

## **A study of Native American small business ownership: opportunities for entrepreneurs**

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### **ABSTRACT**

Entrepreneurship and small business ownership can be considered essential to both economic growth and development of new products and services. Indeed, according to the U.S. Small Business Administration, the 27.9 million small businesses accounted for 64 percent of all net new jobs created from 1993 to 2011, and also accounted for 99.7 of employer firms in the United States. However, despite these impressive numbers, Native American businesses account for the smallest number of firms (under 300,000) among those considered minority owned. This study examines characteristics of Native American small businesses and owners and provides key findings, including utilization of tribal and external business development programs.

Keywords: Native Americans, small business owners, business assistance programs

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## INTRODUCTION

With the western expansion of the early United States and relegation of Native American tribes to reservations came poverty and for many, loss of hope. Not only would a way of life be lost for many, Native Americans generally lost out on the opportunities for wealth and success the new growing nation offered both citizens and new immigrants to the United States. Instead, some would argue that Native Americans became dependent on various government programs. Data seems to bear out that assumption. Journalist John Stossel reports that Native Americans have the highest poverty rate at 25 percent, the lowest life expectancy, and 66 percent of Native American babies are born to single mothers (creators.com).

Hackbert (2006) reported the poverty rate for Native Americans on reservations to be 31.6 percent in 2000 compared to 6.3 percent for the United States overall. In addition, among Native Americans living on reservations, Hackbert (2006) cited unemployment to be 50.42 percent in 2000. According to census data, from the first half of 2007 to the first half of 2010, the American Indian unemployment rate increased nationally 7.7 percentage points to 15.2 percent ([www.census.gov](http://www.census.gov)). During this same time period, the unemployment rate on the Blackfoot Reservation in Montana soared to 69 percent.

In 2007, the SBA reported 213,263 American Indian and Alaska Native-owned businesses without paid employees. This figure represents an increase of 20.6 percent from 2002 (Office of Advocacy, U.S. Small Business Administration). However, Native American owned small businesses with employees actually decreased in number during the 2002-2007 timeframe (Office of Advocacy, U.S. Small Business Administration).

For some tribes, the reservation system appears to work better than for others. This could be attributed to the particular tribal government, favorable results of tribal claims against the federal government, and revenues from casino gambling. Passage of the Indian Gaming Regulatory Act of 1988 (Hackbert, 2006) permitted reservations to operate casino gambling for the purpose of stimulating economic development with the expectation that entrepreneurial activity would also be stimulated.

Casinos such as the Foxwoods Resort Casino in Ledyard, Connecticut (Mashantucket Pequot Indian Reservation) and the WinStar World Casino in Oklahoma (Chickasaw Nation) provide substantial revenues which benefit not only members of the tribes but also local communities and the economies within those regions. The Choctaw Nation of Oklahoma, for example, provides millions of dollars in scholarships and to educational projects at all levels.

For many years, various state and federal programs targeted Native Americans with resources to start and operate small businesses. However, while casino gaming flourishes on many reservations, entrepreneurship education seems nonexistent. Most Native Americans lack the entrepreneurial training necessary in order to be able to identify potential business opportunities, determine financial and market feasibility, and successfully manage a business.

Native American owned firms represent the smallest number of minority owned small businesses when compared to African American, Hispanic, or Asian American businesses. Note that data from the U.S. Small Business Administration that refers to Native American owned small businesses, also includes businesses owned by Alaska Natives. In addition, of the 260,671 Native American small businesses, only 23,704 of those businesses can be considered employer firms. Furthermore, those who identify themselves as being of two or more races could be Native American (U.S. Census, Survey of Business Owners).

According to 2008 U.S. Census projections ([www.census.gov](http://www.census.gov)), Native Americans and

Alaska Natives combined number 3.08 million persons of the total U.S. population of 304 million (2008 estimate), or 1.01 percent of the entire U.S. population. Native Americans in addition to those persons who identify themselves as being of two or more races in combination total 4.86 million persons, or 1.60 percent of the total U.S. population.

As very little research exists with regard to Native American small businesses, often the best source of information comes from government collected data such as the Survey of Business Owners. According to the 2007 Survey of Business Owners (SBO), California reports the largest number of Native American owned firms at (45,629 or 19.3 percent of all Native American owned firms), followed by Oklahoma and Texas. Surprisingly, the SBO reports that the two cities with the largest number of Native American owned firms as New York City followed by Los Angeles (U.S. Census, Survey of Business Owners, 2007).

## LITERATURE REVIEW

Perhaps the most important reason for fostering entrepreneurship among Native Americans could be the possibility of lifting many Native Americans out of poverty. Even for Native Americans not living on reservations, they consistently rank highest in poverty. The U.S. Census reports poverty rates for Native Americans living on reservations at 39 percent, non-reservation Indians at 26 percent. This compares to 25 percent for African-Americans, 23 percent for Hispanic/Latinos, 18 percent for Pacific Islanders, 13 percent for Asians, and 9 percent for Caucasians ([www.census.gov](http://www.census.gov)).

Although the total number of Native American small businesses continues to increase, those with employees decreased 3.2 percent during the 2002-2007 period (0.9 percent of all U.S. businesses). In 2007, Native American businesses numbered 236,967 for an increase of 17.7 percent during the five-year time period of 2002-2007. These American Indian- and Alaska Native-owned firms accounted for 0.9 percent of all nonfarm businesses in the United States, employed 184,416 persons (0.2 percent of total employment) and generated \$34.4 billion in receipts (0.1 percent of all receipts).

A study by Garsombke and Garsombke (2000) provides an interesting insight into possibly why fewer Native Americans become entrepreneurs. The study, based upon Native Americans in Wisconsin and Minnesota, examined differences between Native American and non-Native American entrepreneurs. The researchers found significant differences in the way Native American entrepreneurs think and their business orientation. Based upon interviews, the researchers found Native Americans to be much more community oriented, as opposed to individual oriented, than non-Native Americans. In addition, Garsombke and Garsombke (2000) reported Native Americans to be much more subjective rather than objective in decision making, when compared to non-Native Americans.

Garsombke and Garsombke (2000) also identified perceived barriers Native Americans face when considering starting a business. Aspiration, lack of formal business education, limited access to capital, discrimination, and communication skills ranked as the top five barriers. With the exception of access to capital, each of these reported higher for Native Americans.

In this study, the researchers sought to determine whether Native American small business owners took advantage of the various business assistance programs offered by their particular tribe and/the small business development agencies.

## DEFINITION OF TERMS

*employer firms*-employer businesses are firms with paid employees, including workers on the payroll and excluding sole proprietors and partners. (U.S. Census, Survey of Business Owners, 2007).

*Native American*-a member of the indigenous peoples of North America (World English Dictionary, retrieved from <http://dictionary.reference.com/browse/Native+American?s=t>) Note: This term includes U.S. Census data under categories titled Alaska Natives and American Indian.

*micro-enterprises*-businesses that are owned and operated by one person or family, have fewer than five employees, and are usually financed with loans of less than \$35,000 (First Nations Development Institute, 2002).

*nonemployer firms*-nonemployer businesses are firms without paid employees, including sole proprietors and partners of unincorporated businesses that do not have any other employees on the payroll. (U.S. Census, Survey of Business Owners, 2007)

*SBA*-the U.S. Small Business Administration, the federal agency that oversees programs designed to assist small businesses.

*SCORE*-the Service Corps of Retired Executives, a program of the U.S. Small Business Administration that leverages use of active and retired business executives who volunteer their time and expertise to provide free counseling and training programs for small businesses.

## METHODOLOGY

Using a compiled database of small business owners, the researchers queried the database to select small businesses with less than 500 employees and although (generally) from across the nation, the researchers chose not to select businesses from states recently impacted by hurricane Sandy along the east coast. Therefore, the researchers purposely deselected businesses from states such as New Jersey and Connecticut. Survey responses represent data from small businesses in 24 different states. The greatest number of responses came from small businesses located in the states of Washington, North Carolina, Arizona and Oregon, which collectively make up half of the sample.

The researchers selected ten thousand email addresses of small business owners and emailed the survey questionnaire. Many of those ten thousand email addresses proved invalid, possibly due to a change in the email address or perhaps due to the small business no longer being in operation. The remaining 8,112 small businesses received the emailed survey and after an additional follow-up reminder 828 small business owners responded with usable survey data, resulting in an effective 10.2 percent response rate. Of those small businesses responding to the survey questionnaire, 63 self-identified as Native Americans. However, as some Native Americans can be of mixed race, some survey question responses will show up to 135 responses (see Table 1).

## FINDINGS

The researchers found a relationship between *race* and *industry* ( $p=.000$ ), meaning that the researchers found Native American small businesses significantly more likely to be in the

construction industry than other industries (see Table 2). This confirms data reported in the U.S. Census, Survey of Business Owners which reports construction firms as ranking highest of industry type and 30.5 percent of all Native American owned firms (U.S. Census, Survey of Business Owners, 2007). This could be attributed to construction of casinos, hospitality, and tourism facilities. Native American firms sometimes earn a 5 percent bonus on these contracts in addition to preferential awarding of contracts.

Results of the survey found a relationship between *race* and *number of employees* ( $p=.000$ ) in that small businesses owned by Native Americans to employ somewhat more employees than businesses owned by small business owners representing other racial classifications. This finding came as a surprise to the researchers as the *Native American Entrepreneurship Project Report* (cited in Hackbert, 2006) found Native American businesses tended to be micro-enterprises, with fewer than five employees. However, this could be attributed to the Native American sense of community and the importance of providing employment to other members of the tribe.

The researchers found a relationship between *race* and *gender* ( $p=.000$ ). Consistent with data from the SBA Office of Advocacy, Native American small business owners report male business ownership.

Survey responses support a relationship between *race* and *region of the country* ( $p=.033$ ). Based upon this study, small businesses owned by Native Americans are more likely to be in the West or Southwest. However, as previously stated, survey responses only represent small businesses in 24 states and the researchers specifically selected states with higher populations of Native Americans, while avoiding states still recovering from Hurricane Sandy along the East Coast.

As there are many small business owners who served in the military and also might have assistance in starting a business, the researchers sought to determine how many Native American small business owners would be veterans. Survey results show significant relationship between *race* and whether the business owner is a veteran ( $p=.039$ ) and find Native American small business owners less likely to be veterans. This appears to sharply contrast findings of a study by Watkins & Sherk (2008) that reported Native Americans significantly overrepresented in the military. Their study found that while Native Americans make up 2 percent of the military, Native Americans only account for about one percent of the total U.S. population.

An important goal of the researchers was to determine whether there could be differences between Native American businesses owned by those affiliated with a tribe and those not tribally affiliated. Of those who responded to the survey, either as partially or wholly Native American owned, 86.8 percent reported tribal affiliation. Of those associated with a specific tribe, 8.5 percent indicated their tribe offered financial assistance, 27.1 percent reported the tribe offered business counseling, 23.7 percent reported the tribe offered workshops, 10.3 percent reported the tribe offered other forms of business assistance, and 55.9 percent indicated they didn't know what business assistance the tribe offered

Among those small business owners associated with a specific tribe, 4.9% have utilized financial assistance, 4.6% have utilized business counseling, 6.1% have utilized workshops, and 4.9% have utilized "other" forms of tribal business assistance and 78.7% have not utilized any form of tribal business assistance.

In Table 5, the reader can see that of those small businesses that are partially or wholly Native American owned, 55.4% utilized SBA services, 14.5% utilized SCORE, 22.9% utilized

business or economic development groups, 16.9% utilized services from local colleges, and 39.8% did not utilize any nontribal assistance programs. Interestingly, we found a relationship between *race* and whether or not the SBA was utilized ( $p=.008$ ). Results of the study indicate that Native American owned small businesses to more likely to utilize services from the SBA.

## **SUMMARY AND CONCLUSION**

Survey results clearly show that Native American small business owners utilize external business assistance programs such as those offered by the SBA and SCORE. However, Native American small business owners do not utilize tribal business assistance programs to the same degree. Survey results indicate that 78.7 percent of Native American small business owners did not utilize any form of tribal business assistance however, whereby only 39.8 percent of Native American small business owners did not utilize any nontribal assistance programs (see Table 6).

### **Implications for business development agencies**

Data indicate that although the number of Native American business grew at a robust rate during the 2002-2007 timeframe (17.7 percent increase), the number of Native American business with employees actually decreased by 3.2 percent. This suggests that there could be management issues that business development specialists could address. Possibly, not only could fewer Native American businesses go out of business but perhaps more could grow into larger businesses. Adding employees to the payroll could also help alleviate the unemployment and poverty rates among Native Americans. It should also be noted that according to the Survey of Business Owners, Native American businesses tend to be very small and only generate on average, receipts of \$32,227.

As stated earlier, Native American small business owners do not utilize tribal business assistance programs to the same degree as they utilize external forms of small business assistance such as through the SBA and SCORE. This could be due to a lack of tribal business assistance programs, perceived quality of those programs, or some other reason.

### **Implications for further research**

Developing new entrepreneurial ventures could be the means to reduce poverty among Native Americans and in addition, benefit both national and local economies. Since the early 1980's various state and federal economic development agencies began a concerted effort to assist minority businesses, though very little research exists with regard to Native American small businesses.

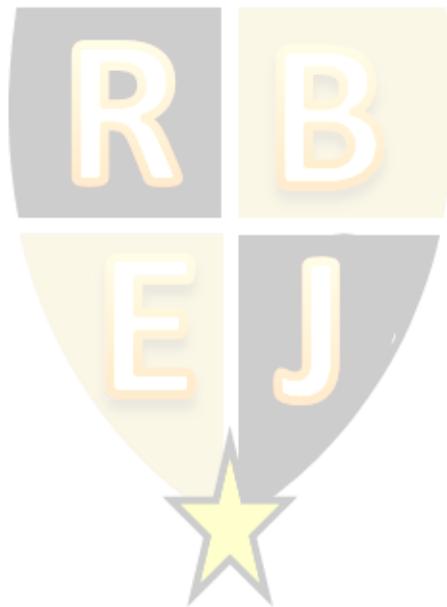
Results of this study find several significant differences from findings in other studies. First, the study by Hackbert found Native American small businesses to more likely be microenterprises whereas our findings suggest Native American businesses to be somewhat larger in terms of number of employees. This could be attributed to the fact our sample included a significant number of construction firms which typically hire more employees.

Second, our findings indicate fewer Native Americans to be military veterans, whereas the study by Watkins and Sherk report Native Americans as over-represented in the military. A study by Bressler, Bressler, and Bressler (2012) reported that this could be attributed to the fact that most veteran entrepreneurs tend to have been senior enlisted or officers when they served.

Senior enlisted soldiers and officers generally retire from the military with pensions large enough to assist them while starting their new business venture, and in addition, will have medical benefits if needed. Further study could confirm whether this could be the reason, or if some other explanation can account for this discrepancy.

In addition, Garsombke and Garsombke (2000) reported the importance or orientation and other barriers. As their particular study focused on Native Americans in Wisconsin and Minnesota, it would be interesting to see whether Native Americans from other tribes face similar or other barriers when starting a business venture. Results of this research could assist both tribal and government agencies in development of new business assistance programs.

Finally, as the least researched group of minority owned businesses there could be much more we could learn to identify best practices among the most successful Native American small businesses and help promote those best practices across other Native American small businesses.



**APPENDIX**

Table 1-Native American Business Ownership

<b>Is your business Native American owned?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
	No	714	86.2	89.5	89.5
Valid	Yes	84	10.1	10.5	100.0
	Total	798	96.4	100.0	
Missing	System	30	3.6		
	Total	828	100.0		

Table 2-Ownership by Racial classification

<b>Race</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
	White	589	71.1	72.1	72.1
	Native American	63	7.6	7.7	79.8
	Hispanic	61	7.4	7.5	87.3
Valid	Black	49	5.9	6.0	93.3
	Asian	32	3.9	3.9	97.2
	Two or more	23	2.8	2.8	100.0
	Total	817	98.7	100.0	
Missing	9	11	1.3		
	Total	828	100.0		

Table 3-Tribal affiliation

<b>Affiliated with a particular tribe?</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
	No	49	5.9	41.9	41.9
Valid	Yes	68	8.2	58.1	100.0
	Total	117	14.1	100.0	
Missing	System	711	85.9		
	Total	828	100.0		

Table 4-Availablity of tribal business assistance

**Does your tribe offer financial assistance?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	75	9.1	93.8	93.8
	Yes	5	.6	6.3	100.0
	Total	80	9.7	100.0	
Missing	System	748	90.3		
Total		828	100.0		

**Does your tribe offer counseling?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	63	7.6	78.8	78.8
	Yes	17	2.1	21.3	100.0
	Total	80	9.7	100.0	
Missing	System	748	90.3		
Total		828	100.0		

**Does your tribe offer workshops?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	66	8.0	82.5	82.5
	Yes	14	1.7	17.5	100.0
	Total	80	9.7	100.0	
Missing	System	748	90.3		
Total		828	100.0		

Table 5-Utilization of Tribal Business Assistance programs

**Have you utilized any tribal assistance programs?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	17	2.1	12.6	12.6
Valid None	118	14.3	87.4	100.0
Total	135	16.3	100.0	
Missing System	693	83.7		
Total	828	100.0		

**UtilizedFinancial**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	132	15.9	97.8	97.8
Valid Yes	3	.4	2.2	100.0
Total	135	16.3	100.0	
Missing System	693	83.7		
Total	828	100.0		

**UtilizedCounseling**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	129	15.6	95.6	95.6
Valid Yes	6	.7	4.4	100.0
Total	135	16.3	100.0	
Missing System	693	83.7		
Total	828	100.0		

**UtilizedWorkshops**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	127	15.3	94.1	94.1
Valid Yes	8	1.0	5.9	100.0
Total	135	16.3	100.0	
Missing System	693	83.7		
Total	828	100.0		

**UtilizedOtherTribal**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	130	15.7	96.3	96.3
	Yes	5	.6	3.7	100.0
	Total	135	16.3	100.0	
Missing	System	693	83.7		
Total		828	100.0		

Table 6-Utilized government and other other forms of business assistance

**UtilizedUSSBA**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	416	50.2	58.5	58.5
	Yes	295	35.6	41.5	100.0
	Total	711	85.9	100.0	
Missing	System	117	14.1		
Total		828	100.0		

**UtilizedScore**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	568	68.6	79.9	79.9
	Yes	143	17.3	20.1	100.0
	Total	711	85.9	100.0	
Missing	System	117	14.1		
Total		828	100.0		

**UtilizedDevGroups**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	527	63.6	74.1	74.1
	Yes	184	22.2	25.9	100.0
	Total	711	85.9	100.0	
Missing	System	117	14.1		
Total		828	100.0		

**UtilizedCollege**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	582	70.3	81.9	81.9
	Yes	129	15.6	18.1	100.0
	Total	711	85.9	100.0	
Missing	System	117	14.1		
Total		828	100.0		

**UtilizedAnyNontribal**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	377	45.5	53.1	53.1
	None	333	40.2	46.9	100.0
	Total	710	85.7	100.0	
Missing	System	118	14.3		
Total		828	100.0		

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