

Understanding Asian-American businesses and their role in economic growth and development

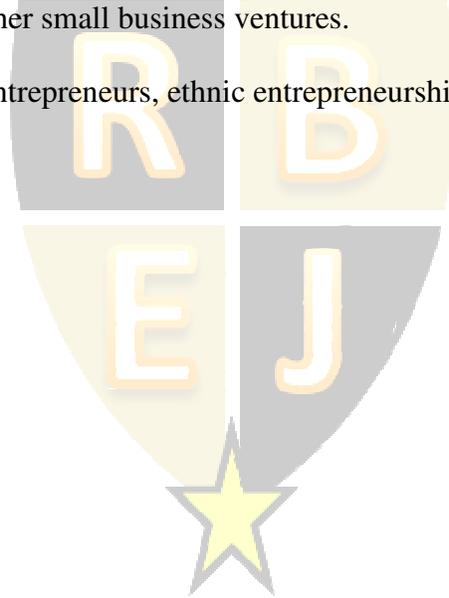
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ABSTRACT

Economic development often commences at the local level, particularly when new immigrants develop connections with family and friends from their former home country. Business development of this kind not only benefits local economies but also when exporting, improves our national balance of trade. This paper presents a small-scale study of Asian-American business owners with regard to financing their business venture and offers a prescription for other small business ventures.

Keywords: Asian-American, entrepreneurs, ethnic entrepreneurship, Asian-American business owners



INTRODUCTION

Asian-American entrepreneurs contribute significantly to small business development. In fact, according to the Census Bureau Survey of Business Owners, Asian-American business ownership increased 40.7 percent during the 2002-2007 time period (Survey of Business Owners, 2007). The Survey of Business Owners defines Asian-American businesses as those owned by Asian Indians, Chinese, Filipinos, Japanese, Koreans, Vietnamese and other Asians. These businesses total more than 1.6 million and account for 5.7 percent of all non-farm businesses in the United States (Survey of Business Owners, 2007).

The rapid growth in Asian-American businesses is not a new phenomenon. Waldinger et al. (1990), along with a number of other researchers, began to document the rapid rise of ethnic businesses as early as the 1970's. Valdez (2002) noted certain ethnic minority groups characterized as "entrepreneurial", such as Cubans and Koreans due to their high rates of business ownership. In addition, Valdez (2002) noted some ethnic groups, such as Mexicans with significantly lower levels of business ownership. Entrepreneurship can be considered especially important in ethnic communities as business ownership can often result in upward social mobility (Waldinger et al., 1990). Differences in educational levels could possibly account for significantly different levels of business ownership among ethnic immigrants.

For the purpose of this study, the authors interchangeably use Asian and Asian-American, Vietnamese and Vietnamese-American. However, the authors do not distinguish between native born and American born Asian (Asian-American) or Vietnamese (Vietnamese-American) entrepreneurs.

DEFINITION OF TERMS

For the purposes of this paper, the following definitions will be used:

Asian-American: Asian-Indians, Chinese, Filipinos, Japanese, Koreans, Vietnamese and other Asians which also include Pacific Islanders (Survey of Business Owners, 2007).

Ethnic banking: Ethnic banking refers to immigrant entrepreneur's use of home country banks, located either in their home country or their respective branches here in the USA as well as ethnic groups' involvement and how they manage their relationships with banks, whether as individuals, families or small businesses (Shanmuganthaan P., Stone M. & Foss, B., 2004).

Ethnic entrepreneurship: Ethnic entrepreneurship can generally define as business-ownership by immigrant and ethnic-group members (Waldinger et al. 1990). Others, such as Valdez (2002) consider ethnic entrepreneurship limited to certain ethnic groups with higher rates of business ownership than the general population.

Rotating Credit Associations: Rotating Credit Associations or ROSCAs are a popular form of informal microfinance and can be found in many countries around the world. ROSCAs provide the possibility of gaining access to the full amount of money before the individual has saved up that full amount (i.e. it sometimes acts as a form of credit, without interest charges). (http://www.appropedia.org/Rotating_Savings_and_Credit_Association).

LITERATURE REVIEW

Despite the categorization as Asian-American entrepreneurs, the diversity of countries and ethnic groups under the Asian-American umbrella, each of these nation groups' business

behavior differs in a number of ways. For example, Kushnirovich and Heilbrunn (2008) found Koreans and Japanese most important source of financing revenue as personal savings. On the other hand, the preferred funding source for Taiwanese entrepreneurs tends to be family loans. Kushnirovich and Heilbrunn (2008) further note immigrant entrepreneurs might not borrow from a bank or other commercial lender. Several reasons account for this. Rowley (2004) and Toussaint-Comeau (2005) point to a lack of access to lenders among new immigrant entrepreneurs, while Tseng (1997) reported limited credit history and Collins (2003) indicated issues relating to bureaucratic legislation and financial institutions. Ethnic entrepreneurs usually exhibit dependency on their ethnic group not only for their customer base, but also for a labor supply and sources of financing. A common practice among ethnic entrepreneurs can be found in Rotating Credit Associations (ROSCAs).

ROSCAs allow ethnic entrepreneurs the opportunity to secure financing for starting a business without having to secure loans from a bank or other traditional lender. ROSCAs often provide a good alternative for immigrants who otherwise might not qualify for a business loan due to lack of collateral, business experience or even language skills. ROSCAs can be found around the world, especially within ethnic communities (Besley et al., 1993). Grossman (cited in Besley et al., 1993) also finds that many savings and loan institutions in the United States started as ROSCAs.

Asian-American business owners often form business groups such as the Vietnamese-American Business Association in New York City which helps provide networking opportunities in addition to a high profile for the Asian-American business community. In addition to business networking, these business associations often develop trade shows and trade missions to promote ethnic community ties with the home country as well as other businesses in the host country. Watanabe (2009) reports an interview with a Vietnamese business owner: In response to a question about why he didn't borrow, the business owner said: "There are two reasons for not borrowing. First, it is difficult to borrow. Second, Asians don't want to borrow. You borrow only to buy heavy and expensive equipment like trucks[,] etc." If this response could be considered typical, the aversion to borrowing money could account for the lack of business expansion among Asian-American businesses.

New immigrants to a country often face a number of hurdles, including lack of education, business connections and language skills. Often, new immigrants locate within their own ethnic communities where these barriers tend to be less important. Because of the barriers they face, education and language in particular, new immigrants will often turn to self-employment. The Survey of Business Owners reports that nearly 75% of all Asian-American businesses are non-employer firms.

Immigrant entrepreneurship sometimes referred to in the literature as ethnic entrepreneurship, can be considered as people with common national backgrounds (Waldinger et al, 1990). Ethnic entrepreneurs typically develop to serve the needs of their ethnic neighborhoods, although some businesses, such as restaurants might serve a much broader consumer market. Other ethnic entrepreneurs seek to develop connections between their new host country and their former home country. These businesses generally engage in various forms of import and export of merchandise.

Although the majority of these firms are very small, financing these ventures might still be a hurdle as many new immigrants arrive with little or no financial resources. Financing options, whether debt or equity, may be obtained from a variety of sources including whatever personal savings the new arrivals might have brought from their home country, loans from

family and friends, rotating credit associations and loans from conventional banks and other lenders.

Many immigrant entrepreneurs rely on their ties to the ethnic community, which often becomes vital to success in the new host country. Many ethnic groups converge on certain cities or neighborhoods where they can bond with fellow former countrymen and purchase food and other products from their former homeland. Evidence of this can be found in the concentration of Asian-American entrepreneurs in states such as California, New York and Texas reported in the Survey of Business Owners. Immigrant entrepreneurs who tend to bond with their ethnic community could be more likely to seek business loans from ethnic financial sources. These sources might include loans from family or friends, loans from rotating credit associations or loans from home country banks with host country branches.

While some Asian-American businesses cater mostly to their own ethnic group, many cater to both their ethnic neighborhood group and the community at large. A key hurdle to making this economic hurdle can be the ability to recruit bilingual employees. This can sometimes present more of a problem than securing financing.

Despite smaller numbers of Vietnamese business owners compared to Chinese and Koreans and generally lower levels of education, Vietnamese business owners often make a significant impact on their local business community. Watanabe (2009) points to the Fields Corner section of Boston which underwent a significant economic rebound resulting from an influx of Vietnamese entrepreneurs. Watanabe (2009) reports more than half of the businesses in that section of Boston as Vietnamese-owned with approximately one-third of those businesses in retail trade (mostly food-related). Watanabe (2009) further reports more than half of all businesses in that area as service-related including medical doctors, lawyers, architects, along with automotive and personal care services. An additional ten percent of area businesses include insurance, financial and real estate services.

Table 1
Sources of Immigrant Loan Funding

Equity	Personal savings: Money brought from home country Money saved in host country
Debt	Family Friends Rotating credit associations Government financial support Bank loans: Non-ethnic commercial banking Ethnic banking Credit company Trade credit (business associates) From ethnic suppliers From non-ethnic suppliers Miscellaneous sources

Source: Kushnirovich et al., 2008

Differences among Asian-American Business Owners

In an earlier study (Bates, 1994) found Vietnamese business owners differ significantly from Chinese, Korean or Asian Indian. For example, only 23.7 percent of Vietnamese business owners reported graduating from college compared to 82.8 percent of Chinese business owners (Bates, 1994). Unlike the Vietnamese, Chinese business owners are likely college educated and possess white-collar work experience. Vietnamese businesses also report the lowest average sales of Asian-American business owners: \$96,345 compared to \$167,204 for Chinese business owners (Bates, 1994). In addition, Vietnamese business owners ranked last in sustaining their business (Bates, 1994).

More recent data indicates Asian-American businesses as a whole fair much better with regard to business receipts and providing employment.

Table 2
Small Business Data by Race, 2007

Race	No. of Businesses	2002-2007 increase	Total employment	Total receipts	Percent of all Businesses
White	22.6 million	13.6 percent	44.8 percent	34.0 percent	83.4 percent
Black	1.9 million	60.5 percent	0.8 percent	0.5 percent	7.1 percent
Hispanic	2.3 million	43.7 percent	1.6 percent	1.1 percent	8.3 percent
Am. Indian	237 thousand	17.9 percent	0.2 percent	0.1 percent	0.9 percent
Asian	1.6 million	40.7 percent	2.4 percent	1.7 percent	5.7 percent

Source: U.S. Census Bureau, 2007 Survey of Business Owners

METHODOLOGY

The researchers conducted a survey of business owners associated with the Vietnamese American Chamber of Commerce of Houston during the time frame of December 2009 through February 2010. The researchers selected the Vietnamese American Chamber of Commerce in order to reach a predominately Asian/American business population, specifically, Vietnamese-American business owners. Houston could be considered a key location for studying Asian-American businesses due to the size of the Asian-American population and the many established businesses in the greater Houston area. Houston might also be considered unusual as there are not one, but two Chinatown sections in the city. According to Wikipedia, the third largest Vietnamese population in the United States can be found in Houston, numbering 30,000 in 2007 and with a “Little Saigon” section in midtown as well as a business section in the southwest part of the city ([http://en.wikipedia.org/wiki/Houston, Texas](http://en.wikipedia.org/wiki/Houston,_Texas)).

Vietnamese-American business owners are often under-represented in business studies. This could be due to the fact that Vietnamese-American business owners represent a much smaller segment of the Asian-American demographic category and do not dominate certain characteristics such as education level or size of business.

The focus of the survey was to learn whether Vietnamese-American business owners sought financing and, if so, the size and source of their business financing. In addition, the researchers sought to identify businesses that did not receive financing and to correlate that information with the firm demographics. Further, results of this study could assist the Chamber in expanding membership and developing new programs.

The researchers developed a questionnaire which included questions on business financing along with additional questions on business demographics. Survey data was then collected at monthly meetings of the Vietnamese-American Chamber of Commerce in Houston, Texas. In addition, the researchers e-mailed Chamber members in an attempt to increase the response rate. Respondents completed 44 surveys of which 19 represent businesses with Asian-American owners, 11 owners identified themselves as white/Caucasian, and four as black/African-American (see Table 10).

Although it might seem surprising that so many of the survey respondents identified themselves as non-Asian, this could be explained by the growing number of non-Asians seeking bridges to new market opportunities abroad as well as the sizeable Asian-American population here in the United States. The Asian-American population in Texas and Houston in particular,

continues to grow and become an increasingly important part of the economy ([http://en.wikipedia.org/wiki/Houston, Texas](http://en.wikipedia.org/wiki/Houston,_Texas)).

RESULTS

Business Financing

Of the 44 surveys returned, 19 reported seeking financing for their businesses. Business owners primarily sought financing through traditional bank loans or a combination of bank loans, government sources and private individuals. Fifteen respondents requested financing between one and four times over the firm’s history, while four sought financing five or more times. More than half of the respondents (twenty-five) did not indicate outside financing for their business ventures. This could be due to self-financing or other sources.

Kushnirovich & Heilbrunn (2008) found that relatively few Asian-American entrepreneurs relied on bank loans to finance their business ventures. Only six percent of Taiwanese immigrants sought bank loans, compared to 24 percent for Japanese immigrants (Kushnirovich & Heilbrunn, 2008). These results also mirror reported data from the Survey of Business Owners which indicates Asian-Americans are less likely than their Caucasian counterparts to secure a bank loan (10.2% compared to 11.6%) and more likely to use personal savings (61.4% compared to 55.3%) (Survey of Business Owners, 2007).

Of the 19 businesses that requested financing, ten reported receiving full financing. Of the nine that did not receive the amount that they requested, six received some financing but less than they requested. The reasons given for failure to receive financing (multiple responses were recorded) included three due to insufficient revenues, three due to excessive current debt, two due to lack of credit history, and two due to insufficient documentation. Of the nineteen businesses who requested financing, eighteen did so for start-up or building expansion.

**Table 3
Success Rate in Finding Financing**

	Found Financing?	Received Less Than Requested	Received No Financing
Yes	10		
No	9	6	3
Total	19		

Form of Ownership

Survey responses indicate the majority of the businesses to be sole proprietorships and small in size. Of the total surveyed, nineteen represent sole proprietorships, thirteen of which with annual revenues of less than one million dollars. Three of the businesses represented partnerships, of which two report annual revenues of more than ten million dollars. Eighteen survey respondents indicated “corporation” as form of ownership, of which thirteen had less than five million dollars in revenues. Of those who own sole proprietorships, the majority (eleven) represent Asian-American ownership; four responses reported Caucasian ownership; and one

reported black or African American ownership. Partnerships were evenly split between Caucasian and Asian, and most corporations reported a principal owner that is either Asian or Caucasian.

**Table 4
Business Structure by Financing Sought**

Seeking Financing?	Sole Proprietorship	Partnership	Corporations	No Response	Totals
Yes	9	3	7	0	19
No	10	0	11	2	24
No Response				1	1
Totals	19	3	18	3	44

The responses regarding the number of employees contained two significant outliers. Employment in the 19 sole proprietorships totals 2,043. Of those employees, 30 are considered full-time, ten are contract, five are temporary or part-time, but 2000 responded other. The 2,000 figure appears confusing and could be actually be temporary or contract labor. Corporate respondents indicated 345 full-time employees, 67 considered to be contract labor, and 31 temporary or part-time employees. However, one corporation reported 32,000 employees with no breakdown provided. The total number of employees in the three partnerships was 900. Of those employees, survey respondents indicated 759 as temporary or part-time, 140 full-time, and one contract employee.

**Table 5
Employee Profile for Sole-Proprietorships and Corporations**

Business Structure	Full-Time	Temp/ Part-Time	Contract	Other	Total
Sole-Proprietorships	30	5	10	2,000	2,043
Corporations	345	31	67	32,000	32,413
	375	36	77	34,000	34,456

Most respondents indicated the major sector of economic activity of their firm as finance/ insurance, or real estate/brokerage/investment. Several others reported manufacturing, wholesale/retail trade, health/beauty, entertainment, or construction.

Owner Profile

The majority of business owners who sought financing for their business reported attaining an education level of a bachelor’s or master’s degree. In total, one survey respondent reported the equivalent of a doctorate, seven reported master’s degrees, five bachelor’s degrees, and three earned degrees from a technical or community college. This suggests a highly educated entrepreneurial group, similar to earlier findings of Chinese ethnic entrepreneurs.

Table 6
Reported Ethnicity and Education of Principal Owner

Reported Ethnicity	High School	Technical Degree/AA	BA/BS BBA	MA/MS	Ph.D. or Equiv.	No response	Total
White	0	3	3	2	2	1	11
Black	0	1	0	2	1	0	4
Asian	0	3	8	7	0	1	19
No response						10	10
Total	0	7	11	11	3	12	44

Of the 44 business owners surveyed, 27 responded male and eight responded female. The majority of the male business owners reported an earned master’s or bachelor’s degree. The majority of the women business owners reported an earned bachelor’s degree.

Table 7
Reported Gender and Education of Principal Owner

Reported Gender	High School	Tech. or AA	BA/BS	MA/MS	Ph.D. or Equiv.	No response	Total
Male	0	5	8	10	2	2	27
Female	0	2	4	1	1	0	8
No response						9	9
Totals	0	7	12	11	3	11	44

Almost half of the principal owners of a business who responded indicated their parents were not in business while 16 indicated one or both parents in business. Fifteen of the respondents reported neither parent as a businessman or a businesswoman, ten reported their father a businessman, three reported their mother a businesswoman and three reported both parents in business as business owners. These results suggest confirmation of earlier studies reporting entrepreneurs more likely to have entrepreneur parents.

CONCLUSION

This paper provides a snapshot view of Asian-American business financing. Several key findings can be gleaned from the results of the data. First, Asian-American business owners report higher levels of education than entrepreneurs in general. Second, it appears that many Asian-American businesses self-finance or rely on family and friends for financing their business venture. In addition, this study supports previous study findings that Asian-American businesses tend to be small in terms of employment. With few exceptions, many Asian-American businesses appear to center around family employment.

Some important implications can be drawn from this research. First, as noted in earlier research, ethnic businesses often become the path to upward social mobility. This suggests that business assistance efforts targeting new immigrants could speed adaptation to their new adopted

country. Second, while integrating into the new national environment could be considered positive and necessary, maintaining close ties with the ethnic community might be essential to business success. Finally, higher levels of education among Asian-American business owners could likely be a key factor in their high rates of business ventures. This study offers a small glimpse into the makeup of Asian-owned businesses and point to the need for future work to continue in this area.

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