Experiences of Somali Entrepreneurs: New Evidence from the Twin Cities*

Shannon Golden, Yasiin Garad, and Elizabeth Heger Boyle

I. Introduction

In 2004, in the pages of this journal, Hussein Samatar put a human face on the difficulties that challenge Somali business owners in Minnesota. He also provided an overview of the impressive accomplishments of these industrious individuals. Here, we identify what has improved since 2004 and the challenges that remain. To do this, we use findings from a survey of 135 Twin City business owners (90 Somali owners and 45 non-Somali owners).

We find that Somali business owners are optimistic about their long-term success. They tend to have plenty of informal experience with entrepreneurship through their parents, other family members, or friends. Somali business owners, especially those with street-front businesses, now talk regularly to each other, and this can provide another source of informal learning. In addition to the benefits of knowledge picked up informally through family or other business owners, Somali entrepreneurs appear to make excellent use of formal training (if they have had it) in their business practices. Less encouraging, we find that several problems identified by Samatar persist. Few Somali business owners have written business plans. In our sample, less than half of the Somali entrepreneurs in suuqs (malls) had bank accounts for their businesses. The percentage of Somali entrepreneurs who borrow from formal financial institutions, such as banks, is miniscule. Market saturation is still a huge factor, limiting business growth and increasing the risk of business failure. In the next several sections, we elaborate on
these findings and assess how far the Twin Cities are from the goal of widespread, successful Somali businesses.

A few cautionary notes are in order before we begin our discussion. We have information only on ongoing businesses and solely those in the Twin Cities. We infer that certain business practices create greater risk of business failure, based on Samatar’s and other’s discussions of good business practices. At this point, however, we cannot definitively link the traits we find with the actual success or failure of the businesses we studied. Over the course of the next several years, we will follow the fortunes of the business owners initially surveyed to determine who achieves the goal of continuous profitability.

II. Background

Hussein Samatar estimated in 2004 that there were 550 Somali-owned businesses in Minnesota. In the ensuing years, that number has grown. In the Twin Cities metro area alone, we identified 129 Somali-owned street-front businesses and an additional 245 Somali-owned businesses within suuqs. The prolific establishment of businesses by Somalis in Minnesota is a remarkable achievement. Yet, Somali business owners face potential problems that can severely limit the long-term success of their individual enterprises and drain resources from the Somali community as a whole.

To learn more about Somali entrepreneurial achievements and challenges, we administered surveys to 90 Somali business owners and 45 non-Somali business owners from June 2008 to May 2009. The latter were matched to Somali enterprises by the geographical location of their businesses and the length of time they had been in operation. We refer to these latter business owners as the “control group.” We sampled approximately 38 percent of all Somali street-front businesses in the Twin Cities and 17 percent of Somali businesses within malls. A complete description of our methodology is available in the Appendix.

We organize our discussion around the following issues: (1) planning, (2) relationships with financial institutions, (3) customers and customer relations, (4) sources of information/support networks, and (5) business owners’ outlooks. These categories track issues raised by Samatar to the extent our data allows.
III. Planning

One concern raised by Samatar was a lack of planning among Somali business owners. Samatar narrated the stories of individuals who started businesses with little knowledge of the product they were selling or the customers they had to reach. He gave the specific example of partners who bought a restaurant without considering menus, portion costs, pricing, equipment, sanitation, and a host of other crucial issues. He also noted that Somali retail businesses were too often competing to sell virtually identical products to the same group of potential customers. Thus, one of the questions we considered in our survey is whether Somali business owners are now showing signs of greater preparation prior to investment.

The results were mixed. (See Table 1) Clearly, too many goods chasing too few customers remains a major concern. A substantial majority (88 percent) of Somali business owners report that too much competition for their products or services is a serious problem, compared to just 36 percent of control group owners. Similarly, among individuals who want to grow their businesses, Somali business owners are much more likely than control group members to cite market saturation as a barrier to growth: 93 percent and 38 percent, respectively.

In an attempt to understand how so many Somali businesses end up in this situation, we considered differences between Somali entrepreneurs who report market saturation as a problem and those that do not. Somali business owners in malls reported market saturation slightly more frequently than street-front business owners, but the difference was not statistically significant. A more important factor appears to be the nature of support networks. For example, business

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<tr>
<th></th>
<th>Somali Business Owners</th>
<th>Control Group Business owners</th>
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<tbody>
<tr>
<td>Too much competition for products/services business provides*</td>
<td>88%</td>
<td>36%</td>
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<tr>
<td>Market saturation is a barrier to growth*</td>
<td>93%</td>
<td>38%</td>
</tr>
<tr>
<td>Has written business plan*</td>
<td>30%</td>
<td>64%</td>
</tr>
<tr>
<td>Among those with written business plans, percentage who received professional support in preparing it*</td>
<td>59%</td>
<td>17%</td>
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*Indicates the relationship is statistically significant at the 0.10 level, or lower.
owners who consulted non-Somali friends about opening a business were significantly less likely to report problems with market saturation. Not surprisingly, the broader the range of individuals consulted about opening a business, the better the business’ ability to target a unique customer base. Overall, it appears that market saturation continues to plague Somali entrepreneurs. Broad consultation with a wide variety of individuals prior to opening a business may be one way to avoid this problem.

Market saturation can be evidence of poor planning. A written business plan, in contrast, is evidence of forethought. It indicates that entrepreneurs have given significant attention to the best ways to make their businesses profitable. Although most Somali business owners are not preparing business plans before opening their enterprises, our evidence indicates that a significant minority is creating them. Among those surveyed, 30 percent of Somali business owners had a written business plan. This compares to 64 percent of control group owners. There is still a long way to go in educating Twin City entrepreneurs of all backgrounds about the benefits of written business plans, but it is a positive sign that nearly one-third of Somali business owners already have them.

Furthermore, the results look even better when examined closely. Samatar noted that the most useful business plans must be developed in consultation with professionals. In this regard, Somalis with business plans fare better than their control group counterparts. Among Somalis with business plans, 59 percent had worked with professionals to develop their plans, while among control group members with business plans, only 18 percent had worked with professionals. So we conclude that, if Somalis do create business plans, they make the effort to do them correctly. In fact, the percentage of Somali business owners with professionally guided written business plans is comparable to the percentage of control group owners with the same. A significant portion of Somali owners may be approaching their enterprises with more forethought than was true in 2004. The next step is to extend these good business practices to more individuals.

IV. Relationships with Financial Institutions

Samatar identified mistrust of the American banking system among many Somalis, which leads to negative consequences for businesses. There are pitfalls to raising money primarily through personal savings, family, and friends. When businesses begin with this foundation,
they tend to be undercapitalized. In addition, family and friends rarely insist on a careful outside review of business projects—an essential prerequisite to loans from financial institutions. Even within ongoing Somali businesses, Samatar noted in 2004 that cash flow, income, and balance sheet statements were rare.

We considered the extent of these problems in the current period and found that Somali business owners are still significantly less likely to have relationships with formal financial institutions than other business owners. (See Table 2) Although 27 percent of Somali business owners reported borrowing money as a source of start-up capital, the vast majority borrowed informally from family, friends, or other individuals. Many more control group members reported borrowing money to start their enterprises (64 percent), and more than half of their borrowing was from financial institutions. Nonprofit organizations, such as the African Development Center (ADC), headed by Hussein Samatar, provide a promising alternative to traditional institutional lenders. Our data is inconclusive concerning the extent to which these organizations are being used by Somali entrepreneurs, but we suspect that that their use is widespread. Hopefully, the ability of these organizations to provide funding, accompanied by advice and oversight, will continue to increase.

Another consequence of mistrusting U.S. banks may be the low incidence of business bank accounts among Somali entrepreneurs. Samatar noted in 2004 that many Somali businesses operated solely on a cash basis. He explained how this could get businesses in trouble with state and federal tax authorities, and that businesses with such accounting systems will never secure term loans from financial institutions. Bank accounts make record keeping and formal accounting easier and more transparent.

Table 2. Differences In Relationships With Financial Institutions, Sample Versus Control Group

<table>
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<tr>
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<th>Somali Business Owners</th>
<th>Control Group Business owners</th>
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<tbody>
<tr>
<td>Borrowed money to finance business*</td>
<td>27%</td>
<td>64%</td>
</tr>
<tr>
<td>Borrowed from a financial institution, not family or friends*</td>
<td>4%</td>
<td>51%</td>
</tr>
<tr>
<td>Uses bank accounts for business*</td>
<td>70%</td>
<td>96%</td>
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*Indicates the relationship is statistically significant at the 0.10 level, or lower.
To assess the extent of this problem, we asked survey respondents whether they had bank accounts for their businesses. We learned that nearly all (96 percent) of control group business owners, but only about two-thirds (70 percent) of Somali business owners, maintained bank accounts for their enterprises. Malls and street-front businesses were very different along this dimension. Less than half of Somali business owners operating in a suuq had bank accounts (49 percent), compared to 88 percent of street-front business owners. In other words, among Somalis operating a street-front business, the rate of bank account use was more comparable to control group business owners. Somalis operating in malls were far behind the other two groups. The lack of bank accounts leaves the mall businesses vulnerable to accounting irregularities and bookkeeping difficulties.

Again, the ADC has been actively involved in improving this situation. The organization has worked with social service and government agencies to create bank accounts and financing options for business owners that are compliant with Islamic law. The ADC has been at the national forefront in developing Sharia-compliant alternative lending, based on the resale of assets at a profit, rather than receiving interest payments. This may explain, at least in part, why so many street-front businesses are operating through the formal banking system. Our results suggest that the ADC’s continued work in this area is very important for increasing the integrity of Somali enterprises in malls.

V. Customers and Customer Relations

Migrant businesses that can attract native-born as well as immigrant customers are the most likely to succeed. In the Twin Cities, appealing to other recent immigrant groups, such as Oromos and Sudanese, will also be important. And, of course, most Somali business owners want other Somalis to feel comfortable in their businesses. One of the most successful businesspersons identified by Samatar in 2004 tried to appeal to customers of all ethnic and national backgrounds, and this was a key reason for the significant business achievements. On the other hand, Samatar was concerned that most Somali business owners would be unable to cope with non-Somali customers, if any should appear before them.

To explore this issue in greater depth, we first asked owners if they targeted their businesses to particular customers. (See Table 3) Just eight percent of Somali business owners report that they gear
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Table 3. Customers and Customer Relations, Sample Versus Control Group

<table>
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<tr>
<th>Product or Service Orientation</th>
<th>Somali Business Owners</th>
<th>Control Group Business Owners</th>
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<tbody>
<tr>
<td>Products or services are oriented towards a particular group of clients*</td>
<td>8%</td>
<td>53%</td>
</tr>
<tr>
<td>Average percent of clients who are Somali</td>
<td>74%</td>
<td>n/a</td>
</tr>
<tr>
<td>Routinely provide customer credit*</td>
<td>24%</td>
<td>47%</td>
</tr>
<tr>
<td>Never provide customer credit*</td>
<td>32%</td>
<td>36%</td>
</tr>
<tr>
<td>Routinely negotiate prices*</td>
<td>49%</td>
<td>27%</td>
</tr>
<tr>
<td>No bank accounts, providing credit is routine, AND negotiation over price is routine*</td>
<td>12%</td>
<td>0%</td>
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*Indicates the relationship is statistically significant at the 0.10 level, or lower.

their products or services toward a particular group of customers, compared to over half (53 percent) of control group business owners. Despite these intentions, Somalis comprise the majority of clients for Somali-owned businesses. On average, Somalis make up 74 percent of the clientele for the Somali business owners in the sample. Once again, street-front businesses fare better than businesses in suuq. There is a statistically significant difference between mall and street-front businesses, with Somalis making up an average of 82 percent of mall clients but just 68 percent of street-front business clients.

There are many factors that go into making customers comfortable with a new business. One factor is whether the business follows the pattern of interaction that a customer expects. This can create difficulties for Somali business owners because different customers may have different expectations. For example, a white, native-born woman from Edina may expect to walk through aisles of products, all of which have clearly marked prices. She may be unprepared for a shopping style that requires direct interaction with a business owner who takes items off displays and presents them to her. She may be unable to assign value to items that have no price tags and she may be uncomfortable negotiating prices. On the other hand, Somali customers may insist on direct interaction with the owners of small businesses and view price negotiations as an essential part of that transaction.

Focusing on one element of owner-customer interactions, we asked business owners whether they routinely negotiate prices with customers. We found that more Somali business owners negotiate prices than do the control group owners. Forty-nine percent of Somali respon-
dents routinely negotiate prices compared to just 27 percent of non-Somali respondents. The relatively high level of negotiation by Somali business owners may discourage certain non-Somali customers from entering Somali-owned stores.

Negotiating prices with customers can also indicate informality and may make it more difficult for business owners to develop stable cash flow and financial projections for the future. Other factors, such as the location of businesses and the availability of free or low-cost parking, are also likely to influence the customer base of Somali-owned enterprises. These are important considerations for insuring the long-term viability of businesses.

Another element of client relations discussed by Samatar was the provision of credit. Samatar provided the example of a restaurant that paid its suppliers within 15 to 30 days of receiving goods. However, the restaurant was routinely extending credit to its customers, who tended to pay in 45 to 60 days. This created serious cash flow problems for the business. We are cautiously optimistic that this situation has improved. Our surveys show that some Somali business owners routinely provide credit to their customers (24 percent), but this is less common than it is among non-Somali business owners (about 47 percent). (These percentages do not include credit card transactions.) Samatar’s example suggests the collection of debt may be more of an issue than the extension of credit. Unfortunately, our data do not provide information on that particular issue.

The combination of no bank account, the routine provision of credit, and commonly negotiating prices makes businesses particularly vulnerable to problems. Such attributes make it more difficult for business owners to track debt, collect overdue accounts, or plan for the future. While none of the control group business owners had this combination of factors, 12 percent of Somali business owners reported no bank accounts, regular provision of credit, and routine negotiation of prices. We would expect these businesses to be particularly vulnerable to failure.

VI. Formal and Informal Sources of Information

Are Somali business owners cooperating and sharing information? Networks are important for providing positive support for new businesses. Samatar was concerned that mistrust may have been impeding such dialogue in 2004. He suggested this lack of collaboration could be
particularly harmful for business owners in malls because it provided an opportunity for exploitation by landlords.

Both good news and bad news emerge from our data on this front. (See Table 4) The good news is that Somali entrepreneurs talk to other business owners at a rate similar to control group members (60 and 58 percent, respectively). Additional good news is that Somali street-front business owners are more likely to talk to other business owners than control group business owners. The bad news relates to mall businesses. While 72 percent of street-front store owners talk regularly with other business people, just 46 percent of mall business owners engage in that activity. Notably, market saturation not only hurts profits, it also undermines communication. Somali business owners concerned about competition were significantly less likely to report that they talk regularly to other business owners than those who said market saturation was not a major problem. Mistrust and competition among business owners in malls lead to an environment of isolation rather than cooperation.

Turning to other types of networks, about the same percentage of Somali business owners (43 percent) and owners in the control group (42 percent) reported having partners. While partners can be beneficial in business, Samatar noted that most Somali business partnerships are informal, thus leading to a “revolving door of partners” that can actually drain resources from the community and the business. Somalis also tended to identify family networks as a source of motivation to begin their businesses. While 71 percent of Somali business owners indicated that their primary caretaker when they were growing up was an entrepreneur, only 29 percent of the control group said the same.
This affected the motivation to become an entrepreneur. Seventy-one percent of Somalis reported that the knowledge gained through their family’s experience with entrepreneurship made starting their own business come more naturally. Only 47 percent of the control group made such a claim.

Turning to more formal networks, the Somali business owners in our sample were less likely than members of the control group to have had training, such as workshops or seminars, related to running a business. Forty percent of Somali entrepreneurs had business training, compared to 62 percent of control group owners. Training has important benefits so this discrepancy represents a serious problem.

For example, among Somali business owners in the sample, those who have had business training are less likely to report being in danger of failing in the last three years. Nearly half (48 percent) of those without business training have been in danger of failing, while just 27 percent of those with business training report being near failure.

VII. Owners’ Assessments and Outlooks

Somalis are generally optimistic. Compared to control group entrepreneurs, they anticipate fewer problems and make more positive assessments of their businesses and their abilities. Samatar, however, provides a cautionary note:

The nearly universal belief among Somali entrepreneurs that they will become rich very quickly if they can only open a business often leads them to jump into a business venture without thinking it through. While this underscores great creative energy and a strong work ethic, it is also a source of overconfidence that overlooks the necessary preparation for a venture.

We find support for Samatar’s argument that optimism and overconfidence may be linked for some Somali business owners. (See Table 5)

First, Somali business owners were less likely than control group owners to indicate they were in danger of failing at some point during the last three years (41 percent of Somalis versus 56 percent of the control group). While this may be a positive indication of the relative success of Somali businesses compared to non-Somali businesses in their neighborhoods, it may also indicate that Somalis wear rose-colored glasses when they assess their businesses.
Samatar also suggested that Somali entrepreneurs did not incorporate government regulations into their planning, which can lead to problems. For example, Samatar provided the story of business owners who sought to add a coffee shop to their existing retail space. They ran into headaches when the contractor they hired to remodel the space failed to acquire the necessary city construction permits. In another example, Somalis bought a gas station without realizing it was under investigation by the Minnesota Pollution Control Agency. The rules and regulations governing businesses are complex and multi-layered in the United States and “ignorance of the law is no excuse” for violations. Entrepreneurs who open businesses without an awareness of these rules and regulations do so at their peril.

Our study provides evidence that this may still be a problem. If business owners indicated their business had been in danger of failing in the last three years, we asked them to identify the significant problems facing their businesses. In response, 33 percent of control group owners cited problems with rules and regulations. In contrast, only 10 percent of Somali owners cited rules and regulations as a proximate cause of their business troubles. Given the background provided by Samatar, we see these figures—which might at first blush seem encouraging—as troubling. These statistics may indicate that Somali business owners are not fully informed about the legal requirements that govern their enterprises. For business owners who are, or recently were, on the brink of failure, some type of code violation may well push them over the edge.

Somali business owners tend to think their businesses are doing well. They may be right or they may be overconfident. Our planned follow-up study of these businesses will allow us to assess which conclusion is true.

Table 5. Differences In Outlook, Sample Versus Control Group

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<tr>
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<th>Somali Business Owners</th>
<th>Control Group Business owners</th>
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<tbody>
<tr>
<td>Business has been in danger of failing in last three years*</td>
<td>41%</td>
<td>56%</td>
</tr>
<tr>
<td>Among those who report their business has been in danger of failing, percent reporting that understanding rules and regulations is a major problem*</td>
<td>10%</td>
<td>33%</td>
</tr>
</tbody>
</table>

*Indicates the relationship is statistically significant at the 0.10 level, or lower.
VIII. Conclusion

“Ethnic economies,” or vibrant retail centers that attract customers of all types with the authentic food and products of a particular ethnic group, can buffer new immigrants from the unfamiliarity of the receiving society, facilitate their economic adaptation, help mobilize capital, control co-ethnic spending, provide a familiar kinship network structure, and promote values or norms that lead to economic achievement. They can motivate the location of new immigrants and assist the second generation by providing employment, routes to management or ownership, and respect for educational achievements acquired outside the United States.

Although not yet an ethnic economy, the Somali business community in the Twin Cities can provide some of the same benefits on a smaller scale. It can offer job opportunities to young people in the Somali community. Successful business owners can also share their experiences and increase the chance of success for others. The community can work with city officials to make the unique retail niche of Somalis a draw for out-of-town visitors. Many of the same benefits that ethnic economies attract can accrue to the smaller ethnic retail niche provided by Somalis in the Twin Cities if the necessary support is forthcoming.

The study related here increases our understanding of the experiences of Somali entrepreneurs and the strategies that may be most effective in helping them overcome challenges. Clearly, nonprofit organizations, such as the ADC, are necessary in order to educate business owners to identify their vulnerabilities and address them effectively. These organizations can also provide start-up and ongoing capital that is compliant with the religious beliefs of Somali business owners. It is also essential that government officials work with members of the Somali community to facilitate business successes. It is in the interest of all inhabitants of the Twin Cities for Somali enterprises to thrive.

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was made possible through funding from the Center for Urban and Regional Affairs and the Graduate Research Partnership Program at the University of Minnesota.

Notes

Bibliography


Appendix

The Surveys

In-person surveys for business owners were created to determine entrepreneurs’ pathways to business ownership, backgrounds, financing opportunities, and social networks. To administer the surveys, the co-authors approached businesses and scheduled a convenient time for conducting each survey. Interviewers spoke only to the owners of establishments. They administered all surveys in person. For the Somali participants, the surveys were administered in Somali or English, according to the respondent’s preference. For the control group, the surveys were administered in English. Depending on the complexity of the business and the number of distractions, the surveys took 45 minutes to 3 hours to complete. Business owners were paid a small fee for their participation.
Sampling

We compiled a list of Somali-owned businesses in Minneapolis and St. Paul based on: (1) Minnesota State Department filings; (2) local phone-books (general and featuring African businesses); (3) conversations with key informants; (4) newspaper articles and advertisements from general circulation and Somali newspapers; (5) key word searches on the Internet; and (6) observations at the primary locations where Somali-owned businesses operate (identifying businesses on the street and within office buildings). Using these methods, we identified 129 street-front businesses in addition to six malls. We divided street-front businesses into seven zip code zones and surveyed one-half of the businesses in each zone. This created a sample of 59 street-front businesses. Each of the malls encompassed 16 to 111 business stalls for a total of 245 additional businesses. Within the malls, our goal was to interview the owner in each eighth stall, although this turned out to be difficult in practice and the first author sometimes had to resort to convenience sampling within the malls—approaching entrepreneurs who were willing to speak with him. This added 31 surveys to the sample. The street-front sample and the mall sample combined create a total sample of 90 Somali business owners.

To generate the control group, we drew a sample of geographically matched businesses not owned by Somalis or other migrants for every second Somali-business-owner interview conducted. Non-migrant-owned businesses founded or acquired before 1995 were excluded, to more closely match the characteristics of the Somali businesses, all of which began after 1995. The control sample includes 45 native-born business owners.