

Exiting Self-Employment: An Analysis of Asian Immigrant-Owned Small Businesses

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ABSTRACT. Part of the uniqueness of the immigrant Asian business community in the U.S. lies in the fact that many among the highly educated pursue self-employment in small-scale, low-yielding retail and personal service fields. This study analyzes owner departure for a nationwide sample of small businesses owned by Asian Indian and Filipino immigrants and a comparison group of Asian nonimmigrant firm owners. Controlling for firm and owner traits, highly educated Asian immigrant owners are more likely than others to exit self-employment over the 1987–1991 period; exit from traditional fields (retail and personal services) is pronounced. These exit patterns do not typify the comparison group. Findings are consistent with the hypothesis that self-employment is often a form of underemployment among Asian immigrants.

1. Introduction

The small business creation process is shaped by a complex push/pull dynamic. Many who pursue self-employment are lured (pulled) by attractive opportunities and prospects of rising earnings. Others are pushed into self-employment, not because small business operation is their preferred career path, but because their access to good jobs is blocked by barriers including lack of educational credentials, inappropriate work experience, and limited facility of the English language. Rapid growth in the number of small businesses owned by Asian immigrants residing in the United States partially reflects the attractiveness of self-employment as a career choice. Often, however, self-

employment offers meager returns, but it is taken up, nonetheless, because Asian immigrants confront poor labor force alternatives.

This study analyzes self-employed Asian immigrants who have been pushed as well as pulled into the U.S. small business sector. Being pushed into self-employment leads to subsequent behavior patterns among business owners that differ sharply from those who were pulled. While the push dynamic creates business owners seeking to exit self-employment, pull factors produce greater firm longevity and higher profits. Poor utilization of owner human capital and low earnings often typify firms of owners pushed into self-employment. These effects are explored by comparing the performance of Asian immigrant-owned small businesses to that of Asian non-immigrant firms.

Particularly successful entrepreneurs tend to be highly educated, their firms are well capitalized, and they are overrepresented in the growth sectors of the small business world, the skill-intensive service industries, for example (Bates, 1990). Part of the uniqueness of the immigrant Asian business community in the U.S. lies in the fact that many among the highly educated pursue self-employment in small-scale, low-yielding personal service and retail fields. Self-employment most often degenerates into underemployment in these lines of business. As recently as 1960, most self-employed Asian Americans worked in three traditional fields – restaurants, grocery stores, and laundries (Bates, 1987). While nonimmigrant Asian entrepreneurs have moved away from these lines of business, they are still major areas of concentration in the Asian immigrant community of small firms (Bates, 1997).

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2. Evidence of self-employment success among Asian immigrants is lacking

Success measures of self-employment among Asian immigrants have been analyzed in several instances: Boyd (1991) studied their earnings from self-employment and Bates (1994a) investigated firm survival patterns from 1987–1991. Neither study supported the stereotype of business success. Empirical studies in this field have most commonly sought simply to explain variations in the rates of self-employment that immigrant groups exhibit (Borjas, 1986; Evans, 1989; Kim, Hurh, and Fernandez, 1989). Studies are often descriptive (Bonacich and Light, 1988; Min, 1986–1987; Fratoe, 1986), focusing upon owner traits as well as the operating environment of the immigrant firms.

Paucity of analytical empirical underpinnings has coexisted with the emergence of numerous stylized facts explaining patterns of self-employment among Asian immigrants. Bonacich and Light (1988) imply that Korean immigrants have been successful pursuing self-employment in Los Angeles, where their penetration of small-scale retailing has grown rapidly since the 1970s. High self-employment rates and rapid expansion of small business ownership are put forth as evidence of success. Citing growth of immigrant enclaves, Borjas (1990) argues that entrepreneurial opportunities for immigrants have increased in the past two or three decades. Self-employment, finally, is widely viewed as a strategy for escaping labor market discrimination (Moore, 1983; Light, 1972). Kossoudji, for example, claims that Asian immigrants lacking English fluency potentially face diminished labor market prospects, but they avoid earnings losses by pursuing self-employment (1988).

The conventional wisdom of Asian immigrant success in self-employment rests, in fact, on a weak empirical foundation. One clearcut fact, however, is the rapid growth of self-employment among Asian Americans. U.S. Bureau of the Census statistics document growth trends among Asian-owned small businesses: numbers of firms operating nationwide rose from 187,700 in 1982 to 355,300 in 1987 (1991); this growth was immigrant-driven (Bates, 1994a). Using nationwide Census Bureau data, Borjas (1986) found that

self-employed Asian immigrants reported higher mean annual incomes than any other racially defined group – immigrant or nonimmigrant, self-employed or salaried. Fratoe (1986) analyzed the earnings of the fifty largest groups reporting a single ancestry in the decennial census of population: two immigrant-dominated groups – Asian Indians and Filipinos – ranked first and fourth in mean self-employment earnings.

Sociologists often infer Asian immigrant success in the small business realm from such statistics (Yoon, 1991; Waldinger, 1986), but economists have been more circumspect. Borjas (1990), after noting that self-employed immigrant men earn about 48 percent more than salaried immigrants, cautions that this earnings pattern is not evidence of success in small business. Instead, Borjas finds that the self-employed, whether natives or immigrants, have somewhat lower incomes than demographically similar salaried workers. Rapid self-employment growth is not necessarily motivated by the attractiveness of owning a small business. Increasing self-employment propensities clearly do suggest a shift in relative labor-market opportunities between employee and self-employed sectors. But the deterioration of the former (and not the attractiveness of the latter) can encourage expanded small business ownership. Borjas (1994) notes a “structural shift in the rate of wage convergence for Asian immigrants who migrated after 1970” (p. 1682). Asian immigrants aged 35–44 who arrived in the U.S. between 1985 and 1989, for example, faced a wage differential of –30.6 percent in comparison to natives of the same ethnic background. This is over twice as large as the corresponding wage differential reported by 1965–1969 arrivals in the 1970 decennial census (Borjas, 1994). Poor opportunities for salaried employment are clearly consistent with growing self-employment propensities.

3. Firm profitability and owner factor endowments

This study analyzes small firms operating in 1987 that were created by (or entered into) by their current owner since 1979. Over 70 percent of all Asian-owned small businesses active in 1987, as well as nearly 50 percent of all small firms, were

started during this time span. The data source utilized in the following analysis is the Characteristics of Business Owners (CBO) data base, which was compiled in 1992 by the U.S. Bureau of the Census. The firms described below are representative of all small businesses active in the U.S. that 1) generated gross revenues of at least \$5,000 in 1987, and 2) filed a small business federal income tax return (sole proprietorship, partnership, or corporate). The CBO data base is described in detail in Bates (1997) and Nucci (1992).

Asian immigrant self-employment in the U.S. is dominated by five groups – Asian Indian, Filipino, Korean, Chinese, and Vietnamese – and mean self-employment earnings vary widely; Asian Indians possess the highest mean level of educational attainment among the self-employed and generate the highest earnings, while Vietnamese are in last place in both categories. This study focuses heavily upon the two highest earning Asian immigrant business-owning subgroups – Asian Indian and Filipinos. Analysis of their self-employment income reveals that returns from small business trail those of nonminority and Asian nonimmigrant comparison groups. In fact, African Americans – characterized as earning very low self-employment returns by Fratoe (1986) – are shown to generate higher self-employment returns than Asian immigrant groups in a comparison of firms started during the 1979–1987 time period.

Two important pieces of context are illustrated in Table I. First, Asian immigrants entering self-employment invest, on average, much more owner human and financial capital into their ventures that

nonminorities. Secondly, great heterogeneity exists across self-employed groups, with Asian Indians devoting the largest investments to self-employment, while Vietnamese invest the least financial capital, on average. Because the high-earning self-employed Asian immigrant groups are more likely to be driving the stereotype of small business success than low-income groups such as Vietnamese, the following analyses of self-employment focus heavily on Asian Indian and Filipino small business owners.

Abundant owner human capital and financial capital resources are advantages for young small businesses, but they are potentially counterbalanced by the limited English fluency that limits occupational choice for many Asian immigrants. Levels of English fluency vary enormously: over 70 percent of Asian Indian immigrants residing in the U.S. reported that they spoke English very well; only 20.8 percent of recent Vietnamese immigrants were similarly highly proficient in English. The majority of Filipino immigrants were proficient in English. The high levels of proficiency reported by Asian Indians and Filipinos reflect the fact that English is commonly spoken in both countries, “particularly among the highly educated who have dominated recent immigration from India and the Philippines” (U.S. Commission on Civil Rights, 1988, p. 57).

Mean before-tax profits reported by immigrant Asian Indian/Filipinos, nonimmigrant Asians, and the nonminority small business group in 1987 were \$14,088, \$17,835, and, \$15,838, respectively (Table II). Table II’s profitability analysis is based upon the same general sampling frame as Table I: all firms filed a 1987 small business federal

TABLE I
Traits of selected groups of firms nationwide that were started between 1979 and 1987, by owner race, ethnicity

	Nonminorities	Immigrants only			
		All Asian immigrants	Asian Indians	Koreans	Vietnamese
Mean total firm capitalization at startup (equity and debt)	\$31,939	\$53,562	\$70,517	\$54,107	\$27,813
Percent of owners who are college graduates	37.7%	57.8%	82.8%	50.8%	23.7%
Percent of owners having less than 4 years of high school	10.4%	11.4%	3.0%	4.8%	17.1%

Source: CBO data base.

TABLE II
Traits of Asian and nonminority owners and the small businesses they operate (firms formed 1979–1987 only): mean values

	Immigrant Asian Indian/ Filipino	Nonimmigrant	
		Asian	Nonminority
1987 before-tax profits, all firms	\$14,088	\$17,835	\$15,838
1987 before-tax profits, owners worked at least 2000 + hours	\$19,760	\$23,260	\$21,611
Annual owner labor input hours, full-time owners	2,958	2,900	2,832
Equity capital, full-time owners	\$37,870	\$28,860	\$15,560
Full-time owners: profits ÷ hours worked in 1987	\$6.68	\$8.02	\$7.63
Full-time owners: profits, less 10% opportunity cost of equity capital ÷ hours worked in 1987	\$5.39	\$7.02	\$7.08

Source: CBO data base.

income tax return and all generated gross revenues of at least \$5,000. Asian nonimmigrants (excluded from Table I) are added as a comparison group. Recall that all of these are young firms, and many of the owners pursued self-employment on a part-time basis.

Most of the firms under consideration operated either in the retailing or service fields. Retailing is noteworthy for its consistently low mean profits, which coexist with above average owner labor input hours and financial capital investments in their firms. Reported profits are lower and owner hours of work in the firm are, in fact, higher in retailing than in any other major industry group, and this pattern holds for nonimmigrant Asian- and immigrant Asian-owned small business generally, as well as the Asian Indian/Filipino-owned firms specifically (Bates, 1997). Services show the opposite pattern – higher profits and fewer owner hours – for all owner groups. A firm profit per hour of owner labor input calculation provides a crude mean profitability measure illustrating the pronounced industry differences:

	Retail	Service
Asian Indian/Filipino immigrant	\$4.49 per hour	\$8.97 per hour
Nonimmigrant Asian	\$6.60 per hour	\$11.40 per hour
Nonminority	\$5.66 per hour	\$9.63 per hour

Owners of firms in service industries are more often college educated than those in retailing, and opportunity cost considerations alone suggest that highly educated owners are likely to generate

greater reported profits than the less educated. The profitability figures reported below abstract from the phenomenon of part-time self-employment by examining full-time (2000+ hours worked in the firm) owners only, and they are disaggregated by owner educational background.¹ Attributing a ten percent opportunity cost to the owner's startup investment of equity capital is one way to separate out returns to capital and labor. Resultant profits, net of equity opportunity costs, show the following average returns to the labor time of owners working full-time in their firms:

	College educated	No college
Asian Indian/Filipino*	\$5.63 per hour	\$3.59 per hour
Nonimmigrant Asian	\$7.56 per hour	\$5.71 per hour
Nonminority	\$7.52 per hour	\$6.39 per hour

Corresponding figures for various other groups identically sampled and analyzed are:

Korean/Chinese*	\$6.02 per hour	\$3.40 per hour
African American	\$6.49 per hour	\$4.85 per hour

* Immigrants only.

Studies of Asian immigrant-owned small business frequently cite the utilization of unpaid family labor as a cause of the greater viability of these firms, relative to small businesses generally and African Americans specifically (Fratone, 1989; Min, 1986–87; Boyd, 1991). Use of family labor is not directly observable in CBO data, but this phenomenon, if present, would widen the above profit per hour differentials if family labor input was used in the applicable denominators.

A major strain of literature coexisting with studies claiming Asian immigrant small business viability argues that blocked mobility often forces immigrants to pursue self-employment. Waldinger, Aldrich, and Ward (1990) emphasize the interplay between situational constraints on job opportunities and group characteristics of Asian immigrants that encourage self-employment. Kim, Hurh, and Fernandez (1989) argue that American employers often do not recognize the education and work experience that immigrants have accumulated in their native countries. Min (1984) claims that college-educated Koreans often confront serious language barriers that hamper their employment prospects, especially in jobs requiring college education and contact with the public. Waldinger (1986) has observed that Asian immigrants pursue self-employment less as a matter of preference and more as a matter of blocked mobility: impediments to more attractive alternatives include poor English language facility and foreign credentials that are viewed skeptically by potential employers. The self-employment behavior of Asian immigrants often reflects their limited alternatives. Professionals with specific skills – pharmacists, for example – are often unable to pass applicable licensing exams because of their limited English fluency. “Blocked mobility is a powerful spur to business activity” (Waldinger, Aldrich, and Ward, 1990, p. 32).

Thus blocked, the abundant human capital and financial resources of Asian immigrants come into play, making small business ownership an option for many (Bates, 1997). The self-employed among Asian Indians and Filipinos appear to be less constrained than other immigrant Asians in their choice of self-employment versus wage labor. Being highly educated as a group – over twice as likely as non-Hispanic, native-born whites to have college degrees – they are not limited to the same extent as the less educated groups. The majority of Asian Indian and Filipino immigrants are fluent in English. Strong in class resources and English fluency, Asian Indians and Filipinos are expected to be the Asian immigrant groups most likely pulled (not pushed) into self-employment; blocked mobility is expected to be weaker than it is among the less fluent immigrants. Yet the evidence of low self-employment returns (Table II) suggests that immigrant Asian

Indian/Filipinos may nonetheless be pushed into small business ownership.

4. Asian immigrant self-employed: delineating push from pull

Absent blocked mobility, what sorts of businesses would most likely attract Asian Indian/Filipino immigrant entrepreneurs well endowed with financial and human capital resources? Bates (1997) has shown that high net worth individuals are disproportionately drawn to the most capital-intensive lines of small business startup, manufacturing and wholesaling. But the Asian Indian/Filipino firms described in Table II are much less likely than comparison groups to operate in these fields: 3.9 percent operate in manufacturing/wholesaling, versus 7.1 percent and 6.8 percent for nonminorities and Asian nonimmigrants. College graduates (Bates, 1997) are disproportionately drawn to skill-intensive service² self-employment, other things equal, and the highest yielding subfield in this group is professional services. Among young Asian Indian/Filipino firms operating in 1987, 46.2 percent were in skill-intensive service fields, versus 36.4 percent among Asian nonimmigrant self-employed. Finally, Asian Indians/Filipinos are heavily concentrated in the lowest yielding self-employment fields – retailing and other services – where 38.0 percent of the young firms are found, versus 38.8 percent of Asian nonimmigrants. Among owners of the young firms under consideration (1979–1987 startups), the rough equality in proportions of each group self-employed in the low-yielding retailing and other services industries must be viewed in the context of owner human capital resources: 76.6 percent of the Asian Indian/Filipino owners are college graduates, versus 45.4 percent of the Asian nonimmigrants.

The strong educational backgrounds of Asian Indian/Filipino owners are consistent with their heavy overrepresentation in the highest-yielding self-employment field, professional services, where 27.4 percent of their firms operate. Highly educated persons self-employed in high-yielding fields: this is the portrait of persons pulled into self-employment by attractive opportunities. The 38.0 percent of self-employed Asian Indian/Filipino owners whose firms operate in retailing and other services, in contrast, are hypothesized

to be the ones most apt to be pushed into self-employment by blocked mobility considerations. The two lowest yielding fields – retailing and personal services – are expected to harbor the highest frequency of owners experiencing blocked mobility.

Studies of the labor market experiences of Asian immigrants indicate that their earnings rise as their years of residence in the United States increase (U.S. Commission on Civil Rights, 1988; Borjas, 1994; Kassoudji, 1988). Labor market barriers, it seems, decline over time reflecting the opening of broader opportunities to Asian immigrant labor force participants. If Asian immigrants are held in self-employment by a paucity of opportunities and if opportunities expand over time, then the circumstances dictating self-employment would gradually alter. Since self-employment was shown often to be a low-yielding endeavor (Table II), then opportunity-cost considerations suggest that employee status would be the logical choice in an environment of expanding labor force opportunities. This is really a hypothesis, and it is tested in Tables III and IV, which compare owner longevity in self-employment for Asian Indian/Filipino immigrants and a comparison group of self-employed nonimmigrant Asian Americans. A closely related hypothesis is that Asian Indian/Filipino immigrants are most likely to abandon self-employment in low-yielding fields, and most likely to remain self-employed in high-yielding industries; i.e., those pushed into self-employment are more likely to exit than those who were pulled into the realm of small business ownership. Firm and owner characteristics are used in the Tables III and IV logistic regression exercises to explain owner pursuit of self-employment over the 1987–late 1991 time period, delineating exiting owners from those remaining self-employed.

Over the period from 1987 to late 1991, more than 25 percent of the small business owners of record in 1987 among Asian Indians and Filipinos and nonimmigrant Asian Americans departed ownership of their firm. What sorts of owners clung to self-employment? How did these patterns diverge for Asian Indian/Filipino immigrants as opposed to persons of Asian ancestry who were born in the U.S.? Past econometric studies explaining small business longevity identify

greater owner investments of human and financial capital as factors that are strongly related positively to small business survival chances (Holtz-Eakin, Joulfaian, and Rosen, 1994; Bates, 1990). The well-capitalized firm started up by a college graduate is more likely to remain in operation than a poorly capitalized firm headed by a less educated owner. Among the Asian Indian/Filipino firms under consideration, mean startup capital was \$61,320 and 76.6 percent of the owners were college graduates; corresponding figures for the nonimmigrant Asian comparison sample were \$41,411 and 45.4 percent, respectively.

In the logistic regression exercises, quantity of owner human capital is measured by owner hours spent working in the business, as well as marital status. Married persons living with their spouses are expected to benefit from the availability of family labor, which potentially increases labor input quantity. Human capital quality is proxied by owner educational background and owner age, which is a broad measure of work experience. Financial capital is measured as the sum of equity and debt capital invested in the firm at startup. Applicable demographic traits include owner gender. Binary variables are introduced to identify three types of small businesses: 1) traditional (proxy for blocked mobility), 2) skill-intensive (proxy for opportunity-motivated entry), and 3) capital-intensive (manufacture and wholesale). The excluded industry groups include construction, transportation and miscellaneous services. The youngest firm groups are identified to control for impacts of firm age upon longevity. Finally, firms selling in the general market are delineated from those serving a minority clientele: Asian immigrant firms that sell to nonminorities largely have been identified in the literature as more viable (Bates, 1994a) and less viable (Evans, 1989; Waldinger, Aldrich, and Ward, 1990) than those serving a predominantly minority clientele. Exact definitions of relevant explanatory variables are summarized below:

Education 2: For owners completing four years of high school, education 2 = 1, otherwise 0.

Education 3: For owners completing at least one but less than four years of college (and those not attaining a bachelor's degree), education 3 = 1; otherwise 0.

TABLE III
Logistic regression: Explaining owner perseverance in self-employment over the 1987–1991 period
(firms formed 1979–1987 only)

Variable	Asian Indian/ Filipino Regression coefficient (std. error)	Nonimmigrant Asian Regression coefficient (std. error)	Asian Indian/ Filipino Variable mean	Nonimmigrant Asian Variable mean
Constant	3.584* (1.060)	–2.194* (0.930)	–	–
Education 2	–0.522 (0.400)	–0.072 (0.232)	0.077	0.155
Education 3	–1.669* (0.375)	0.019 (0.216)	0.113	0.284
Education 4	–0.853* (0.361)	0.636* (0.234)	0.401	0.237
Education 5	–0.943* (0.363)	1.018* (0.257)	0.365	0.217
Owner age	0.063 (0.048)	0.176* (0.043)	40.72	41.31
Owner age sq.	0.000 (0.000)	–0.002* (0.000)	1735	1822
Gender	–0.091 (0.121)	0.240 (0.142)	0.669	0.741
Wed	0.128 (0.162)	–0.496* (0.154)	0.861	0.735
Labor input	0.022* (0.004)	0.003 (0.006)	18.67	18.65
Capital	0.083* (0.014)	0.056* (0.018)	7.78	7.83
Traditional firm	–0.716* (0.159)	0.219 (0.178)	0.201	0.305
Skill-intensive firm	0.265* (0.141)	0.054 (0.165)	0.457	0.377
Capital-intensive firm	0.461 (0.332)	0.272 (0.260)	0.039	0.076
Minority clientele	–0.472* (0.121)	–0.024 (0.138)	0.263	0.322
Time 84–85	–0.077 (0.184)	–0.969* (0.207)	0.239	0.271
Time 86	–0.956* (0.177)	–0.677* (0.224)	0.222	0.207
Time 87	–1.385* (0.166)	–1.399* (0.205)	0.283	0.304
<i>n</i>	2091	1521		
–2 Log L (Chi square)	2063.7 (293.8)	1619.2 (154.2)		

* Statistically significant at the 0.05 level.

Education 4: For owners awarded a bachelor's degree, education 4 = 1; otherwise 0.

Education 5: For owners who attended graduate school, education 5 = 1; otherwise 0.

Immigrant: For owners born abroad, immigrant = 1; otherwise 0.

Owner age: Age in years, as of 1987.

Owner age sq.: Squared value of owner age.

Traditional firm: For firms operating in retailing or personal service fields, traditional firm = 1; otherwise 0.

Skill-intensive firm: For firms operating in professional services, business services, or finance, insurance, real estate fields, skill-intensive firm = 1; otherwise 0.

Capital-intensive firm: For firms operating in manufacturing or wholesaling, capital-intensive firm = 1; otherwise 0.

Labor input: Number of hours during the 1987 calendar year spent by the owner working in the relevant small business, divided by 100.

Capital: The log of the sum of debt and equity

capital used to start or become owner of the business.

Gender: For male owners, gender = 1; otherwise 0.

Wed: For married owners living with their spouse, wed = 1; otherwise 0.

Minority clientele: If 75 percent or more of the firm's customers were minorities, minority clientele = 1; otherwise 0.

Time 84–85: If the business was started or ownership was acquired during 1984 or 1985, time 84–85 = 1; otherwise 0.

Time 86: If the business was started or ownership was acquired during 1986, time 86 = 1; otherwise 0.

Time 87: If the business was started or ownership was acquired during 1987, time 87 = 1; otherwise 0.

In Table IV's logistic regression exercise, the education variables (education 2 through education 5) are interacted with a binary variable,

TABLE IV
Logistic regression: Pooled model explaining perseverance in self-employment among immigrant Asian Indian/Filipino and nonimmigrant Asians over the 1987–1991 period

Variable	Regression coefficient	Standard error	Variable mean
Constant	−0.384	(0.634)	–
Education 2	−0.171	(0.209)	0.116
Education 3	0.020	(0.192)	0.197
Education 4	0.580*	(0.209)	0.320
Education 5	1.121*	(0.224)	0.292
Immigrant	1.113*	(0.392)	0.508
Education 2 × immigrant	−0.450	(0.458)	0.039
Education 3 × immigrant	−1.489*	(0.430)	0.058
Education 4 × immigrant	−1.230*	(0.422)	0.204
Education 5 × immigrant	−1.853*	(0.430)	0.186
Owner age	0.083*	(0.030)	41.00
Owner age sq.	−0.001*	(0.000)	1778
Gender	0.143	(0.090)	0.704
Wed	−0.269*	(0.107)	0.799
Labor input	0.011*	(0.003)	18.66
Capital	0.058*	(0.010)	7.80
Traditional firm	−0.148	(0.114)	0.253
Skill-intensive firm	0.095	(0.103)	0.418
Capital-intensive firm	0.254	(0.192)	0.057
Minority clientele	−0.230*	(0.089)	0.292
Time 84–85	−0.589*	(0.131)	0.255
Time 86	−0.807*	(0.136)	0.215
Time 87	−1.378*	(0.127)	0.294
<i>n</i>	3612		
−2 Log L (Chi square)	3808.0 (334.4)		

* Statistically significant at the 0.05 level.

“immigrant”, which is equal to one for Asian Indian/Filipino owners, zero otherwise.

The dependent variable in the Tables III and IV regression exercises measures continuity of the 1987 owner of record over the 1987–1991 period. Surviving owners are those associated with the same firms in both 1987 and 1991; departing owners may be associated with either sold firms or closed firms. Positive coefficient values in the logistic regression analyses are associated with surviving owners, vice versa for departing owners. Note that past studies delineating survivors from non-survivors have focused upon firms rather than owners (Holtz-Eakin, Joulfaian, and Rosen, 1994; Bates, 1990). Changing the dependent variable to owners potentially creates problems of interpretation because the dependent variable ceases to be a direct measure of firm viability: a departing owner may be associated with a closed (presumed unsuccessful) firm or an ongoing, sold firm (presumed viable). Closed firms, as a group, are

very small, poorly capitalized, and unprofitable (which supports the practice of associating closure with nonviability) (Bates, 1997). The sold firms that are still operating in 1991, in contrast, are larger scale, better capitalized, and more profitable than surviving firms that were not sold. In fact, closed firms are the much more common result of owner exit; exiting self-employment by selling a firm takes place in less than one quarter of owner departures.

Regression results in Table III identify different and distinctive patterns of owner continuity in self-employment among the Asian Indian/ Filipino and Asian nonimmigrant small business owners. For the latter group, possessing college training is the strongest single owner trait delineating those departing from self-employment versus those staying put. The college-educated Asian Indian/ Filipino owners, other factors constant, are the ones most likely to depart from self-employment. The exact opposite pattern typifies nonimmigrant

Asian Americans: college graduate owners were the ones most likely to remain self-employed. Traditional lines of business – the blocked mobility proxy for Asian Indian/Filipinos – were strongly associated with owner departure from self-employment, other things equal, but this relationship was trivial among nonimmigrant Asians. The skill-intensive firm owners were more likely than others to remain in operation for Asian Indian/Filipinos, but the nonimmigrant Asian owners.

Comparison of owner continuity in self-employment across the Asian Indian/Filipino and nonimmigrant Asian groups (Table III) does yield a few similarities. Owners of both groups are clearly more likely to depart from self-employment if they operate very young firms and, or poorly capitalized firms. It is among the human capital variables where regression coefficient differences are most pronounced. Owner age, the proxy for work experience, was highly positive and significant, identifying older, presumably more experienced Asian Americans as the ones most likely to remain self-employed. The squared term for owner age indicates, furthermore, that old age was positively associated with departure from self-employment, other things equal. Yet none of these age – self-employment continuity relationships were statistically significant among Asian Indians/Filipinos.

The truly striking finding in Table III's analysis is the different results on educational background: comparison of remaining, as opposed to departing, owners reveals a strong pattern of college-educated Asian Indian/Filipino immigrant owners leaving self-employment, relative to nonimmigrant Asians. In Table III, high school dropout Asian Indian/Filipinos are *much* more likely to remain self-employed than college-educated owners, other factors constant. The clear pattern is one of better educated Asian Indian/Filipino owners – across the board – moving away from self-employment over time: abandonment is most likely in traditional fields, dominated by retailing.³ No counterpart to this education level, self-employment duration pattern is apparent in the nonimmigrant Asian comparison group: being a college graduate is strongly associated with increased likelihood of remaining self-employed. Comparison of Table III regression coefficients across models, however,

is not a sufficient test of the actual statistical significance of these education differences. This test is undertaken in Table IV, which replicates the Table III logistic regression exercise for a pooled sample of Asian Indian/Filipino and Asian American (nonimmigrant) self-employed. The Table IV regression exercise interacts the education explanatory variables with the “immigrant” variable that identifies Asian Indian/Filipino owners. The results indicate that college-educated Asian Indian/Filipino owners, including those who have pursued graduate work, are less likely than nonimmigrant Asian owners to remain self-employed; these differences – as indicated by the interaction variables – are statistically significant.

5. Theory of Asian immigrant self-employment

The theory of Asian immigrant self-employment suggested throughout this study is applied to investigate firm life cycle behavior. High human and financial capital endowments enhance self-employment options but these endowments, by themselves, inadequately explain the self-employment behavior of Asian immigrants residing in the U.S. Particularly among college-educated immigrants in managerial and professional occupations, self-employment decisions are shaped by barriers to salaried employment, such as potential employer skepticism towards foreign credentials. Constrained alternatives for salaried employment lower the opportunity costs of self-employment. This often pushes Asian immigrants possessing substantial financial and human capital towards self-employment, including small business ownership in low-yielding traditional lines of business. Access to salaried employment alternatives tends to improve with length of residence in the U.S., thus raising the opportunity costs of self-employment and encouraging exit to employee status.

The case of retailing is illustrative. Although 60.1 percent of all Asian Indian/Filipino owners of retail firms were college graduates, mean profits in 1987 for these firms were a mere \$9,358. In contrast, 27.4 percent of nonminority owners in retailing were college graduates, and their 1987 profits averaged \$12,278. In addition to their human capital investments, the Asian Indian/Filipino immigrant owners invested substantially more financial capital (\$61,453 at startup, on

average) than cohort nonminority owners, whose mean financial capital outlay to enter retailing was \$51,828. The Asian Indian/Filipino owners generated average 1987 revenues of \$253,563 in their retail firms, while nonminorities – less endowed with human capital (college degrees) and financial capital – generated mean firm revenues of \$274,214. The mean owner in both groups worked over 40 hours per week (over 2080 hours for all of 1987) and firm profits, net of a ten percent opportunity cost on owner investment of equity capital, averaged \$3.15 per hour of owner labor input for Asian Indians and Filipinos, versus \$4.67 for nonminority retail firm owners. Recall that these are young firms (1979–1987 startups) only. Thus, the nonminority owner group generated income per hour of owner labor input that was nearly 50 percent higher than the corresponding figure for Asian Indian/Filipino immigrants. Bates (1994b) found that Korean immigrant owners of retail firms lagged behind nonminorities – their higher firm investments of owner human and financial capital coexisted with lower levels of gross revenues and profits, on average, per firm.

If Asian immigrant owners of small businesses

are indeed exiting low-yielding niches such as retailing, statistics describing the small business life cycle will reflect this fact. Specifically, logistic regression findings from Table III indicated a pattern of owner exit from the lowest-yielding lines of small business, along with retention of owners in the highest-yielding skilled-services industries. Thus, the older Asian immigrant-owned firms should exhibit a different industry distribution than the young businesses.

Table V examines the life cycle behavior of the Asian immigrant firms groups, highlighting trends in firm profitability and industry distribution. All of the firms described in Table V are operating in 1987, and “old” firms are, by definition, firms entered by the current owner before 1979. Comparison of industry concentration over the life cycle of Asian immigrant-owned firms shows predictable movement away from the traditional retail and personal fields into the skill-intensive services.⁴ College-educated Korean/Chinese small business owners exhibit the largest shift away from traditional lines of self-employment. Much less likely than immigrant Asian Indians or Filipinos to be fluent in English (U.S. Commission

TABLE V
Life cycle firm behavior: Young vs. Old Firms owned by Asian immigrants (all firms were operated in 1987)

	Immigrants Only			
	Asian Indian, Filipino		Korean, Chinese	
	Young firms	Old firms	Young firms	Old firms
A. All firms				
1. <i>Industry distribution:</i>				
Skill-intensive services	46.2%	59.2%	24.7%	33.9%
Traditional industries*	20.6%	14.5%	52.8%	40.4%
2. <i>Before-tax profits, 1987 (mean)</i>				
All firms	\$14,088	\$36,573	\$15,740	\$27,613
Firms with owners working full-time in the business	\$19,760	\$45,703	\$18,308	\$29,572
B. Firms with college-educated owners only				
1. <i>Industry distribution:</i>				
Skill-intensive services	50.7%	60.2%	31.4%	42.5%
Traditional industries*	17.8%	11.6%	50.5%	26.6%
2. <i>Before-tax profits, 1987 (mean)</i>				
All firms	\$15,367	\$38,851	\$17,436	\$30,692
Firms with owners working full-time in the business	\$20,351	\$48,690	\$22,422	\$34,350

* Retail and personal services.

Source: CBO data base.

on Civil Rights, 1988), fully 50.5 percent of the well educated Korean/Chinese owners running young firms were operating in the traditional industries (Table V), and this concentration dropped precipitously to 26.6 percent among the old firms. Why are these so few old Korean/Chinese firms in retailing/personal services? As owners became acclimated to U.S. society and became fluent in English, most simply moved on, thus dropping out of the small business sector. Many sold their firms to newly arrived immigrants, but these firms are counted as “young” in the CBO data base, because firms are dated at the point of owner entry. Thus, some of the firms remain in operation at the same location, forever classified “young” as owners enter and then exit these businesses by selling them to new owners.⁵

Older firm groups contain fewer personal service and retail firms, and more skill-intensive firms. Self-employment income differentials between Asian Indian/Filipino and Korean/Chinese firm groups actually widened as the firms grew older. High self-employment returns are necessary to retain well-educated members of the former group in self-employment in the long-run; highly educated members of the latter group who remain self-employed often shifted during their careers out of personal service/retail fields and into higher yielding industries. This gave them less time to accumulate relevant goodwill and hands-on work experience in lucrative industries, relative to owners fluent in English who started out in the more attractive lines of self-employment.

Owners who stick with firms for ten or more years commonly do so because the underlying business is successful. Considerations of blocked mobility fade in significance as the years go by, which means that Korean/Chinese owners of old firms, just like their Asian Indian/Filipino counterparts, often remain self-employed because they prefer this status to wage labor: they are lured more than pushed into self-employment. This self-selected group of owners operating old, established firms earns much higher returns than young firm owners. Among the Korean/Chinese working full-time at self-employment, 1987 profits averaged \$18,308 among the young firms, \$29,572 for the old. As is befitting for a highly educated entrepreneur group, old firms owned by Korean/Chinese were more profitable than non-

minority firms (they averaged \$27,613 in 1987), but still behind cohort Asian nonimmigrants (\$32,732).

Old firms operated Asian Indian/Filipino immigrants, not surprisingly, were more profitable than firms run by any other subgroup defined by race/ethnicity. This group of firms is operated by a highly educated group of owners who have concentrated much more heavily in the skill-intensive services than anyone else. Looking solely at old firms, nearly 60 percent of the Asian Indian/Filipino small businesses in operation in 1987 were in skill-intensive service industries; 14.5 percent were in retailing or personal services. Among college-educated owners in the Asian Indian/Filipino group of old firms who pursued self-employment full-time, mean 1987 firm earnings were \$48,690 (Table V).

6. Concluding comments

Self-employment patterns among Asian immigrants have been analyzed in this study without direct reference to factors such as ethnic solidarity and social capital considerations that dominate the social science literature on immigrant entrepreneurship. These factors have been explored in detail, but their explanatory power was not apparent (Bates, 1997).

Three interrelated concepts – financial and human capital resources, blocked mobility, and opportunity costs – are linked in this study to construct a theory of Asian immigrant self-employment behavior. Diverse aspects of that behavior were observed in this study to be consistent with the theory.

Crowding of Asian immigrants into traditional fields such as small-scale retailing has often been interpreted as evidence of success and/or expanding opportunities (Bonacich and Light, 1988; Borjas, 1986; Waldinger, Aldrich, and Ward, 1990). In light of the low returns earned by Asian immigrants in traditional businesses and the observed outflow from these fields over time, such crowding appears to be rooted in blocked-mobility considerations. Regression analyses (Table III of this study) support this interpretation. Consistent with the blocked mobility hypothesis, the low-yielding, traditional fields are the ones most likely to experience exiting Asian Indian/Filipino owners

in an environment where impediments to mobility decline over time. Further, the high-yielding skill-intensive services offer opportunities for fuller utilization of owner human capital and higher earnings; blocked mobility had less relevance to this line of self-employment.

The contrast between the more fluent Asian Indian/Filipino immigrants and Korean/Chinese, who are much less apt to speak English, is instructive. Young firms owned by Korean/Chinese immigrants are more concentrated in traditional industries than those of Asian Indians/Filipinos, particularly among college-educated owners. Facing greater labor market barriers than Asian Indians and Filipinos (Bates, 1997), Korean/Chinese immigrant entrepreneurs are more likely than others to work full-time in their small business and to rely upon that source for most of their household income. Long self-employment hours reduce household involvement in other labor force activities that might supplement the earnings derived from operating a young firm. The laggard performance of the Korean/Chinese self-employed stands out most clearly in the comparative figures of college-educated owners with 1987 household incomes under \$15,000 – 21.5 percent, versus 11.9 percent among Asian Indian/Filipinos who entered self-employment in the 1979–1987 period. At the other end of the spectrum, Asian Indian/Filipino immigrants operating young firms are two and one half times more likely than Chinese/Koreans to be in the \$75,000+ household income bracket.⁶ Concentration in traditional lines of business generates low earnings among Asian immigrants, including the college-educated, and this, in turn, encourages owner exit.

The finding that college-educated Asian immigrants often earn low returns in traditional lines of self-employment has ramifications for comparisons of small business ownership patterns among minority groups. The assumption that a proliferation of Asian immigrant-owned small businesses signals opportunities has caused scholars to speculate about why African Americans have shown less inclination towards self-employment than immigrant groups such as Koreans (Bonacich and Light, 1988; Waldinger, Aldrich, and Ward, 1990). The recognition of higher self-employment returns among African Americans – after controlling for

human and financial capital investments – puts comparisons of black and Asian immigrant business viability into a different light. An alternative to the literature asserting relative weakness in the black business community is the hypothesis that college-educated African Americans are unwilling to operate retail stores because of opportunity cost considerations.

The research agenda in the fields of immigrant and minority self-employment is rich and varied. The purpose of this study is to suggest reorientations in emphasis that may enrich our understanding of immigrant self-employment and small business behavior generally.

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Notes

¹ Statistics on self-employment cited in this study are drawn from the U.S. Bureau of the Census Characteristics of Business Owners (CBO) data base, unless otherwise stated. The CBO data are accessible to researchers willing to work on-site at approved Census Bureau locations.

² Includes professional services, finance, insurance, and real estate, and business services.

³ Numerous interesting variations of these regression exercises are possible. When the Table III exercises were replicated using nonminority self-employed, results closely approximated those for nonimmigrant Asian owners.

⁴ Self-employed Vietnamese are excluded from Table V. The four dominant groups in the Asian immigrant small business community – Asian Indian, Filipino, Korean, and Chinese – are all quite similar in the sense that, relative to nonminorities, the average business startup owner is more highly educated (more likely to be a college graduate) and the firm begins operation with significantly greater financial capital. Vietnamese firms, in contrast, do not fit the high human capital, high financial capital profile of the Asian immigrant small business community.

⁵ The CBO data base did not record age of firm, as such, in its data files: firms were dated by years of current owner involvement only.

⁶ The source of these total household income figures is the CBO data base.

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