

Common Challenges for Immigrant and Systemically Marginalized Business Owners

Small businesses owned by immigrants and systemically marginalized people—those who have been excluded, prevented from participating in, and devalued within white-dominated institutions—face unique challenges compared to white-owned businesses. Because of the United States' history of systemic racism, xenophobia, and exclusion, these businesses are required to finance, operate, supply, and hire through innovative or non-traditional methods. They often operate in distinct market segments and cater to clientele that are not otherwise being served within a local community. To respond to the challenges faced by these businesses, government and community stakeholders must develop tailored approaches to support these businesses so that they can succeed and provide high quality jobs. Meeting this challenge is vital as small businesses are the lifeblood of local economies accounting for two of every three jobs created over the past 25 years.¹

Why Do Immigrants and Systemically Marginalized People Form Small Businesses

Immigrants and systemically marginalized people in the U.S. turn to self-employment and entrepreneurship at disproportionately high rates. Academic research has demonstrated that systematically marginalized individuals pursue entrepreneurship because of factors which push them out of the traditional labor market and opportunities which pull them towards small business ownership.² Factors that push are the barriers to traditional employment, such as racial discrimination, which prevent immigrants and systemically marginalized groups from finding gainful employment in the traditional labor market. Because of these barriers, entrepreneurship for immigrants and systemically marginalized people can sometimes be a last resort instead of an active choice. Factors that pull people towards entrepreneurship are the potential opportunities which self-employment can provide.

Barriers to Traditional Employment that Encourage Entrepreneurship

- **Racial discrimination.**³
- **Lack of language proficiency.**⁴

¹Wilmot, Daniel. 2022. "Small Business Facts: Small Business Job Creation." *U.S. Small Business Administration*.

<https://cdn.advocacy.sba.gov/wp-content/uploads/2022/04/22141927/Small-Business-Job-Creation-Fact-Sheet-Apr2022.pdf>

² Aldrich, H. E., & Waldinger, R. 1990. "Ethnicity and entrepreneurship." *Annual review of sociology*, 16(1), 111-135; Bates, T., & Robb, A. 2014. "Small-business viability in America's urban minority communities." *Urban Studies*, 51(13), 2844-2862.

³ Light, Ivan and Steven Gold. 2000. *Ethnic Economies*. San Diego, CA: Academic Press.; Waldinger, Roger, Howard Aldrich, Robin Ward, and Associates. 1990. *Ethnic Entrepreneurs*. Newbury Park, CA: Sage.

⁴ Bates, T. 1998. *Race, self-employment, and upward mobility: An illusive American dream*. Baltimore, MD: The Johns Hopkins University Press.

- **Exploitation at poor quality jobs that face minimal government oversight** (e.g. “under the table” work).⁵
- **Less personal connections to secure higher paying jobs.**⁶
- **Skills and education from an immigrant’s country of origin that are devalued in the U.S.**⁷

Opportunities Which Motivate Entrepreneurship

- **Providing culturally specific goods to the community.**^{8 9}
- **Build a market for culturally specific goods in the wider population.**¹⁰
- **Opening in underserved or abandoned neighborhoods or markets.**¹¹
- **Opportunity to develop niches in industry segments ignored by white-owned firms** (e.g. corner stores, laundries, garment trade, and domestic work).¹²
- **Supporting and getting support from the community, including providing good jobs.**^{13 14 15}

Common challenges

The same forces of discrimination which can push people into starting a small business can also make these businesses hard to sustain. Small business support systems, run by both the government and non-profit sector, are often not developed to address the challenges that immigrant and systemically marginalized entrepreneurs face. Even programs designed to support marginalized entrepreneurs often fail to meet their equity goals due to programmatic design and capital requirements. The definition of Small Business for those programs, which can run as high as businesses with 1,500 employees, can overlook those owned by systematically marginalized entrepreneurs who typically operate micro firms with fewer than 20 employees. Consequently, these support systems can perpetuate the very problems they are created to combat.

Common challenges include:

- **Capital access:** Access to capital is perhaps the greatest challenge faced by immigrant and systemically marginalized-owned businesses. Even after accounting for creditworthiness,

⁵ Bernhardt, A., McGrath, S., & DeFilippis, J. 2008. “The state of worker protections in the United States: Unregulated work in New York City.” *International Labour Review*, 147(2-3), 135-162.

⁶ Battu, H., Seaman, P., & Zenou, Y. 2011. “Job contact networks and the ethnic minorities.” *Labour Economics*, 18(1), 48-56.

⁷ Min, P. G. 1996. *Caught in the middle: Korean communities in New York and Los Angeles*. Univ of California Press.

⁸ Zhou, M. 2004. “Revisiting ethnic entrepreneurship: Convergences, controversies, and conceptual advancements.” *International Migration Review*, 38, 1040–1074.

⁹ Waldinger, R., Aldrich, H. E., Ward, R. 1990. *Immigrant Entrepreneurs: Immigrant and Ethnic Business in Western Industrial Societies*. Beverly Hills, CA: Sage.

¹⁰ Palmer, R. 1984. “The rise of the Britalian culture entrepreneur.” In *Ethnic Communities in Business*, ed. Robin Ward and Richard Jenkins, pp. 89-104. Cambridge: Cambridge Univ. Press

¹¹ Yoon, I. 1997. *On My Own: Korean Businesses and Race Relations in America*. Chicago: University of Chicago Press.

¹² Piore, M. J. 1980. *Birds of passage*. Cambridge Books.

¹³ Zhou, M. 2004. “Revisiting ethnic entrepreneurship: Convergences, controversies, and conceptual advancements.” *International Migration Review*, 38, 1040–1074.

¹⁴ Light, Ivan and Steven Gold. 2000. *Ethnic Economies*. San Diego, CA: Academic Press.

¹⁵ Light, I. 1972. *Ethnic Enterprise in America: Business and Welfare among Chinese, Japanese and Blacks*. University of California Press.

systemically marginalized business owners are less likely to receive loans and are offered worse terms than whites when applying for commercial credit.¹⁶ There is also a persistent gap in BIPOC businesses' ability to access start-up or long-term capital financing.¹⁷ This discriminatory pattern holds for BIPOC business owners attempting to secure personal housing loans denying entrepreneurs a crucial asset often used as small business collateral.¹⁸

- **Government policies further limit capital access:** Government policies to regulate banking, which appear race-neutral, often inadvertently undermine marginalized communities' capital practices. For example, the federal Dodd-Frank Act of 2010 passed to crack down on subprime lending, which disproportionately impacted marginalized communities, has been found to make it more difficult for community banks to make small loans because the act outlawed relational lending.¹⁹
- **Dominant group discrimination:** Dominant group members often utilize the state and social policies to exclude or marginalize minority groups.²⁰ This can make small businesses dependent on larger firms who set industry conditions. Majority-owned firms also use their power and lobbying resources to establish onerous state licensing requirements to maintain their privileged position.
- **Forced Entrepreneurship:** Increasingly, entrepreneurship is being forced on immigrants and systemically marginalized populations through subcontracting, misclassification, and restrictive franchising.²¹ Franchising has been largely degraded into an expensive, restrictive, and exploitative scheme due to changes in U.S. antitrust law. Some now argue modern franchising amounts to employee misclassification of managers, not small business entrepreneurship.²² These changes subsequently paved the way for the gig economy where industries like taxi driving and food delivery stripped workers of their employee status, recasting them as entrepreneurs.²³
- **Technology and exploitative business services:** A growing problem for small business owners is the proliferation of business support service providers and app-based platforms looking to make money off these firms. Business support providers—including point of sale, payroll, and

¹⁶ Bates, T., & Robb, A. 2014. "Small-business viability in America's urban minority communities." *Urban Studies*, 51(13), 2844-2862.; Blanchard, Lloyd, Bo Zhao, and John Yinger. 2008. "Do Lenders Discriminate Against Minority and Woman Entrepreneurs?" *Journal of Urban Economics* 63:467-97.; Cavalluzzo, Ken, and John Wolken. 2005. "Small Business Loan Turndowns, Personal Wealth, and Discrimination." *The Journal of Business* 78:2153-78.

¹⁷ Berger, Allen, and Gregory Udell. 2002. "Small Business Credit Availability and Relationship Lending." *The Economic Journal* 112: F32-F53.; Hwang, Victor, Sameeksha Desai, and Ross Baird. 2019. "Access to Capital for Entrepreneurs: Removing Barriers." *Ewing Marion Kauffman Foundation*. https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf.

¹⁸ Chiong, Melody, Gary Dymski, and Jesus Hernandez. 2018. "Ethnic Banks' Logic of Investment in Post Crisis California." *United States Federal Reserve System*, Washington, DC. <https://fedpartnership.gov/federal-reserveresources>.

¹⁹ Vallejo, J. A., & Canizales, S. L. 2021. "Ethnoracial Capitalism and the Limits of Ethnic Solidarity." *Social Problems*.

²⁰ Aldrich, H. E., & Waldinger, R. 1990. "Ethnicity and entrepreneurship." *Annual Review of Sociology*, 16(1), 111-135

²¹ Weil, David. 2014. *The Fissured Workplace: Why Work Became So Bad for So Many and What Can Be Done to Improve It*. Cambridge, MA: Harvard University Press.

²² Callaci, B. 2021. "Control without responsibility: The legal creation of franchising, 1960-1980." *Enterprise & Society*, 22(1), 156-182.

²³ Wolf, A. 2021. "Who's the Boss? Digitally Mediated Employment's Impacts on Labor Markets and the Nature of Work." Pp. 50-79 in *The Platform Economy and the City: Urban Peril and Promise in the New Digital Economy*, edited by Z. Spicer and A. Zwick. McGill-Queen's University Press: Montreal.

accounting systems—are constantly being pitched to small business owners, often with hidden fees and entrapping contracts. Meanwhile, app-based platforms, like UberEats and Doordash, are drastically reorganizing how immigrant and systemically marginalized small businesses operate. These apps promise large windfalls for businesses but come with crushing fees, around 30% of each order. These apps and other platforms, like Yelp or Google, introduce customer rating systems which can destroy business even when ratings are due to racism or scams.²⁴ Immigrant and systemically marginalized entrepreneurs also feel obligated to join these platforms and social networks to reach tech savvy customers but lack the support and digital literacy to effectively utilize these systems.

- **Growth:** For immigrant and systemically marginalized businesses, growth often means entering new markets, particularly the white-dominated market. This process of moving beyond the protected market is called “breakout.”²⁵ Breaking out can clash with these businesses' history of informality and marginalization as entrepreneurs who are interested in scaling find they need to meet new legal requirements and have standardized accounting practices to secure growth funding or contracts.
- **Support Programs Let Marginalized Businesses Fall Through the Cracks:** Despite wide interest from politicians, governments, and philanthropic organizations to promote business ownership among systematically marginalized groups and immigrants, current approaches are not working.
 - For example, many of Minnesota and Minneapolis' largest small business programs, such as MN Cup and Grow North, are targeted towards scalable technology start-ups and operate at capital levels that miss the needs of most immigrant and systemically marginalized entrepreneurs.
- **Need for More Support from Governments and Nonprofits:** Other programs fail to offer the on-going support needed for these businesses to combat the challenges brought by systemic racism. Instead, these systems operate on a “one-and-done” service model.
 - For example, small businesses looking to get certified in Minnesota as a Disadvantaged Business Enterprise, inform us that they get assigned a caseworker from the state to assist with certification. Once certified, the support stops. This problem is not isolated to Minnesota as evaluations of small systemically marginalized business support programs in the UK²⁶ and in 28 cities in Europe²⁷ found that they failed to meet these entrepreneurs needs. Similarly, government contracting programs which aim to increase marginalized-owned business utilization have been unsuccessful; almost no place in the U.S. has met their “women and minority businesses” contracting goals.²⁸

²⁴ Kay, Sara. 2019. “Yelp Reviewers’ Authenticity Fetish Is White Supremacy in Action.” *Eater.com*. January, 18.

<https://ny.eater.com/2019/1/18/18183973/authenticity-yelp-reviews-white-supremacy-trap> ;
<https://www.businessinsider.com/scammers-posting-negative-google-restaurant-reviews-gift-cards-2022-7>

²⁵ Ram, Monder, and Guy Hillin. 1994. “Achieving ‘Break-Out’: Developing Mainstream Ethnic Minority Businesses.” *Journal of Small Business and Enterprise Development* 1 (2): 15–21.

²⁶ Jones, T., Roberts, R., & Ram, M. 2022. “Much ado about very little: The dubious connection between ethnic minority business policy and ethnic minority entrepreneurship.” *International Migration*.

²⁷ Rath, J. & Swagerman, A. 2016. “Promoting ethnic entrepreneurship in European cities: sometimes ambitious, mostly absent, rarely addressing structural features.” *International Migration Review*, 54(1), 152–166.

²⁸ Burrell, Chris. “Disparities in Government Contracting Hurt Minority-Owned Businesses.” *NPR*. Feb 20.

<https://www.npr.org/2020/02/20/807126443/disparities-in-government-contracting-hurt-minority-owned-businesses>

- **Viability:** Given the above-mentioned challenges, it is much harder for businesses owned by immigrants and systemically marginalized people to survive. Firms operated in non-white neighborhoods oriented to servicing their community were the most likely to close operations.²⁹ A recent study by the Federal Reserve’s Small Business Credit Survey found BIPOC entrepreneurs were less likely to be profitable, less likely to experience revenue growth, less likely to hire new employees, and more likely to report financial challenges.³⁰

Impact on immigrant workers

The challenges facing marginalized-owned businesses also impact those who work at these firms. Systemic marginalization makes it hard for these entrepreneurs to provide higher quality jobs for their workers and communities. These businesses are an important source of employment for systemically marginalized and immigrant communities, but without targeted support, it is hard for these employers to pursue high-road employment practices. The isolation of these businesses from the broader community and government can also encourage the proliferation of exploitative employment practices and create insulator networks which severely limit workers' growth opportunities.³¹

Towards a New Paradigm of Government and Small Business Relations

Given the common challenges faced by immigrant and systemically marginalized entrepreneurs and these businesses’ weaker connection to support systems, compliance with labor law is often less a matter of willful dereliction than lack of capacity or ability to properly comply.

For enforcement agencies, like the Minneapolis Office of Labor Standards Enforcement Division, this means they are often inundated with complaints against small businesses that are more in need of business support and mentoring than a fine. This case load can limit the Office’s capacity to hold large firms engaging in systemic labor violations accountable. It also raises equity concerns as firms owned by immigrants and systemically marginalized people find themselves the subject of government enforcement without having been given equal opportunities to access government support which service their needs.

Instead of the current government approach to these businesses, a holistic system for upholding labor standards that includes support is needed. The Minneapolis Small Business Roundtable aims to work together to build coordinated systems that are informed by the experiences of immigrant and systemically marginalized entrepreneurs (*see the Possible Solutions fact sheet for examples of projects the roundtable could undertake*). Ultimately, the Roundtable’s efforts will build new models designed to ensure that small businesses, their workers, and their communities thrive.

²⁹ Bates, T., & Robb, A. 2014. “Small-business viability in America’s urban minority communities.” *Urban Studies*, 51(13), 2844-2862.

³⁰ Alvarez, Sarah, & Klien, Joyce. 2020. “San Francisco Entrepreneurs of Color Fund.” *The Aspen Institute*.

³¹ Tilly, Charles. 1998. “How to Hoard Opportunities.” In *Durable Inequality*, edited by Charles Tilly, 147-69. Berkeley and Los Angeles: University of California Press.; Waldinger, R., & Lichter, M. I. 2003. *How the other half works: Immigration and the social organization of labor*. Univ of California Press.