

ENTREPRENEURIAL JOURNEY: OVERCOMING CHALLENGES IN RECENT IMMIGRANT-OWNED SMALL BUSINESSES

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Abstract: *Small businesses play a pivotal role in any economy, stimulating growth by offering goods and services and generating employment opportunities. In Canada, these enterprises have been responsible for a substantial share of job creation in the past decade, with a significant portion originating from firms employing fewer than five individuals. Moreover, the demographic landscape of Canadian entrepreneurs is evolving, with an increasing number of recent immigrants becoming small business owners. Over the years, Canada has welcomed a significant influx of immigrants, many of whom have transitioned into low-wage occupations or embarked on entrepreneurial ventures that contribute to the nation's social and economic well-being.*

This study focuses on recent immigrants, defined as those who have arrived in Canada within the last decade. These newcomers have ventured into a variety of small businesses, such as convenience stores, dry cleaning services, taxi companies, and beauty salons. Some sectors, like dry cleaning and convenience stores, are particularly characterized by immigrant ownership due to lower entry barriers. While anecdotal evidence has hinted at the challenges faced by recent immigrant entrepreneurs, a comprehensive and systematic exploration of these hurdles is essential.

The research project's objective is to identify and prioritize the key challenges confronting small businesses owned by recent immigrants, offering a rigorous analysis of the obstacles they encounter. This study seeks to present a thorough and well-defined list of the significant challenges faced by recent immigrant small business owners, contributing valuable insights to the existing research literature.

Keywords: *Small Businesses, Recent Immigrants, Entrepreneurship, Challenges, Canadian Economy*

1. Introduction

Small businesses are an important component of the economy. Generally defined as “firms with at least one and fewer than 100 people working for them” (Fiscal Policy Institute, 2012), small businesses contribute to the economic growth of a nation by providing goods and services to consumers. Moreover,

they have a stimulative effect on the economy by creating employment opportunities to millions of workers. According to Wayland (2011), in the decade running from 2000-2010, fully 98.5% of all new jobs in Canada were created by small businesses, and almost 60% of those jobs were created by firms with fewer than five employees.

Similar to the demographic mix of the Canadian population, recent immigrants are being increasingly represented as small business owners and operators in the national economy. Since 1991, Canada has accepted over 250,000 immigrants per year (Career Professionals of Canada, 2017). Many of these newcomers have joined the labor force in generally low-paying jobs while many others have owned and operated small businesses contributing to the social and economic well-being of the nation (Bitti, 2017; Green, Liu, Ostrovsky, & Picot, 2016; Hou & Wang, 2011).

For the purpose of the study, “recent immigrants” will refer to the newcomers who came to Canada within the last 10 years. Small businesses owned by recent immigrants include convenience and grocery stores, dry cleaning and laundromat services, taxi services, trucking and transportation business, beauty salons, and restaurants. Some of these small businesses – such as dry cleaning and laundromat services, convenience stores, and the taxi business – are overwhelmingly dominated by immigrant owners largely due to the fact that barriers to entry related to these businesses, including capital costs, are low (Canadian Broadcasting Corporation, 2016). The objective of this research project is to identify the main challenges faced by small businesses owned by recent immigrants. Anecdotal lists of the challenges faced by recent immigrants who own small business are outlined in some studies in research literature. However, there is a need for a rigorous and comprehensive list of the various challenges faced by recent immigrants who own small businesses, and delineate the main and significant ones among them. Without a systematic outline and identification of the main challenges faced by small businesses owned by recent immigrants, there will be little information available to guide government agencies and not-for-profit organizations whose mission is to help remove barriers to immigrant entrepreneurship. Similarly, identifying the main challenges and designing policies and plans to tackle them can significantly enhance the likelihood of small businesses owned by recent immigrants to survive and thrive in the Canadian business environment.

2. Literature Review

Minniti and Nardone (2006) argue that immigrants become entrepreneurs more frequently than locals mainly because they are generally excluded from the mainstream labor market. The main reasons for this exclusion include the challenge of hiring someone who lacks the appropriate credentials, language skills and cultural understanding necessary to perform the job (Minniti & Nardone, 2006). Such exclusion can create opportunities for recent immigrants that realize that the market is unable to meet the newcomer community’s needs as well as potentially even the wider community’s needs (Bogan & Darity, 2008).

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Immigrant small business owners, especially those operating in an immigrant enclave, quickly identify their newcomer community's needs that have not been satisfied by the established community, and strive to provide products and services that suit their special tastes (Caulkins & Peters, 2002). Many immigrant entrepreneurs introduce products and processes that alter the way the established community conducts business and keep the marketplace vibrant (Dalziel, 2008). The restaurant industry provides a relevant example as it changes with successive waves of immigration eventually becoming accepted as part of the local cuisine (Ensign & Robinson, 2011).

For many immigrants, starting a small business is also a means for economic and social mobility (Burton, 2005). The belief that owning a small business with expectations of higher earnings, independence and a flexible schedule can also induce immigrants to opt for self-employment (Wayland, 2008). Market niches for immigrant entrepreneurs usually tend to be small businesses that are easy to establish and have relatively low start-up costs (Wainer, 2015).

As stated earlier, for the purpose of this research, "recent immigrants" will refer to the newcomers who came to Canada within the last 10 years. Although its focus was different from this investigation, a project undertaken by Wayland, Hamilton, and Bierling (2012) used a similar definition for recent immigrants. Moreover, an informal survey by the author indicated that, on average after 10 years, immigrants who own small businesses gain enough assimilation and feel that they do not face business challenges that may be unique to recent immigrants. Without providing a specific time frame, a study by Statistics Canada (2016) also pointed out that the assimilation effect of immigrants who own businesses increases with the passage of time in Canada.

Immigrants face many of the same challenges in starting a business as the Canadian-born population. However, they also face additional barriers such as language difficulties, lack of familiarity with the new business culture, lack of social and professional networks, difficulties in accessing financing, and overt and subtle forms of discrimination (Wayland, 2011). Clearly, such challenges can prevent the small businesses owned by recent immigrants from expanding beyond their own ethnic enclaves, and from having the opportunity to fully contribute to the economic growth of their communities (McDaniel, 2015; Rajjman & Tienda, 2000).

Barhat (2010) also underscored that understanding a new financial system that works in a significantly different way than the one they left behind, and unfamiliarity with the regulatory framework in Canada as challenges faced by recent immigrants who own small businesses. For example, a person generally requires a two-year untarnished credit history in Canada to obtain a bank loan. Clearly, this is a significant challenge to recent immigrants who need financing to start and expand their businesses.

In addition to its contribution to the research literature in the area, the findings in this exploratory study can help policy makers, government agencies, educational institutions and other concerned entities to refine their strategies and action plans to meet the needs of recent immigrants who own small businesses and serve them effectively. Moreover, the study can stimulate further research in this field

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by extending the sample population to cover immigrants who owned small businesses for longer than ten years, and small business owners who are born in Canada.

3. Methodology

Based on an extensive and critical review of the relevant literature, a questionnaire was prepared to elicit responses about the main challenges faced by small businesses owned by recent immigrants. The respondents were asked to rate the seriousness or severity of the 15 business challenges identified in the questionnaire based on their experiences as they conduct and operate their small businesses. The challenges listed in the questionnaire covered areas that included financing and financial systems, taxation, business and market environment, customer service, networking and mentorship, communication skills, and access to business training and education.

The items listed in the questionnaire called for respondents to provide ratings using a forced-choice Likert type scale consisting of 0, 1, 2, 3 and 4 reflecting a challenge's perceived level of difficulty or severity ranging from "very high" to "very low". For example, if the item is "access to financing", and a respondent's experience and perception is that financing was easily accessible, the rating may be 3 or 4. On the other hand, if the respondent encountered various difficulties in accessing financing, the rating may be 0 or 1. In short, if an item in the questionnaire is perceived as a significant challenge by the respondents, its average score will be close to zero.

Additionally, using an interview that followed the completion of the questionnaire, respondents were given an opportunity to identify up to three challenges not listed in the questionnaire. The respondents were also asked to rate the significance of the challenges they identified using the same scale used for the items listed in the questionnaire. Understandably, this was done to broaden the perspectives of the respondents and encourage them to share challenges not covered in the survey designed for the study. The sample members for the study consisted of small business owners who are recent immigrants living in Edmonton, Alberta, Canada. Edmonton is a thriving city where many immigrants choose to settle upon arriving in Canada. A number of these immigrants started their small businesses in various parts of the city but with heavy concentration in the downtown area and a district in the southeastern part of the city called Mill Woods. With over 160,000 residents, Mill Woods is well known for its ethnically diverse population due to the thousands of immigrants living there (City of Edmonton, 2016).

The referral sampling method (also known as snowball sampling method) was used to generate the sample for the study. Using this sampling method, a sample member was asked to provide names of other business owners who may be part of the sample. Due to the lack of easily accessible and reliable data about this particular segment of business owners from Statistics Canada, the City of Edmonton or the Edmonton Chamber of Commerce, the method proved to be very helpful in generating 75 sample members for the study.

Data related to the number of years the respondents have lived in Canada, the duration of operating their small businesses, the type of the small business, and the number of employees in each small

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business in the sample was also obtained using the questionnaire. Information pertaining to the educational level of the respondents and whether the small business owners had taken any business training before their started their enterprises was also collected by the questionnaire. Furthermore, the survey instrument was used to gather data related to the source of financing utilized by the respondents as a start-up capital to establish their small businesses. However, to ensure anonymity, names or addresses of the small businesses as well as the owners were not collected.

Clearly, a purposeful investigation of the major challenges faced by small businesses owned by recent immigrants requires a selection of appropriate criteria which are relevant to the essential characteristics and activities of the enterprises. Although there was an endeavor to be relatively comprehensive in preparing the questionnaire, the need to delimit the study and not burden respondents with too many response items led to the exclusion of some potential items that were deemed to make only a minor contribution to the study.

The data obtained by the questionnaires were suitable for quantitative analysis. Ratings were analyzed using means and standard deviations. The reliability of the data was analyzed by obtaining Cronbach's alpha. As the questionnaire for the study used Likert scaled items, Cronbach's alpha was the suitable parameter to assess the reliability of the data (Allen & Yen, 2002; Bonett, 2002; DeVellis, 2012). A value higher than 0.70 for the measure is deemed to be within the acceptable range for reliability (Cooper & Schindler, 2008; DeVellis, 2012; Kline, 2000).

The calculated value of Cronbach's alpha for the data collected for the investigation was 0.74, indicating an acceptable reliability of the instrument. Data from the interview included quantitative and qualitative information. Content analysis was used to sort out the qualitative data, and important input from the respondents is included in the part of the paper that deals with the discussion of the findings of the study. The quantitative information collected for the investigation was analyzed using means or averages, and it is included as part of the findings of the study and the discussion of the findings.

To ensure clarity and comprehension of the survey by the sample members, the researcher read carefully each item in the questionnaire to the respondents. Moreover, the researcher was responsible for recording the rating of each item in terms of its severity as a business challenge based on the response given and the scale provided in the questionnaire using hand-written notes. The researcher also provided detailed explanation when a respondent sought further clarification about an item in the questionnaire. The interview responses were recorded by taking hand-written notes. The respondents were informed about the note-taking related to the ratings of the items and the interview, and they all reported being comfortable with the approach.

It has to be noted that the perceptual data obtained from the respondents has some disadvantages. For example, bias and lack of information on the part of the respondents may decrease the reliability and validity of the data. To minimize such problems, steps taken in the study included the involvement of the researcher in collecting the data by reading carefully and, when required, clarifying the items in the

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questionnaire to the respondents. Similarly, efforts were undertaken to make the interview questions clear and concise with the promise to provide further clarification upon the request of the respondent. Moreover, the interview questions were structured to elicit precise and open-ended answers.

4. Findings of the Study

As stated earlier, the sample size for the study included 75 small business owners who are recent immigrants. As shown in Table 1, the average number of employees, including the owner, in the small businesses that comprised the sample was four. And, on average, the number of years the small businesses in the sample have been in operation was about 4.5 years. In order to meet the definition of being “recent immigrants” which was provided above, all the sample members have been in Canada for less than ten years at the time of the data collection for the study.

Table 1: Selected Characteristics of the Sample Members and their Businesses (n=75)

Characteristic	Numerical Data
Average number of years in Canada of business owner	7.40
Average number of years of small business	4.52
Average number of employees (including the owner)	4.03
Number of owners who completed high school and/or acquired post-secondary education	71
Number of owners who had business training before starting their businesses	7
Number of owners who used informal sources of financing for startup capital	65

As indicated in Table 1, a significant majority of the respondents had completed high school and/or acquired post-secondary education in their old homelands. This is not surprising as a study by the Fiscal Policy Institute (2012) has concluded that better-educated immigrants are more likely to be business owners. On the other hand, less than 10% of the respondents had business training before they established their small businesses.

Informal sources of financing which generally refers to funds from personal or family savings was used by 65 respondents as a startup capital to establish their small businesses. Many of these small business owners indicated that they could not borrow from banks mainly due to lack of credit history in Canada as well as lack of collateral. Obviously, only 10 respondents reported that they partly used formal sources of financing such as loans from banks or other financial institutions to start their enterprises.

Table 2: The Type of Businesses in the Sample (n=75)

Type of Business	Number
Convenience/Grocery/Meat Stores	
Transportation/Taxi	
Ethnic Restaurants	
Dry Cleaning/Laundromat/Cleaning Services	

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Barber Shops

Other

Total

Note: The total is more than 75 as one enterprise had two small businesses together – a convenience store and an ethnic restaurant.

As shown in Table 2, the types of small businesses in the sample mainly consisted of convenience/grocery stores, transportation/taxi businesses, ethnic restaurants, and dry cleaning/laundromat services. Slightly over 40% of the small businesses in the sample were convenience/grocery/meat stores; 20% were transportation/taxi businesses; ethnic restaurants were slightly over 13% of the sample followed by lower percentage representations for small businesses that include dry cleaning/laundromat services and barber shops. The category labelled as “Other” in Table 2 which formed over 13% of the sample comprised of small businesses that included cell phone and computer repair shops, cell phone dealerships, real estate businesses, and hair products/hair stylist services.

Following the analysis of the data, it was found out that three items emerged as the main or significant challenges faced by the respondents. In terms of severity as business challenges, the three factors were: very low capacity to attend educational courses designed to acquire and enhance business skills, very weak relationship with the Edmonton Chamber of Commerce, and difficulty in access to financing. This information is summarized in Table 3.

Table 3: The Main Challenges in Terms of Means (n=75)

The Main Challenge	Mean
Capacity to attend educational courses designed to enhance business skills	0.61
Strength of relationship with the Edmonton Chamber of Commerce	0.65
Ease of access to financing	0.67

From the interview that followed the completion of the survey, the sample members identified an issue which was not covered in the questionnaire but emerged as one of the main challenges they encounter regularly as they operate their small businesses. Slightly over 82% of the respondents identified dealing with the Canada Revenue Agency (CRA) as a significant business challenge they face periodically in running their small businesses. In terms of its severity as a business challenge, the average or mean for the item which was 0.71 ranked it slightly below the three main challenges identified above in Table 3. Other challenges identified by the respondents during the interview but not listed in the questionnaire included difficulties in dealing with landlords pertaining to leasing agreements of their business facilities, and slow responses by the police when calls were made to them by the small business owners.

But the number of the respondents who identified these two issues as major challenges was relatively small (seven sample members for the former and five for the latter issue).

5. Discussion of the Findings

This study identified the main challenges or barriers that small business owners who are recent immigrant encounter in operating their businesses. As mentioned earlier, the most significant challenge that emerged from the study was very low capacity to attend educational sessions designed to enhance business skills. Despite the fact that almost all of the respondents had completed high school and/or had acquired post-secondary education in their old countries, about 90% of the sample members reported that they started their businesses with very little or no business training. The respondents also acknowledged that lack of basic training in business ownership fundamentals made operating and expanding their small businesses extremely difficult.

Although all of the respondents were familiar with some of the post-secondary institutions in the city, many of them indicated that they were not aware of an organization that was available to them to provide the business training they need to run their enterprises more effectively. In spite of the fact that the respondents spent long hours on a daily basis operating their small businesses, about 90% of them were eager and willing to find time to attend seminars, courses, and workshops designed to help them gain and enhance their business skills.

Coming to Canada from a different regulatory and financing system in their old countries, the respondents were acutely aware of the need to bridge the gulf by enrolling in custom-tailored business educational courses and seminars. The respondents listed the following business topics as important and highly desirable: preparing a business plan, personal finance, basic business law, business taxes, sales techniques and marketing, cash and credit management, and general management.

The need for business training and education by small business owners who are recent immigrants creates many opportunities for post-secondary institutions. Using existing staff and resources, educational institutions can and should design business courses which provide small business owners who are immigrants with the necessary knowledge, skills and competencies to run their enterprises effectively. Moreover, about 76% (57 out of 75) of the respondents rated the level of their English language skills as “high” or “very high” indicating that they would be comfortable to take the courses in English.

The second most important challenge that was identified by the study was weak or non-existent relationship with the Edmonton Chamber of Commerce (ECC). The ECC is an organization described as the official voice of business in Edmonton that lobbies the various levels of government on behalf of the business community in the city (Government of Canada, 2017). However, an overwhelming majority (95% or 71 out of 75) of the respondents in the study were “unaware” or “barely aware” of the existence of the ECC.

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One of the main missions of the ECC is to provide businesses with a broad network of local business communities in the region (Edmonton Chamber of Commerce, n. d.). In particular, it seems to be a suitable organization to connect small business owners who are recent immigrants with the mainstream and established business community. For recent immigrants who own small businesses, the obvious benefits of such connections are enhanced capacity for professional networking, availability of mentorship by experienced business people, and attendance of relevant and educational business seminars undertaken by the ECC.

However, such benefits have not been fully realized by the respondents due to the very weak relationship with the ECC. Interestingly, about 88% (66 out of 75) of the sample members rated the level of strength of professional networking they have with other business owners as “low” or “very low”. This could be partly due to the respondents’ weak interactions with the ECC.

Many of the respondents stated that they had only a few and non-substantive mails from the ECC. In order to fulfill its mission to the business community in the city, the ECC needs to undertake an active and all-encompassing outreach to connect with small business owners who are recent immigrants. In particular, the ECC may need to set up a task force to examine how the organization can incorporate recent immigrants who own small businesses in all of its programs of education, advocacy and professional networking.

According to the sample members of the study, the third significant challenge encountered by small businesses owned by recent immigrants was difficulties in access to financing. Being recent immigrants, accessing finance is not easy as they have no established credit history in Canada. Additionally, the lack of income and appropriate collateral will often prevent most recent immigrants from obtaining loans from banks and other financial institutions. It is noteworthy that about 87% of the respondents indicated that they relied on the informal financing sector personal or family savings as a source of start-up capital.

It is also worth noting that all the small businesses in the sample of the study are in the service sector. Indeed, studies have indicated that most of the small businesses owned by immigrants are in this sector (Government of Alberta, 2016; Green, Liu, Ostrovsky, & Picot, 2016). Generally, entry costs tend to be lower in the service sector than in the goods-producing or manufacturing sector (Government of Canada, 2005). This partly explains why immigrant business owners gravitate towards the service sector businesses which are due to the lower capital needs during the start-up stage of the enterprise.

The main reason for the respondents in the study to rank access to financing as a very significant barrier was due to the need of capital to expand their businesses. Various studies have shown that access to adequate financing is an important determinant of small business success (Wainer, 2015; Wayland, Hamilton, & Bierling, 2012; Barhat, 2010). However, slightly over 89% of the sample members pointed out that their level of access to financing from the formal sector such banks as “difficult” or “very difficult”.

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Hence, financial institutions as well as regulatory agencies need to pay close attention to immigrant financial market participation. Government agencies such as the Financial Consumer Agency of Canada (FCAC) should ensure fair and equal access to financial products and services by all sectors of society including immigrants. In similar vein, financial institutions should also see immigrants, in general, and small business owners who are recent immigrants, in particular, as an expanding and relatively untapped market.

As stated earlier, part of the data collection process included an interview with the respondents to identify at most three major challenges they encounter in running their small businesses but not listed in the questionnaire. An important finding that emerged as a significant challenge from the interview process was the persistent difficulties the majority of the respondents faced dealing with the CRA pertaining to their business taxes. About 83% of the respondents rated their dealings with the CRA as “difficult” or “very difficult”. They also reported that such challenges largely included lack of clarity in the communication materials the businesses have received from the CRA.

Not surprisingly, an overwhelming majority (96% or 72 out of 75) of the respondents rated their level of understanding how the Canadian taxation system works as “low” or “very low”. This may partly explain why many of the respondents stated experiencing ongoing difficulties in their dealings with the CRA. It is also worth noting that most of the respondents came to Canada from countries whose taxation systems are beset by rampant corruption and inefficiency. Clearly, this disparity in the taxation systems can also be an important contributing factor to the challenges the respondents have encountered in their transactions with the CRA.

6. Conclusion

While starting a business is inherently challenging, recent immigrants who own small businesses face additional barriers as they establish and operate their enterprises. These immigrants who own small businesses encounter additional barriers mainly stemming from cultural differences, lack of business skills, lack of professional networking, and access to financing.

The study’s analysis contributes to the understanding of the major challenges encountered by small business owners who are recent immigrants in Canada. According to the findings of the investigation, the three most significant challenges encountered by recent immigrants who own small businesses were: access to business education to acquire and improve their basic business skills, non-existent or very weak relationship with the ECC with its direct and adverse effect on access to business seminars and professional networking, and access to financing mainly needed to expand their businesses.

Business training and education can accelerate the process of adaptation to Canadian business norms by small business owners who are recent immigrants. Such adaptation can be an important factor to help ensure the long-term survival and growth of the small businesses. The need to acquire business skills and education by small business owners who are recent immigrants can also create opportunities for post-secondary institutions. By designing relevant courses that meet the needs of these business

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owners, the institutions can increase their revenues and also fulfill their important mandate of public service to the community.

The ECC's weak or non-existent relationship with small businesses owned by recent immigrants was identified as the second important challenge by the respondents. The weak connection with the ECC seems to have deprived the small business owners of a key network of support as well as access to relevant seminars and workshops organized by the ECC. To address this deficiency, the ECC needs to mount an effective campaign of outreach to immigrant entrepreneurs. Access to financing was the third major business challenge identified by the respondents in the study. Small businesses need capital to expand their operations. However, most recent immigrants lack the income, proper credit history and collateral to borrow from financial institutions.

In collaboration with government agencies that help immigrants, banks and financial institutions have to devise innovative ways to extend their services to this group of immigrants. The follow-up interview also led to the identification of a major business challenge not listed in the questionnaire prepared for the study. A significant majority of the respondents indicated that they face recurring difficulties in their dealings with the CRA regarding issues related to their business taxes. Not surprisingly, an overwhelming majority of the respondents also rated their level of understanding of the Canadian taxation system as "low" or "very low".

With the objective of the study being the identification of the main challenges faced by small businesses owned by recent immigrants, the scope of the investigation was relatively narrow. Obviously, delineating the main challenges can enable government agencies, educational institutions, and other organizations to custom-tailor their services to help this group of immigrants effectively. Hence, the findings of the study can have implications that are relevant to practice and research.

However, future research will need to focus on causation. The descriptive statistics used in the study can help us to understand the current and main challenges faced by small businesses owned by recent immigrants. But it has to be noted that these statistical parameters were very limited in explaining the causes of the challenges encountered by the sample members who own the small businesses in the study.

Another area for further research is to investigate, delineate and compare the various challenges faced by small business owners who are recent immigrants and immigrant business owners who have lived in Canada for a long time. Moreover, this line of inquiry can be extended to cover Canadian-born business owners. Instead of focusing only on the main challenges faced by small businesses, enlarging the sample to include small and medium-size businesses (SMBs) owned by immigrants is also an area for further research that can build upon the findings of this study.

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