to networking were less frequently mentioned (by only 3.5% of respondents).

A more in-depth analysis of the results (see Table 3) allowed the various categories of problems to be divided into three groups on the basis of the frequency with which they were mentioned by respondents. The first group was mentioned by more than 25 percent of the entrepreneurs, and includes problems related to economic environment (32.7%), marketing (32.9%), human resources (26.9%), and finance (26.5%). It therefore contains the dominant problems. Problems in the second group were mentioned by a smaller, but still significant, number of businesses. In decreasing order of importance, the problems involved are those relating to general administration (20.2%), institutional environment (18.2%), strategic management (12.7%), and production (11.1%). The third group includes all other types of problems, and applies to a fairly restricted number of businesses. The problems relate to other factors (8.2%), social environment (5.3%), and networking (3.5%).

In looking at the findings across the different cities (Table 4), we notice that for entrepreneurs in Montreal, the biggest problem encountered is not related to the economic environment but to marketing. The three biggest problems in Montreal are related to marketing (40.6%), human resources (33.9%) and economic environment (30.1%). In Toronto, problems are associated with economic environment (38.5%), marketing (30%) and finance (24.2%). In Vancouver, economic

**Table 3. Problems Encountered by Ethnic Group**

Variables Analyzed	Total Sample		Comparison by Ethnic Groups										$\chi^2$
	Frequency	%	Chinese	%	Italians	%	Sikhs	%	Jews	%	Vietnamese	%	
<i>Types of problems encountered</i>													
- Finance	190	26.5	44	29.1	28	20.7	32	23.5	60	39.7	26	17.9	22.521***
- Marketing	236	32.9	59	39.1	46	34.1	30	22.1	57	37.7	44	30.3	11.973*
- Human resources	193	26.9	27	17.9	44	32.6	43	31.6	44	29.1	35	24.1	10.963*
- Production	80	11.1	16	10.6	16	11.9	12	8.8	22	14.6	14	9.7	2.968
- Strategic management	91	12.7	19	12.6	19	14.1	6	4.4	32	21.2	15	10.3	19.238***
- General administration	145	20.2	27	17.9	23	17.0	19	14.0	47	31.1	29	20.0	15.805**
- Networking	25	3.5	7	4.6	5	3.7	1	0.7	3	2.0	9	6.2	7.879
- Institutional Environment	131	18.2	35	23.2	39	28.9	27	19.9	12	7.9	18	12.4	26.994***
- Social Environment	38	5.3	14	9.2	3	2.2	7	5.1	4	2.6	10	6.9	10.164*
- Economic environment	242	33.7	60	39.7	37	27.4	55	40.4	45	29.8	45	31.0	9.108
- Other factors	59	8.2	16	10.6	10	7.4	1	0.7	21	13.9	11	7.6	17.903***

\*:p<0.05

\*\* :p<0.01

\*\*\*:p<0.001

**Table 4. Difficulties Encountered by City**

Analyzed variables	Total Sample		Comparison by Cities						
	Frequency	%	Montreal	%	Toronto	%	Vancouver	%	$\chi^2$
<i>Types of problems encountered</i>									
- Finance	190	26.5	69	28.9	63	24.2	58	26.5	1.378
- Marketing	236	32.9	97	<b>40.6</b>	78	30.0	61	27.9	9.916**
- Human resources	193	26.9	81	33.9	61	23.5	51	23.3	8.961*
- Production	80	11.1	27	11.3	31	11.9	22	10.0	0.432
- Strategic management	91	12.7	32	13.4	29	11.2	30	13.7	0.861
- General administration	145	20.2	57	23.8	57	21.9	31	14.2	7.419*
- Networking	25	3.5	4	1.7	9	3.5	12	5.5	4.926
- Institutional Environment	131	18.2	42	17.6	47	18.1	42	19.2	0.205
- Social Environment	38	5.3	18	7.5	13	5.0	7	3.2	4.354
- Economic environment	242	33.7	72	30.1	100	<b>38.5</b>	70	<b>32.0</b>	4.300
- Other factors	59	8.2	18	7.5	17	6.5	24	11.0	3.303

\*:p<0.05    \*\*:p<0.01    \*\*\*:p<0.001

environment is also the main worry (32%). Marketing comes second at 27.9 percent and finance comes in at 26.5 percent. For the three cities, most problems are associated with economic environment and marketing. However, we only find significant differences on three factors: marketing, human resources, and general administration. On the marketing level, Montreal is significantly higher than both Toronto and Vancouver. On the human resources level, Montreal is also significantly higher than Toronto and Vancouver. As far as the general administration is concerned, again, Montreal is significantly higher than the two other cities.

Our results confirm those obtained by Tepstra and Olson (1993) and allow us to put forward the provisional conclusion that the ethnic entrepreneurs targeted by our study do not seem to face problems that are radically different than those faced by other small business creators and entrepreneurs.

### Conclusions

Although financing problems were the most apparent at start-up, by the time of the survey the economic environment had become the main concern for the businesses studied. The results of our analysis revealed a dual phenomenon. Compared to their situation at start-up, we observed that the percentage of businesses facing problems related to financing, marketing, production, strategic management, everyday management, networking, the institutional environment, and the social environment had decreased by the survey date. This can be explained by the effect of the experience curve and by the improved ability of the businesses to survive. On

the other hand, the proportion of businesses facing problems related to human resources and the economic and competitive environment (rental costs, economic situation, competition, purchasing power, market size, and trends) increased considerably. This can be explained by the challenges involved in pursuing a growth strategy.

The limited significant differences we observed tend to show that the problems are relatively independent of entrepreneur gender and the location of the business. Although the results differed slightly for certain elements from one city to another, they suggest overall that entrepreneurs face a relatively similar range of problems, whatever the city, and that those problems are fairly similar to those faced by entrepreneurs in general. An example is the perceived high level of taxation, also reported among U.S. small businessowners (Dennis 2000). However, to give more weight to our conclusions, we will have to extend our analysis to take into account other factors such as education and experience, country of origin, cultural status, length of residence in Canada, and size of the business activity sector concerned.

The ethnic businesses in the sample did not seem to be facing problems that were significantly different from those faced by small businesses in general. There would seem to be no immediate reason for recommending the development of new programs or of programs aimed specifically at ethnic entrepreneurs. However, we studied only those entrepreneurs who had established and were currently operating a successful business. We did not study nascent businesses that had not yet reached operational status or failed businesses—the results of which might have been quite different from



those of the current study. Further research is required to examine this issue. We therefore suggest that given the unique social and business dynamics that exist within the ethnic communities studied, it is reasonable to suggest that, to be effective, entrepreneurship support programs should be directed through the networks of those communities. This type of intervention strategy would require a partnership between the public authorities and each of the ethnic communities concerned to allow the development of trust-

based relationships and the adjustment and flexible application of existing programs rather than the development of new programs. This approach would also allow monitoring systems to be set up to ensure more effective resource allocation and periodic adjustments to provide better support for ethnic entrepreneurship and to take into account the logic patterns of the groups concerned, especially where they make a major contribution to the business dynamics of their host society.

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## Endnotes

1. Both immigrant and nonimmigrant ethnic entrepreneurs are included in our study, and we caution that the terms immigrant and ethnic entrepreneur are not synonymous.
2. The three cities are the largest in Canada. The five communities were chosen so as to have big enough communities in all three cities. Because of historical and cultural factors, the ethnic makeup of Montreal and Vancouver are rather different, and important communities in one city are absent in the other. Most ethnic communities are well represented in Toronto. The five communities chosen were strong enough in all three cities.

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