Markers of Identity in Capital Markets:

Ethnic Businesses and Female Entrepreneurs

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ABSTRACT

More women are becoming entrepreneurs in Canada than ever before, but do all small and medium-sized business owners face the same obstacles? Sylvie Paré shares a revealing bit of research concerning the treatment of new entrepreneurs, particularly where gender and immigrant status intersect. She describes the nature of businesses owned by non native-born Canadians, and offers some suggestions on how best to help women of all origins achieve their goals.

This article on the intersections of diversity focuses on the Canadian labour market, notably with respect to the creation and development of new business enterprises. In this paper, we shall look at the challenges faced by entrepreneurs, giving special attention to the intersection of gender and immigrant status. We focus particularly on the strategies and means used by immigrant entrepreneurs to finance their Canadian businesses, and more specifically, the difficulties encountered by women entrepreneurs.

In the first part of the paper we shall discuss the general problem of financing the creation and growth of new ethnic businesses, particularly for women. Later, we will present data from two studies, the first a study of Montreal businesses carried out by Juteau and Paré (1996), the second an Entrepreneurship Research Alliance study of Chinese, Italian and Sikh entrepreneurs in Montreal, Toronto and Vancouver[1] (Filion, Menzies, Ramangalahy et Brenner, 2002). In both cases, the studies focus on people belonging to specific ethnic groups; data were not compiled for people belonging to majority groups which we may broadly classify as English- or French-Canadian.

Theoretically, we propose that people having attributes which may be stigmatized in the larger society should have more difficulty in obtaining financing for their business ventures. Such negative attributes include gender, i.e., being a woman (Agnew, 2003), starting a business in a neighborhood which is not particularly well viewed, being an immigrant[2] or belonging to a stigmatized ethnic group (Juteau and Paré, 1996, 1997). Similarly, those who have multiple negative attributes, e.g. women not born in Canada, should have greater difficulty in obtaining recognition of their actual financial capacity, affecting both the creation and the survival of their businesses.

Differing Propensities to Create New Businesses

Recent research has demonstrated that two groups of people are more likely than others to create new businesses: recently arrived immigrants (Juteau, Daviau and Moallem, 1993; Helly and Ledoyen, 1994; Filion et al., op. cit.) and women. Since small and medium sized businesses account for significant employment growth, factors which inhibit either of these groups in general or the intersection group of immigrant women in particular, from creating such enterprises has a distinctively negative effect on job creation and prosperity in Canada.

At the present time, 30% of business entrepreneurs in Canada are women, whether they are members of ethnic minority groups or of the larger English or French Canadian majorities. However, the number of businesses headed by women has been growing faster than those created by men. For example, between 1991 and 1994, the number of enterprises created and directed by women in Quebec grew by 23.7% while businesses created by their male counterparts only grew by approximately three percent, notably in the category of self-employed persons. A similar trend was noted throughout the decade of the 1990's for Canada as a whole by the *Groupe de travail sur l'entrepreneuriat féminin* (1997), most notably in the area of services, sales and administration. Women having the highest educational levels were particularly likely to create businesses in areas of the new economy.

Table 1 – Percentage of Entrepreneurs Reporting Selected Start-Up Problems, Men and Women in the Chinese, Italian and Sikh Ethnic Groups in Montreal, Toronto and Vancouver.

Problem Area	Male entrepreneurs		Female entrepreneurs	
	%	(n)	%	(n)
Finance	54.4	(172)	50.0	(52)
Marketing	45.3	(143)	47.1	(49)
Human Resources	26.6	(84)	26.0	(26)
Production	20.9	(66)	20.2	(21)
Strategy and Planning	18.0	(57)	17.1	(24)
Administration	15.8	(50)	23.1	(24)
Networking	9.8	(31)	9.6	(10)
Institutional Environment	19.0	(60)	24.0	(25)
Social Environment	14.6	(46)	16.3	(17)
Economic Environment	7.6	(24)	8.7	(9)
Ensemble (n)		316		104

Source: Ethnic Entrepreneurs in Canada, Maclean Hunter Chair, Hautes études commerciales, Montréal.

While the growth of businesses headed by women would suggest relative equality in terms of access to capital, the data show that women confronted greater difficulties during the start-up period of their businesses (Ministère de l'Industrie et du Commerce, 2000), a critical period in the development cycle of small and medium sized businesses. The problem has been viewed as sufficiently important that in 1999 the Quebec government created the *Groupe-conseil sur l'entrepreneuriat féminin* in order to promote entrepreneurship among women, notably by improving opportunities for start-up financing and by improving the integration of women into networks having influence on business opportunities and business development.

The *Groupe de travail sur l'entrepreneuriat féminin* observed that women had particular difficulties when they turned to banks and other financial institutions for financing. Their refusal rates was 23% as opposed to only 14% for men In fact, approximately 30% of female entrepreneurs stated that they were dissatisfied with the services they received because they obtained less money than required (15%), stricter conditions were imposed than they thought necessary (25%) or they were required to obtain a co-signature from their husbands (14%) (Lafortune and St-Cyr, 2000).

Sampling Bias: Results from the ERA Study

One of the greatest dangers in studying ethnic entrepreneurs is the introduction of systematic bias into the sample selected for observation. Ethnic entrepreneurs are, after all, those who have succeeded in starting their business, not those who have failed to do so. And if women have greater difficulty in starting businesses, many potential entrepreneurs will not be found among the sample of successful entrepreneurs. Consequently, when studying successful entrepreneurs, results from the ERA study show few differences between male and female entrepreneurs. Table 1 presents data indicating any and all of the functional areas in which entrepreneurs encountered problems during start-up.

As revealed in Table 1, both men and women indicated having approximately the same type of problems at start-up. None of the differences between the two groups attain statistical significance at the level of 95% ($p < .05$). As we shall see later, this does not mean that all the difficulties were of similar intensity, but it does signify that once the business was successfully launched, the problems encountered by entrepreneurs of both sexes were similar in nature.

Intersection of gender and immigrant status

Obviously, people born in Canada have access to a wide variety of information with respect to business opportunities, including financing, which immigrants may not. Similarly, women may have greater access or greater expertise in certain areas than men. Consequently, the intersection of gender and immigrant status permits us to assess the joint importance of these variables for the creation of ethnic businesses (Table 2).

The findings show that women entrepreneurs in the Juteau-Paré study created businesses in different sectors of

Table 2 – Type of Business by Place of Birth, Women Entrepreneurs in Minority Ethnic Groups, Montreal, 1993-1994

	Women		Men	
Type of Business	Native-Born	Immigrants	Native-Born	Immigrants
	%	%	%	%
Manufacturing	9	10	16	14
Construction, Transportation and Communication	—	5	14	11
Wholesale	—	7	14	9
Retail	—	26	16	29
Services	91	52	40	37
Ensemble	100	100	100	100
(n)	(11)	(42)	(73)	(195)

Source: L'enquête Juteau-Paré sur l'entrepreneurship ethnique à Montréal, 1993-94. * $p \leq 0.05$

Table 3 – Characteristics of Businesses Owned by Members of the Chinese, Italian and Sikh Ethnic Groups, by Sex, Montreal, Toronto and Vancouver

		Gender of Entrepreneurs	
Variables	**Average**	**Men**	**Women**
INITIAL INVESTMENT			
Total (000's)	157.47	1182.77	82.20 *
Personal Investment (%)	77.29	74.30	86.57 *
NUMBER OF EMPLOYEES			*
Full Time	6.50	7.79	2.64
Part Time	2.67	2.98	1.76
WITHIN-GROUP SALES (%)	51.44	47.85	62.60 *
PURCHASING (%)			
Within-Group	14.81	13.30	19.84 *
Country of Origin	1.63	1.38	2.48

Source: Ethnic Entrepreneurs in Canada, Maclean Hunter Chair, Hautes études commerciales, Montréal. * $p \leq 0.05$

the economy than did their male counterparts[3]. Nearly all of the native-born women created service-based businesses as opposed to only 52% of the immigrant women. Nonetheless, these figures are substantially higher than those of men in general. Immigrant male entrepreneurs were much more likely than their native-born counterparts to work in retail trade while the latter was much more present in wholesaling. It would appear from this table that the concentration of women in the services sector would suggest that their businesses generally did not require the injection of large amounts of capital.

Data from the ERA research program corroborates this finding. Table 3 reveals that the initial capital investment made by male entrepreneurs was twice as high as that of women; proportionately speaking, women contributed a higher proportion of the initial outlay; they had fewer total employees (4.4 *vs.* 10.8 for men) and fewer full-time employees (2.6 *vs.* 7.8); women were also more likely to buy and sell products and services from within their ethnic group than were men. All of these differences are statistically significant at the .05 level of probability, signifying that women entrepreneurs of Chinese, Italian and Sikh origin create smaller businesses with less capitalization than their male counterparts and rely more heavily on their internal ethnic markets.

Business Knowledge & Expertise

A number of researchers have sought out the motives which lead people to create business adventures and have shown that both personal and cultural factors are involved, in particular certain qualities necessary for the creation of enterprises (Julien and Marchesnay, 1996; Toulouse and Brenner, 1992; Filion,1997). Julien and Marchesnay identify the traits of "actors of entrepreneurship" as: personal autonomy, a high degree of self-confidence, a strong sense of perseverance, the capacity to recognize an opportunity, a high degree of ingeniousness, the capacity to be *avant-gardiste,* having organizational talents, a willingness to assume risks and a capacity to deal well with uncertainness. Many of these factors can be subsumed under the notion of "personal determination"; (Paré, 2002), i.e., the desire to be in business rather than to work for someone else.

Table 4 shows that few entrepreneurs, either men or women, attributed the creation of their ethnic businesses simply to the desire to be independent. Rather, the majority of both groups with the single exception of immigrant women attributed the creation of their business to the expertise they obtained working in a similar business. More than a quarter of all ethnic business leaders said they were encouraged by parents and/or friends and a similar number had taken courses either to prepare themselves for the effort or to help resolve problems arising from the business activity. Immigrant women entrepreneurs were the most likely to say that they had no prior knowledge or experience of the area in which they created their businesses. For the most part, such persons began their business activity under rather particular circumstances, for example in response to funding offered to young entrepreneurs.

Table 4 – Type of Business by Place of Birth, Women Entrepreneurs in Minority Ethnic Groups, Montreal, 1993-1994

	Born in Canada		Immigrants	
Source of Knowledge/Motivation	**Women**	**Men**	**Women**	**Men**
	%	**%**	**%**	**%**
Always Wanted Own Business	—	14	10	14
Experience in this Type of Business	64	53	24	61
Took Business Courses	46	32	26	28
Administrative Experience	9	8	12	20
Advice from Parents & Friends	27	25	29	27
No Prior Knowledge	9	21	26	20
Ensemble (n)	(11)	(42)	(73)	(195)

Source: L'enquête Juteau-Paré sur l'entrepreneurship ethnique, Montréal, 1993-94.

While the sample sizes are too small to permit the differences observed to attain statistical significance, the data do suggest that among entrepreneurs in minority ethnic groups, the intersection of place of birth and gender does have some potentially interesting impact on the desire to create businesses and on the sources of support and expertise on which they draw to make the start-up successful.

Conclusion

As we have observed in the first section of this paper, prevailing research concludes that entrepreneurial women are significantly disadvantaged in the start-up phase of their businesses. It is likely that this phenomenon is still more true for certain immigrant and/or ethnic groups that may suffer from discrimination based upon skin colour, religious beliefs, etc., e.g. among the Sikh and Chinese entrepreneurs included in our study. If women in these groups are doubly handicapped by both their gender and ethnic origin, it could be very hard indeed to secure start-up capital. This is an area where the intersection of immigrant/ethnic status and gender can profitably guide future research, particularly since both immigrants and women are creating proportionately more businesses than do men and native-born persons.

Nonetheless, within the framework of our study, women in the minority groups we studied were no more likely than men to say that they had difficulties financing the start-up phase of their businesses. We should remember, however, that we are discussing the reports of only those people who had successfully started a business, excluding all those men and, notably, women who were unable to bring their project to fruition given a lack of adequate financing.

This being said, women entrepreneurs had significantly more modest business enterprises than did their male counterparts. They required less start-up money, used more of their own capital, had fewer employees and depended more on their own ethnic community for the success of their business. This is particularly important because the failure rate for businesses having less than five employees during their first five years of operation is 68%; it is 48% for those having between 5 and 99 employees (Monk, 2000; Watson, 2003) . As we have seen, the type of businesses created by women has less than five employees on the average; those of men, more than five. Female entrepreneurs are, therefore, more likely to fail than their male counterparts, in part as a result of their inability to obtain equal access to capital markets.

Recommended Areas of Future Research

What types of intervention should one recommend to help women of all origins to create and develop their entrepreneurial goals? First of all, it would appear important that banking officials, in particular business loan officers, receive some training in the challenges and opportunities presented by increasing ethnic diversity in Canada. Secondly, it would appear desirable that services be available to help women prepare their requests for start-up financing from financial institutions. The service may be offered by the bank itself or through some government agency offering services to young entrepreneurs. Thirdly, it would appear desirable to create a program or tax credits to encourage banks to accept somewhat greater risks in the area of the creation of small businesses. Given the high rates of business failure, it is understandable that banks wish to hedge their bets. On the other hand, small and medium size businesses provide significant levels of employment in Canada and remain the source of most innovation.

Given the prevalence of discrimination based on ethnic origin and/or skin colour in our major Canadian cities, it is highly unlikely that entrepreneurs from visible minority groups are being funded in the same manner as those from majority groups.

What types of research should we now pursue in order to better understand the intersections of identity markers for women entrepreneurs? Most obviously, continued research needs to address the problem of equal access to start-up financing, particularly for women who are members of minority ethnic groups. If we cannot determine that such equal access is being applied, new experimental, field research may be needed whereby applicants from different groups but with identical dossiers attempt to obtain financing[4]. Given the prevalence of discrimination based on ethnic origin and/or skin colour in our major Canadian cities, it is highly unlikely that entrepreneurs from visible minority groups are being funded in the same manner as those from majority groups.

In addition, two markers of identity likely require further investigation, the first being that of belonging to particular ethnic groups, whether they be the object of prejudice or not. For example, are there major differences between the entrepreneurial experience of Chinese, Italians, Sikhs and members of other ethnic groups? Similarly, religious affiliation as an identity marker may also have some impact on the creation and development of ethnic businesses. For example, it is quite likely that certain types of religious groups within each of the world's great religions may discourage the creation of business enterprises by women. This is an area of research where the intersection of religious affiliation and gender markers may yield important research results.

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Notes

[1] The Entrepreneurship Research Alliance is a consortium of university researchers studying entrepreneurship in Canada with support from the Social Science Research Council.

[2] The concept of "immigrant" may include other variables which are stigmatized: not speaking English well, speaking English well but with a heavy accent, belonging to a stigmatized ethnic group, etc.

[3] We also found this to be true for both English and French Canadian women.

[4] The methodology might be based on research recently conducted in Vermont to test the extent of discrimination based on race, handicapped status and family status.

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