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The State of Asian American Businesses

Diem Linda Tran and OiYan A. Poon

Summary

Business success is a dominant theme in the Asian American narrative. However, Asian American entrepreneurship is more complex and multilayered than commonly believed and requires careful scrutiny. This brief examines the state of Asian American business ownership between 2005 and 2007. Findings suggest that although Asian Americans form businesses at higher rates than other racial/ethnic minorities, Asian American business ownership and outcomes continue to trail those of non-Hispanic whites. Potential factors contributing to racial/ethnic gaps and policy recommendations are discussed.

Introduction

Researchers have paid notable attention to self-employment as an alternative to poor labor-market prospects (Light, 1972), as well as a potential path for economic success for racial/ethnic minorities and immigrants (Portes and Zhou, 1996). Their findings are complex and multilayered, as are the results in this policy brief. This brief draws from an earlier report on the state of Asian American businesses and presents a complicated assessment of Asian American entrepreneurship (Poon, Tran, and Ong, 2009). Self-employment among Asian Americans (11%) was nearly comparable to those of non-Hispanic whites (12%) between 2005 and 2007 and was higher compared to other racial/ethnic minorities. Asian American firms also accounted for 6 percent of all firms in the United States during 2007. (Asian Americans represented a little more than 4% of the population in 2007).

However, further analysis reveals both U.S.-born and foreign-born non-Hispanic whites were more likely to be self-employed than Asian Americans. Asian American businesses were also more heavily involved in lower-wage industries, such as per-

sonal services, retail, and restaurants, compared to firms owned by non-Hispanic whites and on average had fewer employees. We also found firms primarily owned by non-Hispanic whites also brought in 1.5 times more sales and receipts compared to Asian American businesses during 2007.

Finally, our analysis illustrates the diversity of self-employment among Asian American ethnic groups and highlights missed policy opportunities when treating Asian Americans as a panethnic whole. The last section of this brief discusses the implications of these findings from a policy lens.

Methodology

Observations presented in this brief are drawn from two data sets: the American Community Survey (ACS) Public Use Microdata Sample (1%) 2005–2007 and the 2007 Survey of Business Owners (SBO). Analyses focused on civilian employed persons age sixteen and over. Self-employment was defined as those who reported being employed in their own unincorporated or incorporated businesses. A broader definition of self-employment was also determined and included persons who worked as an unpaid family member, identified as being self-employed, and/or reported self-employment income or earnings. “Asian American” in ACS findings refers to non-Hispanic Asian Americans who identified only as “Asian” and no other race.

The 2007 SBO data offers firm characteristics by type of owner. Firms included in the survey were nonfarm sole proprietorships, partnerships, or corporations with annual receipts of \$1,000 or more. Asian American–owned businesses were defined as firms of which 51 percent or more of the stock or equity were owned by single and/or multiracial Asian Americans.

Although rates and means help describe the state of Asian American business ownership, they do not take into account or help explain observed differences between Asian Americans and non-Hispanic whites. Studies using higher-level statistics will be presented to supplement the findings discussed in the following text.

Findings

1. Asian Americans are less likely to be self-employed compared to non-Hispanic whites, regardless of whether they were born in the United States.

Estimated self-employment rates show Asian American self-employment rates (11%) were comparable to that of the general population (11%) but fell slightly behind non-Hispanic whites (12%) between 2005 and 2007 (see Table 1). Both Asian Americans and non-Hispanic whites were much more likely to identify as being self-employed compared to Latinos/Hispanics and blacks/African Americans. Expanding “self-employment” to include unpaid family workers and those who reported self-employment income or earnings takes into account people who may have been self-employed on a part-time basis. Racial/ethnic comparisons using this broader definition produced similar self-employment patterns.

More than 80 percent of Asian American business owners identified in the ACS were foreign-born. However, self-employment rate comparisons by race/ethnicity and nativity continued to show Asian Americans were less likely to own a business compared to non-Hispanic whites, regardless of nativity or when they entered the country. Approximately 8 percent of U.S.-born Asian Americans owned a business between 2005 and 2007 compared

Table 1. Self-Employment Rates by Race/Ethnicity—United States 2005-07

	Self-employed in incorporated or unincorporated business	Self-employed, unpaid worker in family business, and/or reported self-employment income/earnings
Non-Hispanic White	11.8%	15.0%
Latino/Hispanic	8.1%	9.4%
Black/African American	5.2%	6.8%
Asian American	10.9%	13.0%
Korean	21.4%	-
Vietnamese	12.1%	-
Japanese	12.0%	-
South Asian	11.5%	-
Chinese	10.9%	-
Filipino	5.3%	-
Other Asian	10.5%	-
Other Southeast Asian	5.9%	-
Pacific Islander	6.1%	8.2%
Other	8.4%	11.3%
All Persons	10.5%	13.2%

Source: American Community Survey 2005-07

Note: - Information was not computed at the time of the report.

to 12 percent of U.S.-born non-Hispanic whites. Self-employment rates increased among Asian American immigrants but still trailed those of foreign-born non-Hispanic whites between 2005 and 2007.

Using microlevel data, researchers have further examined the role of race/ethnicity in business ownership through statistical modeling. Fairlie (2010) performed a series of probit regressions using the U.S. Census 2000 and matched Current Population Survey data to estimate the likelihood that survey participants started a business. He found that African Americans, Latinos, Native Americans, and Asian Americans, after controlling for factors such as gender, age, and education, were less likely to own a business compared to non-Hispanic whites, which is consistent with our findings. Immigrants were also more likely to own a business compared to nonimmigrants.

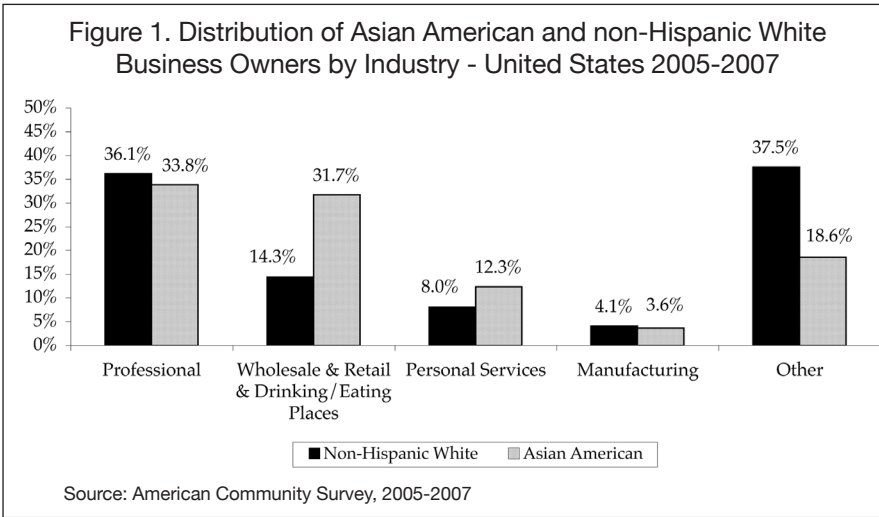
2. Self-employment rates across Asian American ethnic groups vastly differ.

Table 1 also underscores considerable differences in self-employment among Asian American ethnic groups. Approximately 21 percent of Korean Americans were self-employed in their own businesses, which was twice the rate of the general population. Vietnamese (12%) and Japanese Americans (12%) reported self-employment rates similar to that of non-Hispanic whites, while Filipino (5%) and other Southeast Asian Americans (6%) were least likely to be self-employed. These findings underscore the diversity among Asian Americans and suggest some Asian American ethnic groups may have more propensity, access, and/or capacity to start their own businesses compared to others.

3. Asian American businesses are clustered in professional service industries that often require high levels of education. They are also concentrated in industries that do not require high education levels, such as retail, restaurants, and personal services.

Asian American owners were substantially more likely to own businesses in the wholesale, retail, and restaurant industries (32%), as well as in personal services (12%), compared to non-Hispanic whites (see Figure 1). Commonly found in ethnic enclaves, these industries are generally associated with lower wages and require relatively lower levels of education (Logan, Alba, and McNulty, 1994). One-third (34%) of self-employed Asian Americans owned businesses in professional services industries that typically pay higher wages and require

higher levels of education. In turn, Asian American firms are concentrated in lower-paying and higher-paying industries.



4. Asian American firms on average employ fewer workers and report substantially lower average receipts compared to firms primarily owned by non-Hispanic whites.

SBO data show Asian American businesses made up 6 percent of all firms in 2007 (see Table 2). Average sales and receipts for these firms were higher compared to other minority businesses. However, average receipts for Asian American firms represented only 67 percent of receipts brought in by non-Hispanic white firms. Limiting the analysis to firms with employees revealed Asian American businesses (26%) were most likely to employ workers compared to other racial/ethnic groups but had the fewest average number of employees per firm (7). Average sales and receipts for Asian American-owned businesses with employees (\$1,141,280) was lower compared to firms owned by Native Hawaiians and Other Pacific Islanders (\$1,264,828) and American Indians and Alaska Natives (\$1,161,951) during 2007, and amounted to only 55 percent of average receipts brought in by non-Hispanic white businesses. Average payrolls per employee followed a similar pattern.

Recommendations

Although Asian Americans have achieved self-employment

Table 2. Firm Characteristics by Race/Ethnicity - United States 2007

	All Firms			Employer Firms			
	Number of All Firms	Percent of All Firms	Average Sales & Receipts	Percent Employer Firms	Average Sales & Receipts	Average Number of Employees	Average Payroll per Employee
Non-Hispanic White	20,334,403	75.1%	\$484,836	21.5%	\$2,082,036	11.5	\$34,986
Latino	2,260,269	8.3%	\$155,141	11.0%	\$1,124,848	7.7	\$28,454
Black or African American	1,921,864	7.1%	\$70,629	5.5%	\$911,594	8.5	\$25,655
Asian	1,549,559	5.7%	\$326,575	25.6%	\$1,141,280	7.1	\$28,218
Native Hawaiian and Other Pacific Islander	37,687	0.1%	\$167,680	11.0%	\$1,264,828	9.1	\$32,199
American Indian and Alaska Native	236,691	0.9%	\$145,142	10.0%	\$1,161,951	7.8	\$32,049
All firms	27,092,908		\$1,108,464	21.2%	\$5,066,431	20.5	\$41,112

Source: 2007 Survey of Business Owners

at a rate nearly comparable to that of non-Hispanic whites and enjoy relatively better outcomes compared to other racial/ethnic minorities, their success in self-employment seems weighted. Asian American businesses tend to be smaller in size and receipts, which may reflect the industries in which they operate, and report smaller payrolls per employee. Nevertheless, self-employment remains an important source of income and wealth for a segment of the Asian American population. Support for Asian American entrepreneurship remains critical, especially as labor markets continue to struggle and Asian American wealth declines (Kochar, Fry, and Taylor, 2011).

1. Encourage entry into higher-yielding industries.

Limited knowledge and access to capital may prevent Asian Americans from starting businesses in more capital- and labor-intensive industries. Entry can be supported through focused outreach and education about existing resources. Programs can help Asian American entrepreneurs assess the benefits of incorporation and provide technical assistance as needed. Given the linguistic and cultural challenges that a large portion of the population faces, Asian American asset-building organizations have played a large role in helping their communities accumulate wealth (Patraporn,

Ong, and Pfeiffer, 2008). These ethnic-based intermediaries can also help connect Asian American entrepreneurs to the capital finances and resources they need in order to build their firms.

2. Increase Asian American firms' access to public-contracting opportunities.

A study by the Asian American Justice Center has shown that Asian American businesses are underutilized in public contracting, particularly in higher-yielding industries such as construction, civil engineering, and technology (Poon et al., 2010). The authors also deduced that discrimination may contribute to the underutilization of Asian American firms in government contracts. More needs to be done in order to remove barriers and increase Asian American firms' access to public-contracting opportunities. Ongoing research of Asian American businesses, including their participation in public contracting, is also needed to help inform advocates, policy makers, and government programs.

3. Monitor self-employment trends among racial/ethnic minorities and use disaggregated data to inform policy decisions.

As demonstrated in this brief, the story of self-employment among Asian Americans is complex and is likely different by geographic location. Continual research using disaggregated data will provide advocates and policy makers a more accurate understanding of Asian American business ownership in their respective areas.

4. Release SBO microdata for public research and use.

Published SBO reports suggest that Asian American firms on average produce less revenue than firms primarily owned by non-Hispanic whites. However, without access to microdata, researchers cannot test racial/ethnic differences and take into account other causal factors that may contribute to employment and annual receipts. Minority business outcomes remain not fully understood. By releasing individual-level data from the SBO, researchers can help fill this knowledge gap and better guide programs and policy decisions moving forward.

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