



**Immigrant and Refugee
Small Business Development
In Iowa**

A Research Report with Recommendations

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Immigrant and Refugee Small Business Development In Northeast Iowa

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Executive Summary

Iowa has experienced rapid growth in immigrant and refugee populations since 1990. Most are Latino immigrants from Mexico and throughout the Western Hemisphere. Refugee groups arriving in Iowa came from the former Soviet Union and Yugoslavia. Other refugees from Africa and Southeast Asia also arrived.

Some of these newcomers started small businesses in their quest to become economically self-sufficient, serve the consumer needs of fellow newcomers, and integrate into community life. The purpose of this research was to determine the size and nature of the businesses owned and operated by immigrant and refugee newcomers. The research area incorporated 17 counties in Northeast Iowa, including several counties that experienced rapid growth in newcomer populations between 1990 and 2000. Data collection took place between December 2003 and July 2004. Funding for this research was provided by the Small Business Administration, United States Department of Commerce.

Principal Findings:

- 109 businesses owned by immigrants or refugees were counted in NE Iowa
- Most businesses were started with personal funds; very few relied on bank loans
- These businesses provide work for more than 300 full- and part-time employees
- Estimated total annual sales of all businesses identified is \$13.08 million
- The estimated combined annual payroll of these businesses is approximately \$4.5 million

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Part I: Introduction, Previous Research and Literature Review

Introduction

In 2003, the University of Northern Iowa (UNI) New Iowans Program (NIP) received a grant from the Small Business Administration, United States Department of Commerce. Working with the UNI Small Business Development Center (SBDC), NIP proposed a dynamic two-year project to research and promote the unique entrepreneurial and self-employment spirit brought by immigrants and refugees to Northeast Iowa. During the first year of this two-year project, New Iowans staff researched the extent of newcomer entrepreneurial activities in a 17 county area of Northeast Iowa. Based on this research, New Iowans staff will recommend activities to further encourage immigrant and refugee entrepreneurship and determine ways to integrate these small businesses into existing rural economic development projects and strategies. The ultimate goal of this project is to provide access to information and resources so that immigrants and refugees can work toward self-sufficiency and achieve full participation in community life.

This report provides the results of our research on the size, nature, customer base, and economic impact of immigrant small business development in Northeast Iowa. Additional data from two other, but much smaller studies of immigrants businesses in Iowa will also be used. With the conclusion of these findings, we will make recommendations to the UNI SBDC staff and other state, federal and private-sector agencies to encourage sustainable small-scale economic development activities by immigrants and refugees. SBDC will promote their integration into rural economic development projects in four NE Iowa counties: Marshall, Tama, Allamakee, and Black Hawk.

Demographic Background

In the early part of the 21st century, immigration has again become critical to Iowa's social and economic health. Between 1990 and 2000, immigrants made up two-thirds of Iowa's population growth. During this decade, Iowa's Hispanic population—spurred mostly by an influx of Mexican immigrants—grew by 153% to 82,472 making them Iowa's largest minority. Seven Iowa counties experienced ten-fold increases in their Latino populations, including two in this study area (Marshall with 1,107% growth and Allamakee with 1,138% growth). Several towns in the proposed study area also experienced rapid growth in Latino populations. For example, Marshalltown's Latino/Hispanic population grew from 248 in 1990 to 3,265 in 2000. The Latino population in Postville grew from 1 in 1990 to 469 in 2000. Smaller influxes of African and Balkan refugees and immigrants from Asia, South America and Eastern Europe also arrived. These newcomers revitalized many Iowa communities. They brought population to shrinking communities, schools and churches. They brought labor to employers desperate for workers. They opened businesses, bought homes, and became active in community organizations. Population, economic, and workforce trends indicate that immigrants will continue to come to Iowa and their importance to the state's social and economic health will grow.

Research and Demonstration Areas

Table 1 shows the 17 counties included in the research phase of this project with their 2000 total populations and 1990-2000 Foreign-born and Latino populations.

Table 1: Growth in Foreign-Born and Latino Populations in NE Iowa Counties

County	2000 Population	1990 Total	2000 Total	1990 Latino	2000 Latino
		Foreign Born	Foreign Born		
Allamakee County, Iowa	14,675	34	812	18	520
Black Hawk County, Iowa	128,012	1635	4,779	815	2,359
Bremer County, Iowa	23,325	242	289	91	130
Buchanan County, Iowa	21,093	58	194	86	131
Butler County, Iowa	15,305	132	131	14	89
Chickasaw County, Iowa	13,095	48	119	36	82
Clayton County, Iowa	18,678	113	218	49	142
Delaware County, Iowa	18,404	96	105	81	121
Fayette County, Iowa	22,008	111	235	184	330
Floyd County, Iowa	16,900	96	194	108	222
Grundy County, Iowa	12,369	92	95	30	72
Hardin County, Iowa	18,822	143	323	104	455
Howard County, Iowa	9,932	50	36	21	55
Marshall County, Iowa	39,311	461	2,595	313	3,523
Mitchell County, Iowa	10,874	81	59	56	63
Tama County, Iowa	18,103	191	361	78	679
Winneshiek County, Iowa	<u>21,310</u>	<u>97</u>	<u>447</u>	<u>47</u>	<u>170</u>
Totals	422,216	3,680	10,992	2,131	9,143

One metropolitan statistical area—Waterloo/Cedar Falls—is included in the research phase of the project.

The research counties were chosen for three primary reasons:

1. The region has experienced rapid growth in Latino and other immigrant and refugee populations;
2. The region has experienced rapid growth in the size of formal (“store front”) sector economic activity by immigrants and refugees; and
3. The region has community and economic development leaders who have an interest in a deeper understanding of newcomer economic growth in their communities and effective ways to encourage continued growth of these economic activities and their integration

with established businesses, economic development strategies, and chambers of commerce.

Some of the counties also have established chambers of commerce and economic development agencies that have recognized the growing and vital part immigrant entrepreneurship plays in the future of their local economies. These agencies have taken an active interest in this research to learn more about the size, nature, and economic impact of immigrant business and how these newcomer businesses can be integrated into the communities' economic development strategies. For example, in Marshall County, these agencies include the Marshalltown Chamber of Commerce and Marshalltown Economic Development Impact Committee. In Tama County, there is the Tama County Economic Development Commission. Upper Explorerland Regional Planning Commission and Allamakee County Economic Development Commission drive economic development in Allamakee County. And in Black Hawk County, agencies particularly interested in immigrant business development are Main Street Waterloo, Cedar Falls Community Main Street, the UNI Regional Business Center, and Greater Cedar Valley Alliance. These agencies were valuable sources of data and guidance through the research phase of this project.

Previous Surveys and Studies

An examination of the literature on immigrant entrepreneurship shows that there have been numerous research projects that included case studies, surveys or profiles of immigrant entrepreneurs. Since the geographic area of this research project consists of a region that is largely rural, a considerable effort was undertaken to identify previous research and surveys that focused on immigrant entrepreneurs in rural communities. Unfortunately, little information was

located. The majority of the surveys or case studies completed were set in large urban areas such as Los Angeles, New York or Chicago. In addition, most of these surveys targeted entrepreneurs in one or two specific immigrant groups or were case studies that profiled specific ethnic groups, such as Korean immigrants or Mexican immigrants. What follows is a sampling of three studies that had a research focus on specific immigrant groups in metropolitan areas.

In addition, we benefit from the 11 years experience of the Institute for Social and Economic Development (ISED) program to promote microenterprise development among refugee newcomers in 24 states, including Iowa. ISED Solutions contracted with the Office of Refugee Resettlement of the U.S. Department of Health and Human Services to assist refugee entrepreneurs in an effort to encourage their economic independence. Their experience was limited to refugees, but it is instructive and will be reviewed below.

Chicago's Little Village

Raijman and Tienda conducted research on Mexican immigrant entrepreneurs in Chicago's Little Village, which is one of the largest Mexican communities in the Midwest.² Much of their findings were based on two surveys conducted in 1994 in the Little Village. One survey focused on Little Village residents who were involved in informal self-employment activities.³ The other survey focused on businesses in Little Village, which included business owners from various immigrant groups and native Anglo business owners.⁴

The survey of Hispanic individuals showed that most respondents were involved in self-employment activities either done at home, such as childcare, on the streets as a vendor, or as a

² See Raijman, Rebeca (2001). "Mexican immigrants and informal self-employment in Chicago." *Human Organization*, 60,1: 47-55. Tienda, Marta and Rebeca Raijman (2004). "Promoting Hispanic Immigrant Entrepreneurship in Chicago." *Journal of Development Entrepreneurship*, 9, 1: 1-21.

³ Raijman (2001)

⁴ Tienda & Raijman (2004)

home-based business such as construction.⁵ Out of the survey results Raijman concludes that entrepreneurship is more prevalent among the Mexican immigrants and is believed due to informal self-employment since many residents hold a wage-earning job as well as have a side business. The income generated through wages is insufficient so the side business is necessary for economic reason. The entrepreneurs' businesses primarily only serve their fellow Mexican immigrants in Little Village. Raijman points out that the informal self-employment could be a fertile ground for fostering formal business ownership for many of these entrepreneurs.⁶

The Little Village Business survey sample included a range of business types with the majority being retail and service establishments such as restaurants, bars and hair salons. Two-thirds of the business owners were Mexican immigrants.⁷ Tienda and Raijman found that most Hispanic entrepreneurs began their businesses informally and then eventually moved to a formal business setting. Therefore they recommend that public policies and strategies should be developed which help to identify and assist the entrepreneur move or grow ones business from informal to a formal state. They also found that there was significant churning among the immigrant businesses due to economic volatility. Efforts to assist Hispanic businesses gain stability and grow would be beneficial, including preference minority contracting by government agencies and offering training to immigrant business owners.⁸

Tienda and Raijman also concluded that steps should be taken in the Little Village community by the City of Chicago to assist in provision of capital to startup of immigrant-owned businesses. Also, since immigrant businesses typically do business with customers and businesses that are part of the immigrant community, it made sense to undertake efforts to

⁵ Raijman (2001) p. 51-52.

⁶ Ibid, 53-54

⁷ Tienda & Raijman (2004) p. 8.

⁸ Ibid, 17-18

enhance the networking among Hispanic entrepreneurs which could lead to increased business activity. Lastly, the survey findings showed that the immigrant business owners had little or no knowledge of the programs available to assist them. Therefore, Tienda and Raijman suggest that more proactive efforts should be undertaken by the City of Chicago and others to cultivate relationships with the immigrant business community.⁹

New York City's Chinatown

In their research on ethnic enclaves as a source for immigrant entrepreneurship, New York City's Chinatown is spotlighted by Min Zhou and John Logan.¹⁰ In 1998, the population of the ethnic Chinese in New York City was nearly half a million individuals.¹¹ Zhou profiled the historical development of the City's Chinatown in Lower East Manhattan and a satellite Chinatown in Flushing with a particular focus on the fact that Chinese immigrants traditionally have concentrated in ethnic communities and continue to prefer to concentrate immigrant enclaves.¹²

Unlike the survey research in Chicago's Little Village, Logan and Zhou collected little or no information on individual immigrant entrepreneurs and their specific businesses such as how and when the formal business was created or the sources of start-up capital. Zhou and Logan used secondary sources such as Census data, and Chinese business directories and telephone books to construct a profile of the Chinese-owned businesses in the region. Zhou highlights

⁹ Ibid 18-19.

¹⁰ See Zhou, Min. (2004) "The Role of the Enclave Economy in Immigrant Adaptation and Community Building: The Case of New York's Chinatown". In John Sibley Butler and George Kozmetsky (eds) *Immigrant and Minority Entrepreneurship: The Continuous Rebirth of American Communities*, 37-60. Westport, CT: Praeger and Zhou, Min and John R. Logan (1989) "Returns of Human Capital in Ethnic Enclaves: New York City's Chinatown", *American Sociological Review*, 54, 5: 809-820. Ethnic enclaves as a theory for immigrant entrepreneurship is discussed later in this report.

¹¹ Zhou (2004) p 45.

¹² Ibid, p 43-49.

aspects of entrepreneurship in Chinatown with a focus on the goods and services provided to the immigrant community, sources of start-up capital for Chinese entrepreneurs, and the typical labor force employed by Chinese businesses.¹³

Zhou and Logan's research targeted the role of the enclave economy and theoretical frameworks related to labor markets in ethnic enclaves. Therefore their findings did not set forth policy recommendations like Tienda and Raijman. However, Zhou did provide a very useful examination of reasons for immigrants to seek self-employment and the economic importance of immigrant entrepreneurs to their ethnic community.

Koreans and Iranians in Los Angeles

Korean and Iranian entrepreneurs in the Los Angeles metropolitan area were profiled by Min and Bozorgmehr as they researched the connection between ethnic businesses and ethnic group solidarity and whether ethnic or class resources were more important to the establishment of immigrant businesses.¹⁴ Min and Bozorgmehr traced the immigration history of Koreans and Iranians in the U.S. and in the Los Angeles region, which has only been significant since the late 1960s. In their research they utilized several data sources which included a 1986 survey of Korean immigrants in Los Angeles and Orange Counties and a 1987-88 survey of Iranian immigrants in Los Angeles County, as well as subsequent field research in the Korean and Iranian communities in Los Angeles. In 1990, the Los Angeles MSA had over 194,000 Korean residents and just over 100,000 Iranian residents.¹⁵

¹³ Zhou (2004), p 49-54

¹⁴ Min, Pyong Gap and Mehdi Bozorgmehr (2000). "Immigrant Entrepreneurship and Business Patterns: A Comparison of Korean and Iranians in Los Angeles." *International Migration Review*, 34, 3: 707-738.

¹⁵ Ibid, p 717.

In their research, Min and Bozorgmehr found several distinct differences between Korean and Iranian businesses. In Los Angeles, the majority of Korean-owned businesses were geographically concentrated in an area near downtown Los Angeles known as “Koreatown,” which was negatively impacted by 1992 Los Angeles riots. Conversely, Iranian-owned businesses are dispersed throughout Los Angeles. They also found that Iranian entrepreneurs were more likely to own professional and capital-intensive businesses such as medical firms, real estate firms and garment manufacturing firms while Korean entrepreneurs were more likely to own labor-intensive businesses such as grocery stores, dry cleaners or restaurants.¹⁶

Due to the business type and the geographic location, Min and Bozorgmehr found that the majority of the customers for Korean-owned businesses were either from their own ethnic group or from other minority and immigrant groups such as African Americans or Hispanics. The Iranian businesses were more likely to have Anglos as the majority of their customer-base.¹⁷ Through their research Min and Bozorgmehr concluded that Korean immigrants choose self-employment primarily because they had few employment or career options, whereas Iranian immigrants choose self-employment because of their desire and advantages of being an entrepreneur.¹⁸

The ISED Solutions Experience

Between 1991 and 2001, the U.S. Office of Refugee Resettlement awarded nearly \$20 million to organizations in 24 states to promote microenterprise development among refugees from Southeast Asia, Africa, the former Yugoslavia and elsewhere. The Iowa ISED office in Coralville, Iowa received ORR funds for this project. A total of 8,799 refugees were served over

¹⁶ Ibid, p 724

¹⁷ Ibid, p 724-726

¹⁸ Ibid, p 724

the 11 year period. Of those served, 21% (1,863) started, expanded, or strengthened businesses. Seventy-three percent of these were startups. As of the end of the project, 89% of these businesses were still in operation.¹⁹

Particularly instructive in the ISED Solutions experience is a review of their early assumptions about microenterprise development. What follows is a list of the four assumptions held by ISED personnel when the program was designed about 13 years ago and the lessons learned that led ISED to revisit and sometimes question these assumptions.

Assumption 1:

Shortage of capital is the primary barrier to self-employment for refugees.

Experience:

This assumption underestimated the capital resources available to refugees. Fifty percent of the business startup and expansion during the first five years of the program began without the use of funds from microenterprise organizations or commercial credit outlets. Refugees generally had sufficient savings themselves and they could access funds from family and friends. These refugees were also able to access funds through traditional, informal lending networks transferred to the United States, particularly from Southeast Asia.

However, this situation changed over the years with the arrival of refugees from other parts of the world. In general, these refugees had fewer financial assets. They had little or no savings and may have been from areas where traditional informal mechanisms did not exist. The Somalis, for example, were used to working and living in trade economies quite different from the formal

¹⁹ John Else, Daniel Kortz, and Lisa Budzilowicz (2003). *Refugee Microenterprise Development: Achievements and Lessons Learned*, Second Edition. ISED Solutions.

business models of the United States. For many of these refugees, access to capital was a critical issue and access to formal sector lending mechanisms was critical.²⁰

Assumption 2:

Peer lending models common in developing countries would work in the United States.

Experience:

Many refugees arrived from countries where informal, peer-lending programs often funded microenterprise startups and expansions. The success of these models in many developing countries has been well documented.²¹ It was assumed that these models would be effective among refugees in the United States.

However, peer-lending strategies were so ineffective that they “entirely disappeared from ORR’s grantee network.” In developing nations, peer-lending is based on close personal and communal ties that were not replicated in the urban, highly mobile United States. The bonds of mutual obligation necessary to create peer-lending networks do not work when refugees are spread out widely across urban environments or the country. As one ISED leader said, “Peer-lending is just peer pressure. It doesn’t work in a society as urban and mobile as ours.”²²

Assumption 3:

Experienced small business organizations would operate more effective refugee microenterprise programs than social and employment service agencies.

²⁰ Ibid, p. 5-6.

²¹ Else, Krotz, and Budzilowicz (2003) cite the Grammen Bank in Bangladesh, “where groups of borrowers make lending decisions and mutual commitments for repayment of very small initial loans.” p. 6.

²² Ibid., p. 6

Experience:

An assumption was made that small business development organizations with track records of success with American populations would have an advantage over social or employment service agencies in refugee microenterprise projects. This assumption held that established small business centers needed only minor adaptations to create effective programs for refugees. Social and employment service agencies, on the other hand, would be less effective because they lacked business development expertise.

However, the ISED experience showed that refugee social and employment services did a “much better job” than expected. In terms of business startups, expansions and loan repayments, the social and employment services often exceeded the outcomes of traditional microenterprise programs. “The most successful organizations are those that synthesize cultural and business competence” which was more common among the refugee service agencies.²³

Assumption 4:

Refugees with experience owning and operating businesses in their home countries would translate into an entrepreneurial aptitude and readiness to open success businesses in the United States.

Experience:

Even among refugees who came to the United States with business experience in their home countries, most agencies underestimated the training and technical assistance needed to prepare newcomers for the very different and complex business environment in the United States. This was often compounded by the difficult adjustment refugees had to recent disruptions in their

²³ Ibid. P.7.

lives, leaving the home countries, and adjusting to the new language, cultural, and social environment of the United States.

The other problem with this assumption was that agencies would have to market their services and recruit less among experienced business owners. This proved not to be the case. “In fact, marketing and recruitment became, and are today, critical to program success.”²⁴

Theoretical Explanations for Immigrant Entrepreneurship

In the research field of immigrant and ethnic entrepreneurship there have been a variety of theories or explanations for rates of entrepreneurialism among immigrants. Three of the more common theories that will be reviewed in this section are the middleman minority theory, the ethnic enclave economies theory and the ethnic market niche theory. The premise of the middleman minority theory is that immigrant entrepreneurs are drawn to certain types of business sectors in order to earn money quickly. The ethnic market niche theory is framed around the notion that immigrants find business start-up opportunities in market niches created by the interaction between opportunities in society and the characteristics of the immigrant group. The ethnic enclave economies theory is built upon the point of view that immigrant entrepreneurs typically find business start-up opportunities within immigrant communities and neglected business sectors in the broader economy. Each of these theories has unique features, however they all focus to some extent on the interaction between the immigrant group and the broader host society.²⁵ What follows is an in depth look at each of these theories.

²⁴ Ibid, p.7.

²⁵ See Bonacich, Edna (1973). “A Theory of Middleman Minorities”, *American Sociological Review*, 38 (October): 583-594; Zhou, Min. (2004) “The Role of the Enclave Economy in Immigrant Adaptation and Community

The Middleman Minority Theory

The middleman minority theory has been discussed in the field of immigrant entrepreneurship for several decades. Edna Bonacich in the immigration studies field has been one of the major proponents of the middleman minority explanation.²⁶ In the middleman minority theory the immigrant group serves as a middle or trading economic role between an economic elite and a lower income group. The middleman role may be between a producer and consumer, such as a grocery or other retail store, or between property owner and renter, such as a building manager.

The middleman minority theory makes an assumption that many immigrants start out as sojourners in a host country and that their stay is only temporary since they plan on returning to their home country. The immigrant's main goal in the country is to make money quickly to either send back home to their families or to take back with them when they return home. Therefore, immigrants who are sojourners are inclined to seek self-employment in industries where start-up costs are relatively low, where competition is minimal, where capital can be raised quickly and assets can be easily liquidated and turned into cash.²⁷ The desire of some immigrants to raise money and then return to one's home country pushes immigrant business owners to self-exploit themselves and their families by working long-hours for low or no wages in order to accumulate capital.

In addition to the sojourning orientation of immigrants, the middleman minority status arises due to the solidarity among immigrant groups and hostility toward immigrant groups in the

Building: The Case of New York's Chinatown". In John Sibley Butler and George Kozmetsky (editors) *Immigrant and Minority Entrepreneurship: The Continuous Rebirth of American Communities*, 37-60. Westport, CT: Praeger; and Waldinger, Roger, et al. "Ethnic Entrepreneurs." In Richard Swedberg (editor) *Entrepreneurship: The Social View*, 356-388. Oxford: Oxford University Press.

²⁶ Bonacich (1973)

²⁷ See Bonacich (1973) and Zhou (2004)

host society. The desire to make money quickly and the conditions that arise can be viewed as causes for the rise of other situations. Bonacich points out that since the immigrant who is a sojourner plans to return to his or her home country, they have little or no reason to set roots in a community and to develop relationships with others within the community except for economic reasons.²⁸ The immigrant's focus is often viewed by local citizens as simply removing money from the community.

Therefore, the immigrant entrepreneurs often tend to distance themselves from their customers and the broader community in which they are living and running a business. In many cases this is due to a language barrier between the business owner and the customer. Yet, many immigrant entrepreneurs retain a strong sense of cultural identity. Bonacich says that middleman minorities have traits such as residing in ethnic neighborhoods, the establishment of language and cultural schools, the maintaining of their groups cultural and religious traits, and the tendency to avoid active involvement in politics except when they are directly impacted.²⁹ All of these are factors that leave to isolation from the broader host society.

As already mentioned, immigrant entrepreneurs commonly have family members, or other co-ethnics, work in the business. These employees are often paid little or no wages since the goal of the business and family is to accumulate money. The low labor costs allow immigrant businesses to be more competitive than non-immigrant businesses within their industries. The competition from the immigrant businesses can cause hostility from native business owners and workers who are negatively impacted. In addition, the prevalence of many immigrant businesses in a certain industry sector, such as groceries, within a community can lead

²⁸ Bonacich (1973) p. 586.

²⁹ Bonacich (1973) p. 586

to either a perceived or actual collusion among the immigrant businesses on prices and competition which can negatively impact lower income residents.³⁰

As immigrant entrepreneurs become successful, animosity and hostility often develop not only between the immigrant business owners and their competition but also between the owners and the broader community, particularly low-income customers who live in the neighborhoods where the immigrant businesses are located. The looting of Korean shops by African Americans during Los Angeles riots in 1992 is an example of hostility that bubbled over into significant negative impacts. Following the 1992 Los Angeles riots, 850 Korean-owned businesses closed at a cost of \$300 million.³¹

The marginal status of immigrants in the host society and the hostility towards immigrants by natives causes an intensification of solidarity within immigrant groups. Bonachich believes that these conditions reinforce and strengthen the reliance by immigrant entrepreneurs on their own immigrant community for labor, capital and other support.³² This reinforcing may cause a circular pattern and heighten the hostility.

The research on the middleman minority theory does provide a formative explanation for why some immigrants become entrepreneurs and the types of business sectors they enter. However, the sojourning scenario is not the case for many immigrants who come to a host country, begin to set roots and assimilate, but also open businesses. An implied assumption of the middleman theory is that these immigrants would participate in the economy through the traditional means of the labor market. The challenge of this assumption is one of the reasons why other theories have been developed.

³⁰ Bonacich (1973) and Zhou (2004)

³¹ Zhou (2004)

³² Bonacich (1973)

The Ethnic Market Niche Theory

The ethnic market niche theory is based on the idea that immigrant entrepreneurship is focused on market niches and therefore “ethnic strategies”. According to Aldrich and Waldinger, ethnic strategies emerge from the interaction between opportunity structures and ethnic immigrant characteristics.³³ They have formalized their theory into what they have called an “interactive model of ethnic business development.”³⁴ Within the ethnic market niche theory, immigrants become entrepreneurs in order to find alternatives to traditional employment options for immigrants in unattractive industries. The interaction of opportunity structures and ethnic group characteristics creates ethnic strategies that enable immigrant entrepreneurs’ niche business opportunities.

Opportunity structures are the opportunities in the economy of the host society that are present to immigrant entrepreneurs who include market conditions and access to ownership. These opportunities, particularly market conditions, are constantly changing as the economy changes. Market conditions consist of both ethnic consumer/ethnic niche markets and non-ethnic or open markets.³⁵ The ethnic consumer market is typically the initial market available to immigrant entrepreneurs. This type of market often arises when non-immigrant businesses are not able to meet consumer demands of an ethnic/immigrant group for products such as food or clothing, or services such as money wiring or when natives desire ethnic goods.³⁶ Ethnic markets are also labor-intensive, low-profit businesses that are not desirable business ventures for many but create business opportunities for immigrants, such as a laundry business. Finally, ethnic niche markets can have instability since consumer demands continually change so non-

³³ Aldrich, Howard and Roger Waldinger (1990) “Ethnicity and Entrepreneurship”. *American Review of Sociology*, p. 16, 111-135.

³⁴ Waldinger, et al. (2000)

³⁵ Zhou (2004)

³⁶ Zhou (2004 and Waldinger, et al. (2000)

immigrant, mainstream firms, choose not to enter the market. The ongoing style changes in the garment industry is an example.³⁷

Immigrant entrepreneurs often enter non-ethnic or open markets when conditions allow access. Conditions may be underserved or abandoned markets, markets with low economies of scale, instable markets or markets for the provision of ethnic goods. Underserved or abandoned markets can be either industry or geographically driven. Examples include immigrant entrepreneurs opening a grocery store in an urban area where large grocery chains choose not to have a presence. This market condition can also be viewed from the perspective of the middleman minority theory. Markets with low economies of scale typically have low entry costs to open up a business and involve working long hours. An immigrant owning and operating a taxicab is an example since the costs only include the vehicle, fuel, permits and the driver's time.³⁸ The construction industry is an example of an instable market where there are seasonal and yearly peaks and valleys in market demand. The market for the provision of ethnic goods may exist because the larger population in a host society demands ethnic good or services or that immigrant-owned businesses are able to differentiate themselves by being viewed as providing authentic goods or services.³⁹

The second prong of the opportunity structures, according to Aldrich and Waldinger, is the access to ownership opportunities for immigrants who are dependent on the supply of business vacancies and on government policies.⁴⁰ Business vacancies are created as existing native business owners relocate their businesses, close their businesses or sell their business to immigrants. The socio-economic shifts in neighborhoods and communities are often critical

³⁷ Waldinger, et al. (2000)

³⁸ Ibid, 363

³⁹ Waldinger, et al. (2000) and Zhou (2004)

⁴⁰ Aldrich and Waldinger (1990)

factors in creating opportunities for immigrant entrepreneurs. Urban areas around the U.S. have experienced this phenomenon as neighborhoods experience demographic shifts due to white flight or other factors. When a small business owner in these areas retires, the most likely buyer will be an immigrant. Or when a small business closes or move out of the neighborhood, another opportunity is created.⁴¹

Another scenario for the creation of business vacancies is when an immigrant group assimilates into the host country and the children of the first immigrant generation moves into the main stream economy and labor market since they have likely achieved a higher level of education than their parents and have more opportunities available.⁴² So the first generation immigrant business owners will often sell their businesses when they retire to newly arriving immigrants and refugees looking for economic opportunities.

The impact of government policies on immigrants can affect the opportunities available to immigrants to start a business or the types of businesses that may be started. Some nations require a person to be a resident in order to start a business and it may be extremely difficult, or take many years for an immigrant or refugee to obtain their citizenship. Within the U.S., state and local laws and ordinances also have an impact on business ordinances. Many communities have zoning and ordinances which prohibit certain types of businesses from operating or which dramatically increase the start-up costs for a business in order to comply with the local regulations.⁴³

Government policies do not always negatively impact the ability of an immigrant to start a business. Within the United States, the federal government, and many state and local governments, have programs and policies that promote small business development by females

⁴¹ Min and Bozorgmehr

⁴² Waldinger, et al. (2000)

⁴³ See Waldinger, et al. (2000) and Min and Bozorgmehr (2003)

and minorities. Loan programs through the Small Business Administration, government procurement programs that target minority vendors and anti-trust laws all directly or indirectly can assist immigrant entrepreneurs start and grow a business.⁴⁴

Group characteristics, the second element of interaction identified by Aldrich and Waldinger, which formulate ethnic strategies, encompass “predisposing factors” and “resource mobilization.”⁴⁵ They believe that some immigrants are predisposed toward entrepreneurship and that some immigrant groups are also able to draw on informal ethnic resources which provide them a competitive edge over non-immigrant business owners. Predisposing factors include blocked societal mobility that may be due to language barriers, discrimination or the lack of skills. Since an immigrant faces these barriers, as well as pure economic needs, they find self-employment a desirable path. Other predisposing factors identified include selective migration and settlement characteristics. Entrepreneurial opportunities arise because immigrants tend to locate in areas where they have family or cultural ties which will often times provide support networks and resources for immigrant entrepreneurs.⁴⁶

A final predisposing factor identified is the aspiration levels of immigrant entrepreneurs. The risk tolerance of many immigrants are typically higher than residents of the host society since they have already taken risks by leaving their homeland and coming to a new country. Therefore, many immigrants are more willing to take entrepreneurial risks in starting a business. In addition, entrepreneurship is viewed as a chance of getting ahead in the host society.⁴⁷

Coupled with the settlement characteristics of immigrants is resource mobilization. Across the research reviewed, and in the survey worked completed for this project, it is clear that

⁴⁴ Min and Bozorgmehr (2003).

⁴⁵ Waldinger, et al. (2000)

⁴⁶ Aldrich and Waldinger (1990)

⁴⁷ Waldinger, et al. (2000)

immigrants tend to rely on their family and friends and other connections within their immigrant community when settling into a new country and when starting up a business. Immigrant entrepreneurs access financial, social and human capital. Many entrepreneurs raise start up funds from family and friends or by participating in rotating credit associations.⁴⁸

Social capital includes family connects and “ethnic social networks” that enable an immigrant to learn about entrepreneurship, a specific industry or trade and the important details on how to start a business, such as local zoning regulation and business permit processes, real estate laws, and industry and market information.⁴⁹ The entrepreneur is able to use these connections to gain valuable information not only during the start-up phase of a business but also once operations are underway. Closely connected to social capital is the ability to access human capital. Immigrant entrepreneurs are able to find workers within their immigrant community, often at a lower cost. The immigrant community also benefits since more job opportunities are made available to members who may have difficulty in finding employment via the main stream labor market of the host society.

As mentioned previously in the discussion on access to ownership, government policies impact resource mobilization, at least in the U.S., when targeted assistance is provided to minority owned businesses including low interest loan programs, preferential contracting programs or technical assistance provided by the Small Business Administration or the federal Minority Business Development Agency.

Ultimately, Aldrich and Waldinger state that the type of business which an immigrant entrepreneur starts, how it is operated and its success is shaped by the opportunity structure of

⁴⁸ See Laguerr, Michel S. (1998) “Rotating Credit Associations and the Diasporic Economy”. *Journal of Developmental Entrepreneurship*, 3, 1, 23-34. Light, Ivan & Steven J. Gold (2000) *Ethnic Economies*. San Diego: Academic Press.

⁴⁹ Waldinger, et al (2000) pp 371-372

the community, region and country the immigrant is in and by the immigrant group's characteristics. The combination of these form the ethnic strategies built around the ethnic market niche opportunities within the host society.⁵⁰ An issue that has been raised about Aldrich and Waldinger's interactive model of ethnic business development is that they only focus on the positive aspects of capitalism in relation to immigrant entrepreneurs and do not address negative dimensions that impact immigrants.⁵¹ Another concern which can be raised with all of these theories is the level of self-exploitation and exploitation of coethnics involved with many types of immigrant businesses. Do the benefits outweigh the negative impacts on the immigrant entrepreneurs, their families and their broader ethnic group?

The Ethnic Enclave Economy Theory

The third theory or explanation for immigrant entrepreneurship is ethnic enclave economy theory. This theory comes from a labor market perspective in explaining why immigrants seek self-employment. Workers, whether immigrant or non-immigrant, encounter a two-tiered labor market. The first tier, the primary market, consists of jobs based on the worker's education, credentials and experiences. These jobs are often called primary wage jobs, and economic and career advancement in this primary market is based upon worker performance. This is the traditional mainstream labor market in the host society where the majority of native-born workers participate.⁵²

The second tier, or secondary market, is typically a low wage market with few opportunities for either economic or career advancement. Immigrants and minorities are often

⁵⁰ Ibid pp 383-384

⁵¹ Bonacich, Edna. (1993). "The Other Side of Ethnic Entrepreneurship: a dialogue with Waldinger, Aldrich, Ward and Associates." *International Migration Review*, 27. 3, pp 685-692.

⁵² Zhou (2004)

relegated to employment opportunities in the secondary market. Immigrants many times are willing to work in the secondary market because of their immigrant status, their lack of proficiency in the language of the host country or their lack of skills. Employment in the secondary market may also be the only option for immigrants due to societal discrimination and other employment barriers.

Since the secondary market offers limited economic opportunities for immigrants and the primary market is not accessible, immigrants establish an ethnic enclave that has an alternative economy and labor market.⁵³ An ethnic enclave is a geographic concentration of ethnic businesses providing a variety of economic activities. Businesses in the enclave serve the immigrant community within the enclave and the broader economy. Businesses that export goods or services outside the enclave often times are filling niches, as was discussed earlier with the ethnic market niche theory's opportunity structure.⁵⁴

Ethnic enclaves also include interdependent networks that involve both social and business relationships. This too is in a similar vein to what Aldrich and Waldinger describe as group characteristic factors with resource mobilization.⁵⁵ Immigrant entrepreneurs are readily able to access financial, social and human capital within the ethnic enclave. The enclave provides markets for purchasing or selling goods and services that are often not available for immigrant entrepreneurs in the broader economy of a host society. The enclave also provides a labor market of co-ethnics that immigrant businesses can tap, including family and friends.

⁵³ Zhou (2004) and Portes and Bach (1985) *Latin Journey: Cuban and Mexican Immigrants in the United States*. Berkeley: University of California Press

⁵⁴ See Zhou, Min & John R. Logan (1989). "Return on Human Capital in Ethnic Enclaves: New York's Chinatown." *American Sociological Review*, 54, 5, pp 809-820.

⁵⁵ See Waldinger, et al. (2000)

Zhou points out that the benefits of the ethnic enclave. Not only does it provide opportunities for immigrant entrepreneur, but also to the broader immigrant community since these newcomers are able to find employment options within the enclave and access goods and services which are not typically available in the main stream economy. The ethnic enclave often serves as a buffer for newly arrived immigrants as they orient themselves to a new country and a host society. Therefore, the ethnic enclave is more than just an alternative economy or labor-market. The ethnic enclave provides for economic and social advancement for immigrants and assists immigrants with integrating into broader society.⁵⁶

The ethnic enclave theory is based upon the geographic concentration of immigrants that is often not the case in communities where immigrant entrepreneurs reside. The ethnic enclave theory, as well as the ethnic market niche theory, tends to focus on a single immigrant group and does not delve into the dynamic of neighborhoods, communities or regions which have a diverse mix of immigrants. Ultimately, each of the three theories or explanations for immigrant entrepreneurship makes important contributions to the ongoing research discussion. None of the theories appear to consider immigrant entrepreneurship in rural and non-metro areas.

⁵⁶ Zhou (2004) and Portes & Bach (1985)

Part II: Research Results and Recommendations

Research Questions

Year 1 of this project emphasized research on immigrant business development in the 17 counties. In general terms, this research attempted to answer the following questions:

- How many formal-sector businesses have been started by recent immigrant and/or refugee newcomers? What is the size and nature of the customer base? What is their competition? What were the start-up costs and what was the source of start-up funds?
- What is the nature of these businesses? When did they start? What goods and services do they provide? Whom do they serve? What, if any, technical assistance did the businesses receive from economic development agencies or other organizations?
- What is the economic impact of these businesses in terms of revenue?
- What are the barriers to immigrant/refugee business startups? What factors play in the success or failure of these businesses? How were these businesses financed?
- How can mainstream chambers of commerce and economic development agencies assist immigrant/refugee businesses to begin and succeed? How are these types of agencies perceived by immigrant/refugee business owners? Can integration of immigrant businesses contribute to the stabilization of newcomer groups?
- Equally important were questions about the size and nature of *informal* economic activities among immigrants and refugees in these counties. By informal economic activity, we mean small businesses that work outside the mainstream; that work in the so-called “silent” or “gray” economy that is not taxed or regulated, yet provides much needed goods and services to newcomers and established residents alike. Generally, we believed the size and economic impact of these businesses (real and potential) has been

underestimated because they are not readily apparent to the general community, chambers of commerce, or economic developers who emphasize (and understand) formal sector business development. This reflects a general neglect of small business development among chambers and development agencies, particularly in small communities. Gaining an understanding of the size, economic impact and specific activities of the so-called “gray” economy among immigrant/refugee newcomers will help us understand the complete picture of their impact on the current and future economy of Iowa.

Research Methodology

This research including a comprehensive census of immigrant/refugee-owned formal sector businesses in the 17 study counties. The research interviews were conducted by Nora Rodriguez, researcher and translator with the New Iowans Program, who is fluent in spoken and written Spanish. Ms. Rodriguez was hired in October 2003.

An extensive interview protocol was developed for this research (see Appendix A). This research involved standard ethnographic field methods utilized by anthropologists and other social scientists. These methods included gaining entrée into the newcomer communities and households, developing a sense of rapport with newcomers, interviewing the subjects, and observing their economic activities. Sampling in these situations involved a snowball technique in which referrals from subjects led to growing numbers of participants and interviews and observations. The census of immigrant businesses was also helped by the inclusion of information provided by local chambers of commerce and economic development agencies.

Statistical and economic impact data from the survey and ethnographic interviews using SPSS was conducted by Andrew Conrad and Mark Grey. All three authors participated in reviewing the research results, writing this report, and making recommendations for future activities.

Research Findings: Number and Location of Immigrant-Owned Businesses

The census of businesses and interviews with business owners were conducted between December 16, 2003 and July 20, 2004. It is important to keep in mind that the following count of newcomer businesses represents a census of businesses during the seven-month research period only. This count of active businesses represents a point-in-time or “snapshot” perspective that does not include newcomer businesses that opened and closed before December 2003, of which there may have been several. This point-in-time perspective also includes business that opened during the research period and may have also closed during the research period or shortly thereafter. Indeed, among businesses interviewed in Waterloo, four closed before July 20, 2004. Three more closed very soon thereafter.

Among the 17 counties included in this survey, businesses owned and operated by immigrants or refugees were identified in seven counties. Throughout these seven counties, a total of 109 businesses were identified in eight different communities. Table 2 shows the seven counties, the eight host communities, and the number of newcomer businesses located in each community.

Table 2: Locations and Number of Newcomer Businesses

<u>County and Communities</u>	<u>Number of Newcomer Businesses</u>
Black Hawk	
Waterloo	42
Cedar Falls	1
Marshall	
Marshalltown	42
Allamakee	
Postville	10
Tama	
Tama/Toledo	6
Bremer	
Waverly	4
Franklin	
Hampton	3
Chickasaw	
New Hampton	1
Total	109

It is not surprising that the bulk of these operations are located in communities that have experienced recent influxes of immigrants and refugees. In Waterloo/Cedar Falls, Marshalltown, Postville, Tama, and Hampton, these influxes are closely tied to the employment of newcomers in meat processing or other agricultural industries.

Types of Businesses

There was great variety in the types of businesses owned and operated by newcomers. As this research shows, however, narrowing down the business activities of newcomer operations to a handful of business types proved difficult. Indeed, many newcomer businesses provide a number of goods and services. This is particularly the case among Latino-owned *tiendas*. These stores may offer any combination of groceries, video rentals, clothing, food service, money transfer services, etc. This table shows the broad categories of business types and the number of these businesses counted.

Table 3: Types of Newcomer Businesses

<u>Business Types</u>	<u>Number of Businesses</u>	<u>Percentage</u>
Restaurants	18	17
Retail (clothing, others)	11	10
Food Products (“groceries”)	10	9
Auto Repair and Towing	8	7
Bar	6	6
Restaurant and Food Products (“groceries”)	5	5
Bar and Restaurant	4	4
Restaurants, Caterers and Bakeries (home based)	4	4
Food Products (“groceries”) and Services*	4	4
Construction and Painting	4	4
Hair Stylists and Barbers	4	4
Retail and Services*	4	4
Hotel/Motel	3	3
Retail and Food Products	2	2
Food Products and Butcher	2	2
Food Products, Restaurant and Services*	1	1
Food Products and Bakery	1	1
<u>Other (bands, healers, Laundromat, etc.)</u>	<u>18</u>	<u>17</u>
Total	109	104%**

*e.g. money transfer, translation, tax preparation

** Total is more than 100% due to rounding.

This table clearly shows the diverse nature of immigrant businesses in Northeast Iowa. Although single-activity restaurants, retail and grocers top the list, these operations together only constitute one-third of the businesses counted. Worth noting is the number of businesses that are engaged in two or more business activities. Among the 109 businesses counted, 23 (21%) were involved in multiple business operations. Also included in this table are home-based businesses. Among the 109 business identified, at least 11 were based in homes. These businesses are particularly difficult to identify and count and it is probable that other, home-based businesses were not counted.

Research Participation Rates

Identifying newcomer businesses was the first phase of research. The second, and by far the most challenging and time consuming, was building the rapport necessary to actually conduct interviews. Among the 109 newcomer businesses identified, in-depth interviews were conducted with 51 business owners. Immigrant and refugee newcomers are notoriously reluctant to provide interviews to researchers. Many of their reasons for declining participation in research are similar to those of established-resident business owners: reluctance to share financial information, concerns about the potential benefits for their competitors, etc. However, immigrant and refugee newcomers often have additional reasons to decline research participation: language barriers, concerns that their business practices or personal lives will draw the attention of authorities about whom they remain unfamiliar or even suspicious, potential exposure of their employment of undocumented immigrants, etc.

Some newcomer business owners granted interviews on the initial day of contact. Others granted interviews only after several weeks of persistent inquiries. Many interviews were scheduled, only to have the interviewee fail to appear at the appointed time and place. Some business owners did not live in the same community, forcing a potentially long wait to arrange an interview.

Even among those business owners who were interviewed, there was reluctance to answer every question in the interview protocol, an experience shared by others researching Latino businesses in Iowa⁵⁷. This was particularly the case in terms of financial information.

In order to encourage participation, business owners were assured through signed informed consent forms that the name and specific location of their business will not be

⁵⁷ David Griffith, Personal Communication, 11/17/2004

identified in this report. All business owners interviewed for this research signed informed consent forms as approved by the UNI Institutional Review Board.

Characteristics of Interviewed Newcomer Businesses

Types of Businesses

The types of businesses interviewed reflected the larger pool of businesses counted in the study area. Table 4 shows the types and number of businesses interviewed.

Table 4: Types of Businesses Interviewed

Business Types	Number of Businesses	Percentage
Restaurant	8	16
Retail (clothing, others)	5	10
Food Products (“groceries”)	5	10
Bar	4	8
Restaurant and Food Products (“groceries”)	3	6
Auto Repair	3	6
Food Products (“groceries”) and Services*	4	8
Retail and Services*	4	8
Retail and Food Products	2	4
Food Products, Restaurant and Services*	1	2
Other	12	24
Total	51	102%*

*Total is more than 100% due to rounding.

As in Table 3, single-activity restaurants, retailers and grocers topped the list, accounting for one-third of all newcomer businesses.

The businesses listed in Table 4 are owned by immigrants and refugees from around the world. The two largest groups of owners were 29 from Mexico (57%) and 10 from Bosnia (20%). This reflects rapid growth in these two populations in Iowa over the last ten years. Owners from other countries and regions of the world included five from Latin American

countries other than Mexico, two from the Middle East, one from Europe (other than Bosnia), two from Africa, and one from Asia.

Most business owners arrived in their communities within the last ten years, again reflecting the rapid growth in Mexican and Balkan newcomer arrivals in the mid-1990s. Our research clearly indicates that immigrant business owners brought new operations or expanded existing businesses after discovering and researching the potential market for their goods and services in Iowa. Below we will discuss the importance of culture and ethnicity among these diverse owners. However, the fact that they researched the potential markets for their operations is not culturally bound and reflects the market assessments of Anglo and other non-immigrant populations.

Previous Experience in Business

We attempted to profile newcomer business owners with the intention to develop effective means to encourage their success and contributions to local economic development. One key factor in this profile is the experience newcomers bring to opening their new business in Iowa. As our literature review noted, some researchers and scholars on immigrant entrepreneurs argue that immigrants with previous experience owning and operating businesses in their home countries will be more likely than others to start businesses in their new countries. However, the data we collected places doubt on this theory. Among the 51 business owners interviewed, only 13 (25.5%) owned businesses in their home countries. Among these experienced business owners, only five had businesses in their home countries similar to those in Iowa, including one barbershop, one retailer, and three grocers. Of the 13 businesses in countries of origin, only three remained opened at the time of the interview.

Among the 13 owners with previous businesses, two were in Bosnia, one was in Madagascar, eight were in Mexico, and one was in Colombia. Eight Balkan refugee owners were first-time owners in the US, and 21 Mexicans were first-time operators.

We also asked participants if they have opened businesses in their home countries *after* opening their current business in Iowa. One had: a grocery store in Mexico.

Similarly, we asked if owners moved a previous business from another community to their current location in Iowa. Of 51 owners, six moved their business from another community, and two opened their current business as an expansion of their business elsewhere, including other states. The majority of owners (36 or 70%) started their businesses from scratch in the current host community. Five purchased an existing business from other newcomers or Anglos.

These data clearly indicate that the immigrant and refugee newcomers interviewed for this study were first-time business owners: entrepreneurs in the true sense of the term.

Business Startup Patterns

Several questions were asked about how, when, and where owners started their businesses. For example, 41.2% own the building in which their business resides. Fifty-five percent remodeled the building in which they are currently located at a median cost of \$5,000.

Significantly, more than one-third of businesses started in the owner's home or vehicle. This finding confirms anecdotal data from numerous Midwestern communities where the grocery and other retail needs of recently arrived immigrants are served by other newcomers first in vehicles and then in homes. Later, with a growing and more stable customer base—and perhaps the start-up capital—these businesses expand and relocate to commercial operations.

However, of the 21 businesses that began in cars or homes, nine continued to operate in the same way when interviewed, meaning only 12 made the jump to commercial space. Some of these home- or vehicle-based businesses have been in operation for as long as six years. Among these businesses are restaurants, bakers and hairdressers.

Interviewees were asked to describe the start of their businesses in detail. In many respects, these findings are perhaps the most informative for small-business and economic developers, as well as chamber of commerce leaders, bankers, and immigration advocates. Three critical issues emerged:

1. How did newcomers plan to open and operate their businesses? Did they write business plans? What assistance did they receive in opening their businesses and from whom?
2. How did they finance their businesses? What sources of capital did they use? Did they use bank loans or other sources of funding?
3. What were the greatest obstacles to opening and maintaining their business?

Business Assistance and Business Plans

Of the 51 interviewed business owners, more than half (30) received some kind of help starting their business from an organization or individuals. Only two (4%) received help and/or information from a Chamber of Commerce or economic development organization. Only ten (19.6%) received help or information from a small business development center (SBDC).⁵⁸ Of those receiving help or information from an SBDC, three (out of 9) were from Bosnia, four (out of 27) from Mexico, one (of one) from Colombia, one (of one) from Peru, and one (of one) from the Philippines.

⁵⁸ Some members of the research team were surprised that as many as ten businesses did use SBDC resources. However, other team members held no specific expectations about how many immigrants or refugees would use SBDC services.

The lack of SBDC usage can probably be explained in three ways: newcomers are largely unaware of the SBDC and its services, SBDC personnel have not reached potential owners in these populations (which may also reflect the geographic size of SBDC service areas), or there are significant language and cultural barriers. There is also at least some anecdotal data that suggests some SBDC directors and staffs are not interested in working with newcomer populations due to the small-scale of their operations, cultural bias, or unwillingness or inability to overcome language and cultural barriers.

The individuals and operations that did help newcomers start their businesses varied tremendously, from friends, to spouses, to in-laws, to bosses. In at least one case, the owner was coached by the person selling the operation to the new owner.

Of all 51 owners interviewed, only 17 (33.3%) wrote a business plan. Among those who did create a business plan, there was no particular pattern in terms of the type of business opened. However, eight of the 17 who wrote plans opened stores that sold food products alone or sold food in combination with a restaurant, non-food retail products, and/or services. Four opened restaurants, two opened retail and service operations, and three opened services.

Among those who wrote business plans, eight reported SBDC involvement. Only one reported chamber of commerce involvement. The others who wrote plans received help from an odd assortment of sources, including the Department of Human Services and the county courthouse.

The connection between country of origin and writing a business plan somewhat mirrored the pattern found in terms of accessing SBDC and chamber of commerce services. For example, nine out of 26 Mexicans wrote a business plan, and four out of nine Balkan refugees wrote a plan. This means that in our sample, four Mexican newcomers but only one Balkan refugee

wrote business plans without SBDC involvement. It is also worth noting that there appears to be no relationship between previous business ownership and writing business plans. Among those 17 who did write business plans, only three owned businesses in their home countries.

Financing Their Businesses

Thirty-one owners divulged the costs of starting their new businesses. These costs ranged from \$450 to \$70,000. The mean start-up cost was \$24,789 and the median was \$18,000. However, one owner also reported buying a new building at a cost of \$200,000.

The sources of financing these new enterprises varied tremendously. Table 5 shows the frequencies of owners who used the listed sources of funding. Most owners reported using multiple sources of funding, so the frequencies provided in this table amount to more than the total number of respondents.

Table 5: Source of Start-Up Funds

Source of Start-Up Funds	Number of Businesses
Owner’s Money	45
Family	8
Friends	2
Compadres*	1
Bank or Credit Union	12

*Godparents

Clearly the majority of owners relied on their own savings and funds to start their businesses. Only six (12%) did not report using their own funds. Among the 31 owners who did divulge their start-up costs, only six received a bank loan. Of these, only one received a Small Business Administration loan from the Federal Government via a local bank. The majority of owners, then, financed their businesses without a bank loan and relied instead on their own

savings, family, and friends. Without bank loans, these owners used as much as \$70,000 from these personal, non-institutional sources to start their operations. On average, they spent \$18,738 and the median amount spent was \$12,000.

That only 12 or 24% of owners used bank loans begs a number of questions, including how many owners applied for loans, but were declined, and how many wrote business plans and were declined. May we assume that those who did write business plans were more likely than those who did not to obtain loans? Also, are there differences in loan application and success rates between Latino immigrants and other newcomers?

We received reliable data on bank loan applications and success from 45 respondents. Among all owners, 23 (51%) applied for a loan; only 11 received one. Fourteen or less than half of Latino owners applied for loans; seven received loans. Four of nine Balkan refugee owners applied for loans; three received them.

The relationship between business plans and bank loans is significant as well. The common assumption is that commercial lenders require business plans with start-up loan applications. However, our research indicates that this is not necessarily the case. Among all owners, 15 reported writing a business plan but only ten actually applied for a bank loan. Of these owners, only six obtained loans: three Balkan refugees and three Mexicans. Of course, banks often turn down loans to those who do create business plans if the business is deemed unlikely to succeed.

Some owners did not write business plans but applied for bank loans anyway. Among the 28 owners who did not write a business plan, ten applied for banks loans. Surprisingly, five received the loans: Three from Mexico, one from Bosnia, and one from Lebanon.

Obstacles to Business Start Up

Owners reported a number of obstacles to starting their businesses. The most reported had to do with start-up funds. Indeed, 17 (33%) stated that financing the start-up was a major problem. In some cases, this was explicitly expressed as the inability to secure a bank loan. In some cases, the lack of funds was combined with some other factor, such as lack of family support, language barriers, and negative efforts of established-resident business owners.

Language and educational barriers also play a part in the lack of business plans. Among newcomers who do not speak or write English well, writing a thorough business plan can be a tremendous challenge. Among many Latino immigrants, there are also educational barriers. Indeed, in Marshalltown for example, Latino adults are poorly educated. 2000 Census data indicate that 50% of Latinos over the age of 25 had less than 9th grade educations. Seventy-five percent obtained less than high school educations.

Very few owners reported discrimination as a barrier to starting their businesses. One owner cited the “racist attitudes from some people in the community.” Another noted that Anglo competitors tried to “discredit” his company.

Customers, Sales and Employees

Customers

Specific information about the number of customers served and sales was difficult to obtain. Most interviewees were reluctant to provide even estimates of customers and sales, fearing their competition would benefit, or there were tax and/or regulatory implications. Nonetheless, we did obtain some interesting information.

For example, among those seven businesses that provided services and who provided an interview, the range of customers served per month ranged from six (a custom baker) to 540 (a *tienda* that provides money wiring and other services). The mean number of customers served per month was 118 and the median was 56.

Among retail businesses, the mean number of customers per month was 136 and the median was 770. One business, a *tienda* that provides food service, money wiring and other services, claimed an average of 4,880 customers per month.

It is well expected that immigrant businesses open in large part to cater to the consumption and service needs of fellow newcomers. Grocers, restaurants, and bars provide the food and drink familiar to newcomers from their home countries. In addition, newcomer businesses provide services in the primary language of newcomers and often create a central location for newcomers to congregate. However, the long-term viability of the business may also depend on its ability to serve established-resident customers in order to grow their markets. Therefore, we asked business owners to estimate the percentage of their newcomer and established-resident customers.

We were able to estimate the percentage of customers from four primary groups: established-residents (predominately Anglos), Balkan refugees, Latinos, and others (Sudanese and others). Among the 50 business owners who provided estimates, 30 business owners (60%) stated that 10% or fewer of their customers were local established residents. (Twelve stated none of their customers came from the established-resident population.) Among these particular businesses were bars, grocers, restaurants, retailers and services providers. Two businesses estimated that local Anglos made up 50% of their customers. Ten (20%) claimed that established residents represented 90% or more of their customers. Among these businesses were restaurants,

grocers, retailers and service providers. Two business owners explicitly stated they opened their businesses for established-resident markets, not newcomers.

Businesses owned and operated by Balkan refugees reported high rates of usage by Balkan refugee costumers. All Balkan refugee owners stated 60% or more of their customers were Balkan refugees, and half stated Balkan refugees represented 90% or more of their customers.

Businesses owned by Latinos had similarly narrow customer bases. Seven of 34 of these business reported that Latinos made up 10% or less of their customers. However, 19 of the 34 (56%) said 90% or more of their customers were Latino.

Both Bosnian and Latino owners noted very few of their customers were from groups other than local whites, Latinos, or Balkan refugees. In Marshalltown, some Latino businesses do serve Sudanese customers, for example.

Sales

Sales estimates were difficult to obtain. Only 28 of the 51 owners interviewed provided sales information. These owners reported total monthly sales ranging from \$750 to \$157,000. The total monthly sales generated by the 28 responding businesses totaled \$618,390. Using this range of sales figures, the median monthly sales was \$10,000 and the mean was \$22,085.

Using the sample data cited above, we estimate that the total annual sales of all businesses identified in this research is \$13.08 million.⁵⁹

⁵⁹ This estimate is based on multiplying the median monthly sales among sample businesses by twelve months by 109 businesses.

Employees

The number of full-time employees ranged from zero to 57, with a median of two and a mean of 3.43. The number of part-time employees ranged from zero to 12, with a median of one, and a mean of 1.89. The total number of employees ranged from zero to 69, with a median of three.

However, “employee” as defined by immigrant and refugee business owners may or may not include family members. Indeed, 37 of the 41 (90%) of the owners providing employee figures stated they used family members in their operations. Of the 151 full-time employees working in these businesses, 58 (38.4%) were family members. And of the 72 total part-time employees, 20 (28%) were family members.

Payroll and Benefits

The median monthly payroll was \$3,400. The mean was \$13,766. However, the range was from \$300/month to \$108,333. Pay rates were impossible to calculate because the number of hours worked among part-time workers could not be obtained and it is unknown if businesses pay family members monetary wages or salaries. However, a crude payroll-to-employee ratio could be calculated averaging total payroll per full-time and part-time employee: \$671.

Using this sample data, we estimate that the 109 immigrant- and refugee-owned businesses in NE Iowa employ a total of 313 with a combined annual payroll of \$4,447,200.⁶⁰

Only ten businesses provided benefits of any kind. Two provide health insurance and only one provided life insurance. Paid vacation was provided at four businesses, paid sick leave at three, and paid holidays at two. None provided retirement plans. The most common benefits

⁶⁰ This estimate is based on multiplying the median monthly payroll among sample businesses by twelve months by 109 businesses.

were in-store discounts and free or reduced cost meals, but even these were rare: only eight businesses reported offering these.

Working with Immigrant and Refugee Communities: Cautions and Pitfalls

Established-resident Anglos in many Iowa communities generally categorize immigrant and refugee newcomers in broad terms. Previous research indicates that despite key ethnic differences among newcomers, they are often lumped together in broad categories that usually reflect their country of origin. For example, Storm Lake residents rarely distinguished between ethnic Lao and Tai Dam refugees, usually lumping them together as “Laotian.”⁶¹ Similarly, Anglos generally combine all Latino newcomers as “Mexicans.” While three-fourths of Iowa’s Latino newcomers do come from Mexico, the remaining 25% come from several other Latin American countries and several distinct ethnic groups. Indeed, many newcomers from the country of Mexico prefer an identity based on the region of their birth or even their indigenous backgrounds.

The research conducted for this report highlights the potential risk associated with relying on broadly defined immigrant and refugee categories common among established-resident Anglos. Using these broad categories diminishes the importance of ethnicity on the terms that are comfortable to newcomers and often disparages the role of individuals. In addition, lumping together ethnic groups promotes the view that immigrant and refugee newcomer populations are monolithic wholes for which singular approaches to service provision can be readily devised. In other words, because established residents are not familiar with the diversity among groups who otherwise share language or national origin, they tend to believe in one-size fits all development

⁶¹ Mark A. Grey (1995). Pork, Poultry and Newcomers in Storm Lake, Iowa. In *Any Way You Cut It: Meat Processing and Small-Town America*. (D.D. Stull, M. Broadway and D. Griffith, editors). Lawrence: University Press of Kansas, pp. 109-127.

strategies; that once an approach works for one member of a particular population, it will work for all. Our research refutes this notion and urges caution. We will provide two critical examples: conflict between Mexican populations in Marshalltown and rival groups from Bosnia in Waterloo.

It has been established with previous research that the majority of Mexican-origin residents in Marshalltown hail from the single community of Villachuato, Michoacan.⁶² However, as this research revealed, the majority of businesses owned by Mexican newcomers are owned and operated by people from the neighboring state of Jalisco. There are several thousand newcomers from Michoacan, but less than 50 from Jalisco. Nonetheless, this relative handful of newcomers not only dominates the businesses that serve other Mexicans but they have used their status as entrepreneurs to form a class status above other Mexican immigrants from Michoacan who have been in Marshalltown for several more years. Most Michoacan immigrants came directly from Mexico with funds provided by family members already living in Iowa.⁶³ However, the Jalisco immigrants are much more recent arrivals to Iowa, but not the United States. One researcher found that Jalisco business owners in Iowa arrived as “part of a step-migration process, settling first in California, then moving from California to Chicago, and from Chicago learning about the growing Latino population” in Iowa.⁶⁴ This same researcher found that Jalisco newcomers were more likely than their Michoacan counterparts to possess valid immigration documents, have obtained more formal education, and speak English.

⁶² Mark A. Grey and Anne C. Woodrick (2005). “Latinos Have Revitalized Our Community”: Mexican Migration and Anglo responses in Marshalltown, Iowa. In *New Destinations: Mexican Immigration in the United States*. (V. Zuniga and Ruben Hernandez-Leon, editors). New York: Russell Sage Foundation, pp. 133-154; Mark A. Grey and Anne C. Woodrick (2002). Unofficial Sister Cities: Meatpacking Migration between Villachuato, Mexico and Marshalltown, Iowa. *Human Organization* 61(4):364-376.

⁶³ Grey and Woodrick (2002).

⁶⁴ David Griffith (2004) Class Relations among Old and New Immigrants. *American Anthropological Association*

The dynamics at work here point to an entrepreneurial class of *Jalicienses* immigrants who take full advantage of their positions as business owners providing goods and services to more working class newcomers from Michoacan who generally work as laborers in the Marshalltown meatpacking plant. Largely because of the attention their businesses draw among Anglo community leaders, Jalisco newcomers also are called upon by Anglo leaders to act as cultural liaisons and interpreters. Michoacan immigrants, then, most often rely on Jalisco newcomers to broker relations with the Anglo power structure.

The result is that working class immigrants from Michoacan are often resentful of the Jalisco entrepreneurial class because they must rely on Jalisco newcomers for most of their consumer needs, the economic success of Jalisco newcomers outside the meatpacking plant, and the powerful role Jalisco business owners have as gatekeepers to Anglo community leaders. Ironically, this class tension has been exacerbated to some extent by the formalization of ties between Marshalltown and Villacahuato, Michoacan. Taking several Anglo community leaders, teachers, and others from Marshalltown to the community's "unofficial sister city" of Villacahuato in Michoacan,⁶⁵ we hoped in part to raise the profile of newcomers among Anglo leaders and foster closer working relationships. To some extent—particularly in schools—this approach has been successful. However, ties with Jalisco sending communities have not been formalized as they have been in Michoacan and no Marshalltown leaders have visited any of these communities.⁶⁶ Yet, *Jalicienses* continue to exploit their class status in relation to Michoacan newcomers as business owners. They also generally enjoy closer ties with Anglo leaders and residents because of the high-profile nature of their businesses and an appreciation for their "entrepreneurial spirit" that fits stereotypes of what immigrants *ought* to do in order to

⁶⁵ Grey and Woodrick (2002, 2005)

⁶⁶ Health providers from Storm Lake, Iowa have visited that community's "sister city" of Santa Rita, Jalisco.

demonstrate their willingness to assimilate and live the American Dream while the other Mexicans seemingly refuse to assimilate.⁶⁷ Yet, Anglos are generally unaware of the class distinction between Jalisco entrepreneurs and the Michoacan working class, a distinction that is obvious to Mexican newcomers.

The Balkan refugee population in Waterloo provides another cautionary tale for developers and social service providers. Established resident Anglos, African Americans and community leaders generally categorize all refugees from Bosnia as “Bosnians,” but as we will demonstrate, there are two distinct groups of refugees from this country. Indeed, there are historic factors that created these two distinct populations and their passionate dislike for one another. Despite the fact that they all come from the same country and speak the same language, they have historically had relatively little to do with one another and this is reflected in their business activities.

The break up of Yugoslavia in the 1990s unleashed a brutal war often referred to in the US media as a war of “ethnic cleansing.” Accounts of the war for popular consumption boiled down the war to a conflict among major ethnic and religious groups including Bosnians (mostly Muslims), Serbs (mostly Greek Orthodox), and Croats (mostly Catholic). However, as in all wars, the conflict was multilayered and not as simple and straightforward as media portrayals suggested. Indeed, individuals and communities from all three major ethnic groups formed different alliances both within and without their respective populations. Also, the ethnic and religious communities were not always geographically isolated from one another. For example, some of the ethnic Serb refugees resettled in Iowa were from Croatia and practiced Greek Orthodoxy.

⁶⁷ The tension between newcomers from Michoacan and Jalisco sometimes manifests itself in violent ways. Indeed, the only fights reported to us in several years of research in Marshalltown were always between men from the different states at large social gatherings such as weddings or quinceañeros celebrations.

The largest group of Balkan refugees who started to arrive in Waterloo in 1996 was Bosnian Muslims. Other, smaller groups of ethnic Serbs, Croats, and Kosovons also settled in the area. However, the Bosnian population in Waterloo is a complex community that defies ready labels and easy categorization. Indeed, within the Bosnia Muslim community, there are points of contention and old resentments that originated during the war and were carried to the United States and Iowa. Understanding these points of conflict—which often seem subtle to lay audiences—is essential to avoiding some of the potential pitfalls associated with small business development in what otherwise seems a homogenous population. Bosnian newcomers often define themselves as coming from West Bosnia or East Bosnia, itself an oversimplification.

Between 60-70% of Bosnians in Waterloo came from the West. Bosnia and Herzegovina declared its independence from the former Yugoslavia in 1992 over the objections of ethnic Serbs. With the support of neighboring Serbia and Montenegro, the Bosnian Serbs responded to the declaration of independence by force, seeking to partition the country along ethnic lines and joining a “greater Serbia.” A three-way fight among Bosnians, Croats and Serbs was reduced to a two-way fight in 1994 when ethnic Bosniaks and Croats signed an agreement to create a joint Bosniak/Croat Federation.⁶⁸ This war forced people to choose sides and in many cases, family members fought against each other in the conflict.

After three years, the warring parties agreed to the Dayton Accords that retained the country’s international borders and created a multi-ethnic and democratic government. Yet, the agreement also carved up Bosnia into two political entities that roughly reflected the territory sought by the warring parties. One is the Bosniak/Croat Federation of Bosnia and Herzegovina and the other is Bosnian-Serb Republiak Srpska. The borders of these two federations only roughly divide the country into West and East, but in the ethnic division among Bosnian refugees

⁶⁸ Central Intelligence Agency-World Fact Book

that refer to a Western or Eastern affiliation are generally based on the “side” individuals and families took during the conflict.

Among Bosnians in Waterloo, the division described above was compounded by conflict in one Bosnian community. The media generally portrayed the war as Orthodox Serbs versus Catholic Croats versus Muslim Bosnians. But the experience of many refugees in Waterloo created a deep division among Muslims. Those who came from the industrial city of Velika Kladusa found their loyalties divided by their affiliation with and employment at a major agribusiness firm. The owner of this plant was so powerful he was able to maintain his business ties with neighboring Croatia despite the fact that the community was surrounded by Serbs. In 1993, the owner, Fikret Abdic—to whom residents referred as “daddy”⁶⁹--went so far as to declare the province in which Velika Kladusa was located an autonomous province. He formed his own army and 2,500 troops from Bosnia’s army defected to him.

People living in Velika Kladusa benefited from Abdic’s patronage with jobs and he used his connections with Serbian and Croatian forces to ensure food arrived. Alas, the Bosnian army weakened Abdic’s position and he fled to Croatia. As many as 35,000 of Abdic’s followers tried to follow him into Croatia but they were turned away. With nowhere to go, most became refugees and those who tried to return to Velika Kladusa were harassed by the Bosnian army.

Many of the Bosnian refugees in Waterloo became refugees as a result of the Abdic affair. This affair forced Bosnian Muslims to side with Abdic and benefit from his close relations with the Croats with food, jobs, etc., or remain loyal to largely Muslim Bosnian army and state. As one Bosnian leader stated in 1998, “We didn’t leave Bosnia because of Serbs or Croats. We

⁶⁹ Frank Fernandez (1998). Split May Be Developing within Waterloo Bosnia Community based on Geographical Origins in Homeland. *Waterloo-Cedar Falls Courier*, November 15, 1998.

left Bosnia because of the politics of east Bosnia.” A man from Velika Kladusa said “east Bosnian politics forced a fight on west Bosnians, pitting Muslim against Muslim.”⁷⁰

Businesses and social relations among Waterloo Balkan refugees reflect the division formed during the war in Bosnia. Stores and restaurants served customers from East Bosnia, but not the West, and vice versa. Bars opened to serve patrons from one side of the conflict or another. For some time, there was only one bar that catered to East Bosnians. Indeed, in the late 1990s, there were even two competing Bosnian clubs in Waterloo vying to represent the Bosnian population among established residents and community leaders. They refused to share resources and funding. Local residents and leaders were confused. They lacked a conception of the nuanced political and cultural baggage the Bosnia newcomers brought with them. The “Bosnians” were not what most established residents, community leaders, and service providers seemed to assume: a monolithic, coherent community that reflected their shared country of origin, language, religion, and refugee status.

Recommendations

Based on our research and review of the relevant literature, we make the following recommendations to SBDC staff, economic developers, and chamber of commerce leaders as they promote the development and growth of immigrant and refugee newcomers in Iowa.

1. Intake interviews with immigrant and refugee clients should solicit information about their educational and literacy level in their first language, country of origin, and specific ethnicity. It is important to know the educational attainment and literacy of clients to gauge the appropriate level of written materials and verbal consultation. Translated materials that assume a high degree of literacy may not work.

⁷⁰ Ibid.

2. Learn about the business practices in the client's home country. The bureaucratic and regulatory framework within which a small business opened and operated in their home countries may be markedly different from the United States. In addition, it would be helpful to determine whether systems of patronage and/or corruption were at work in their home countries as well. Having this background information will be invaluable because it will allow small business, economic development professionals, and others to understand the *expectations* newcomer clients may bring with them to the consultation process. It may also explain the reluctance many newcomers feel toward formal sector service providers, universities, chambers of commerce, and local governments.
3. As the cautionary tales noted above about class and ethnic conflict within immigrant and refugee populations make clear, it is critical to learn about one's audience. This background knowledge is critical to assisting individual clients. It is also critical when soliciting feedback from newcomers. If immigrant and refugee advisory boards are formed, SBDC personnel must be sensitive to potential conflict and inter-ethnic politics that emerge from choosing individuals to represent an entire ethnic community. This same advice pertains to identifying ethnic business mentors: do not assume that mentors from similar cultures and regions are always appropriately matched.
4. In addition to developing business plans with newcomers, follow-up visits should be scheduled. These will assure the business owner that the SBDC staff continue to make themselves and their expertise available even after the business is opened. Follow-up visits may also potentially head off problems and practices that may lead to closure.
5. All signage should be translated into Spanish and other languages of newcomers.

6. Likewise, encourage all newcomer business owners to provide signage in their stores in *English* to accommodate Anglo customers.
7. All schedules for drop-in consultation should be translated, including the times when interpreters will be available.
8. Business plan guides and templates currently available use language that is inaccessible to most immigrant newcomers. Even when these documents are professionally translated, the language concepts and lexicon assume literacy levels that are beyond most immigrant newcomers. We are convinced that some newcomers did not develop business plans because the guides and templates were either not translated or were translated but in language assuming levels of education and literacy that surpassed the client's experience. Also, written business plan guides and templates should be available as hard copies: developers should not assume newcomers have access to the internet or know how to access this information on SBDC or other websites.
9. As much as possible, involve family members in the training and development process. This should be particularly emphasized for Latino newcomers. Major decisions regarding businesses, finances, health, and other important matters are made as families. Seldom are major decisions of this kind made by individuals. In some cases, it may be helpful to consult with clients in their homes so family members can be present.
10. ISED has developed a New Iowans initiative and has launched in some Iowa communities a focused effort to promote small business development among immigrant and refugee newcomers. This follows their efforts—funded by the federal government—to promote microenterprise development among refugees. SBDC staff would be wise to consult directly with ISED staff about their training procedures and materials, to compare

notes, and potentially work together to develop effective consultation methods and work jointly to provide these services.

11. Traditional means of advertising SBDC services in writing or via the Internet do not generally work with immigrants and refugees. Personal contact and word-of-mouth are critical in reaching these audiences. Therefore, it would behoove SBDC staff to make personal contact with individuals in these populations to offer consultation services. Making contacts via churches, employers, or El Centro Latino Americano would be appropriate. As much as possible, promote SBDC services in rural counties with immigrant populations and in the locations where immigrants feel comfortable, like churches, mosques, and workplaces.
12. Schedule one-half day per week during the winter and spring of 2005 for consultation services with a Spanish interpreter. Making interpretation available during one evening per week may be advantages as well.
13. Our research indicates that newcomers received information about starting a business from several sources, including some in local government. However, the quantity and quality of this information is often suspect. When a member of our research team—a fluent English speaker--called one county court house in the study area, she was referred first to a staff person in the city clerk's office who then listed a handful of specific agencies such as the fire department (for occupancy regulations) and the Iowa Revenue and Finance Department (for tax information). However, when specific questions were asked, the city clerk staffer replied, "You know, I don't have the time...I think you need to call with an interpreter or a lawyer, because I don't think you understand English very well and I am not in a position to explain this to you." This was the response to a fluent

English speaker: imagine the response to a newcomer who's English is not fluent. SBDC staff are advised to acquaint staff in key positions in local government, health, and social service agencies who have contact with immigrant and refugee newcomers with business start-up questions on how to refer newcomers to the SBDC or other appropriate agencies.

14. All SBDC directors and staff should be familiarized with the newcomer populations in their communities. This training may focus on cultural competency, or making current services culturally appropriate. In some cases, it may be a lack of information about the newcomers themselves. We have found that citizens, community leaders, and economic developers are generally uninformed or misinformed about immigrant newcomers. In any case, the potential for small business development among immigrants and refugees is generally overlooked by SBDC directors and other economic developers either because of cultural and language differences, or a lack of regard to small (even micro-) enterprise. However, as our research demonstrates, the economic impact of immigrant and refugee businesses tends to be underestimated.

Appendix A:
Interview Protocol in English