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## Chapter 10

### Immigration, ethnicity and entrepreneurial behavior

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#### Introduction

This chapter is concerned with the question of whether or not immigrants and members of ethnic minorities behave differently to native-born and ethnic majority individuals when it comes to entrepreneurship, and if so, why? Understanding immigrant and ethnic minority entrepreneurship is important for two main reasons. Firstly, in some countries, immigrants and ethnic minority entrepreneurs make significant and unique contributions to the stock of business activity. Secondly, in some cases immigrants and ethnic minorities may face barriers to developing their full entrepreneurial potential, in addition to those faced by members of the indigenous population.

This chapter is organized as follows. In this introductory section, we define immigrant and ethnic minority entrepreneurs and identify what makes them different from other entrepreneurs. In the second section, we consider the literature with respect to rates of immigrant and ethnic minority entrepreneurial activity across countries and over time. In the third section, we review explanations for these differences in rates of entrepreneurial activity. Specifically, we review the evolution of theories and empirical evidence on immigrant and ethnic minority entrepreneurship over the past few decades. Next, we suggest what this means for policy, and describe selected examples of policy initiatives in different parts of the world. Finally, we pull it all together in a concluding

section that summarizes what we know and do not know about immigrant and ethnic minority entrepreneurship, and suggests future directions for research in this area.

Being an immigrant and being a member of an ethnic minority are two different characteristics of an individual, providing different life experiences and evincing different behaviors, although in practice the attributes are often closely inter-related. Two broad categories of origin are recognized: native-born i.e. those who live in the country of their birth, and immigrants i.e. those who were born outside their country of residence. Ethnic minority individuals are distinguished from those from the ethnic majority on the basis of commonly accepted socially or culturally distinctive categories with which they identify themselves<sup>1</sup>. In some countries, such as the United Kingdom (UK), these categories have labels that may refer to ancestral, rather than personal, geographical origin (e.g. Asian) or skin color (e.g. Black) or both (e.g. Black Caribbean). This is because in these countries, members of some ethnic minorities may be second or third generation migrants, with the younger generation being born, brought up and educated in the host country. In other countries, both ancestral and current geographical origin may be identified, for example African-Americans or Native Americans in the United States (US). Not surprisingly, ethnic majorities vary between countries. For example, in the UK and the US, the commonly accepted ethnic majority, and the label used in ethnic studies, is White<sup>2</sup>, while in Scandinavia, the ethnic majority is Nordic<sup>3</sup>. The characteristics of ethnic minorities also vary between countries, with former colonial influences reflecting the composition of ethnic minority communities in some European countries such as the UK, France and the Netherlands.

In the entrepreneurship literature, the distinction between a focus on entrepreneurship among ethnic minorities and among immigrants is not always clearly made. In some countries, such as Canada and Sweden, for example, a common working assumption is that in studying or working with ethnic minority entrepreneurs one is studying immigrant entrepreneurs. An important exception is research on indigenous communities, which tend to be treated as a special case. In the UK, on the other hand, the dominant focus by researchers and policy makers has been on ethnic minority business, although recently there has been an increasing recognition of the distinction between first generation and subsequent generation ethnic minority entrepreneurs, where generation refers to their immigrant status<sup>4</sup>. In the US, a distinction is sometimes made between voluntary and involuntary migrant communities; the principal examples of the latter being African-Americans descended from slaves, and Native Americans<sup>5</sup>. In seeking to understand the entrepreneurial behavior of immigrants and members of ethnic minorities, it is important to recognize that differences can exist between immigrant and/or ethnic minority groups in relation to characteristics that may have implications for their involvement in entrepreneurship. For example, the proportion of foreign-born individuals may vary greatly between different ethnic groups; age profiles of different ethnic/immigrant groups may be very different<sup>6</sup>; and there can also be differences in their educational profiles, all of which may be associated with the circumstances in which the group in question came to be in the country.

In an attempt at definitional clarification, Radha Chaganti and Patricia Greene<sup>7</sup> suggested a three-way split between immigrant entrepreneurs, ethnic entrepreneurs and minority entrepreneurs. The difference between ethnic and minority entrepreneurs is that

ethnic entrepreneurs are identified based on their degree of social affiliation with others of a similar national or immigrant background<sup>8</sup>, while minority entrepreneurs are identified solely on the basis of their identified ethnic origin. In practice, however, ethnic entrepreneurs are almost invariably a subset of minority entrepreneurs who may or may not be also immigrants.

The context for immigration also varies between countries. Immigrants may be perceived very differently by indigenous populations of immigrant-based societies, such as Canada, Australia and Israel, which seek and welcome newly arrived immigrants, compared with the populations of nation states with a dominant ethnic majority, where immigrants are in a minority and may be viewed with suspicion. This, of course, influences entrepreneurial behavior, and sometimes in unexpected ways. For example, in France, researchers have found that Maghreb immigrants may start their own business not because French society welcomes their entrepreneurial flair but because of discrimination in the labor market or expected discrimination in their workplace<sup>9</sup>. In Malaysia, the dominance of Chinese entrepreneurs in Malaysian business is a political issue, and has prompted government attempts to encourage entrepreneurship among the indigenous Malay population, which represent the ethnic majority<sup>10</sup>.

Because of its complexity and diversity, the topic of ethnicity and minority entrepreneurship is a difficult one to summarize in simple sound-bites given the difficulty to draw generalizations. However, in the remainder of this introductory section, we draw some major trends from the literature.

As the growth of small firms and self employment has become an increasingly widespread feature of economic development in the last 30 years, many immigrants and

members of ethnic minorities have contributed to this process. As Monder Ram and David Smallbone<sup>11</sup> have noted, despite problems of cross-national comparison, the rise of immigrant and ethnic minority entrepreneurship is an international trend, being especially prominent in Anglo Saxon economies, such as the USA<sup>12</sup>, the UK<sup>13</sup>, Canada<sup>14</sup>, Australia<sup>15</sup>, as well as in some continental European countries, such as the Netherlands<sup>16</sup> and France<sup>17</sup>. The factors influencing this trend vary over time and also between countries, representing a combination of the opportunity structures facing these groups, cultural factors influencing the propensity towards business ownership, and structural factors. One driver of this trend is demography. Many developing countries have rapidly growing populations and insufficient employment opportunities, while the more mature market economies have aging populations and low birth rates, needing an inflow of immigrants to fill positions that might otherwise be unfilled<sup>18</sup>, although the nature of these employment opportunities may change over time. A perhaps unanticipated side-effect of these economic migration flows is the corresponding increase in immigrant and ethnic minority entrepreneurship.

At the same time, the entrepreneurial record of immigrants and ethnic minorities is mixed. In some countries, regions and cities, certain immigrant and ethnic minority groups show a high propensity to engage in entrepreneurial behavior, bringing benefits to themselves and their host countries, while in other cases, immigrants and ethnic groups have performed less well in this respect. According to Ivan Light and Parminder Bhachu<sup>19</sup>, “the entrepreneurial performance of immigrant groups depends on the reception contexts” (p.13), and there is some evidence to support this. For example, studying ethnic Koreans in Japan and also in the US, Pyong Gap Min<sup>20</sup> found Koreans in

Japan, under dominant societal pressure to conform, to have low levels of entrepreneurship. In the US, by contrast, Koreans had high levels of entrepreneurship. Annie Phizacklea and Monder Ram <sup>21</sup> also reported considerable differences between the reception contexts for Pakistani-led businesses in the UK with Mahgrebian-led businesses in France. Ezra Razin<sup>22</sup> traced differences in self-employment rates of immigrants to Israel, Canada and California to the greater bureaucratization of the Israeli absorption process, its economic attributes and its regional policies in comparison to Canada and especially the US. This and other studies<sup>23</sup> suggest that immigrant entrepreneurs can be successful in some countries, relative to their employed peers, and less successful in others. The reception context can also vary tremendously within a country. For example, Razin found that new immigrants in Jerusalem and Tel Aviv had “Californian” rates of self-employment<sup>24</sup>. This research seems to confirm that the reception context of the receiving country is an important factor influencing the level of entrepreneurial activity of immigrant and ethnic minority entrepreneurs, perhaps in combination with the circumstances in which the in-migration took place. This has implications for policy, and we will return to this in a later section.

There is some debate about the historical contribution of immigrants generally to entrepreneurship in their host countries. This is complicated by the phenomenon of waves of immigrants from certain countries arriving on the shores of other countries at different times. Overall, however, immigrants seem to behave entrepreneurially in a way that does not displace employment chances of native-born individuals. They tend not to be as successful as natives in the labour market<sup>25</sup> and while it may take some time for immigrants to find their feet before starting up on their own, their business creation

activities are more likely to provide employment for other immigrants, again reducing displacement<sup>26</sup>. A further complication is that some immigrants are temporary; these so-called “sojourners” migrate for economic gain but intend to go home as soon as possible<sup>27</sup>.

In summary, immigrant and ethnic minority entrepreneurship seems to be a growing phenomenon, mirroring the latest wave of human migration that began in the closing decades of the 20<sup>th</sup> century. Being an immigrant and coming from an ethnic minority community bring different perspectives to entrepreneurship, and influences entrepreneurial behavior. It is therefore important to try to identify those factors and behaviours that distinguish immigrant and ethnic minority entrepreneurs from those of the indigenous and ethnic majority population. In the next section, we review research that seeks to identify how entrepreneurial immigrant and ethnic minority groups are.

### **How entrepreneurial are immigrants and ethnic minority groups?**

In this section, we review a selection of published estimates of entrepreneurship rates among immigrant and ethnic minority groups in a selected group of countries. Some of these estimates conflict because of different ways of measuring entrepreneurship; for example, as self-employment, as self-employment and employing others, and as starting a business. Self-employment rates are relatively static measures, as a considerable proportion of the self-employed can remain self-employed for many years. Starting a business, however, is a time-limited activity. Different people start businesses each year. So the rate of change in ethnic and immigrant self-employment may be slower than the rate of change in ethnic and immigrant business startup, if the ethnic and immigrant



makeup of a country is changing. Measurement issues aside, most indicators suggest that rates of entrepreneurial activity differ between different immigrant and ethnic minority groups within countries, across countries and over time.

Differences in rates of entrepreneurship by immigrant and ethnic status have important political implications. For example, supporters of immigration point to the economic contribution of entrepreneurial immigrants, while opponents argue that, on the contrary, immigrants are a drain on the receiving society. So it is important to understand the accuracy of the data that is available, and to interpret it carefully. Taking the US and the UK as case studies, we start by considering entrepreneurial activity over time among different ethnic groups with high and low rates of immigration, then look at rates over time among immigrants and natives, and finally attempt to reconcile differences in interpretation of trends by researchers in this area.

Using a broad definition of self-employment and Current Population Survey data, Robert Fairlie<sup>28</sup> found that the proportion of individuals who are self-employed in the US has moved in a narrow band between 9.5% and 10.5% between 1980 and 2003. Between 1994 and 2003, the proportion of Whites in the labor force that was self-employed hardly changed, with a 10 year average of 11.0%. The equivalent figure for African-Americans was 4.4%, for Latinos was 6.4%, and for Asians was 10.8%, thereby indicating that in the US case, members of some ethnic minorities demonstrate a lower propensity to engage in self employment than the white population. However, the 10-year trend line was down for Latinos and Asians and up for Blacks. By 2003, White and Asian self-employment rates were similar to each other and Black rates were approaching Latino rates. What this shows is that different ethnic groups with high current rates of immigration can have high

(e.g. Asian) or low (e.g. Latino) self-employment rates, and that non-immigrant groups of different ethnicity can have high (e.g. White) or low (e.g. Black) self-employment rates. Furthermore, rates of change in self-employment can differ between different ethnic groups over the same time period.

Recent measures of immigrant versus native self-employment for the US reveal some conflicting tendencies. For example, a report by Jeanne Batalova and David Dixon of the Migration Policy Institute<sup>29</sup>, using 2000 and 1970 Census data, suggested that non-farm self-employment rates for 18 to 64 year olds are about 10% higher for foreign born than native born individuals. This pattern is similar to that calculated by Maude Toussaint-Comeau<sup>30</sup> using the PUMS database for individuals based in metropolitan areas. On the other hand, using US Census Bureau data on self-employment from 1960 to 1997, Steven Camarota of the Center for Immigration Studies<sup>31</sup> came to a different conclusion: “while immigrants were once significantly more entrepreneurial than natives, this is no longer the case. Since 1980, immigrants and natives exhibit remarkably similar levels of entrepreneurship” (p.7). Fairlie, using a different national annual sampling database (the Current Population Survey) and including both incorporated and unincorporated individuals who worked more than 15 hours a week and were self-employed as their primary employment, also found that immigrant self-employment rates in 2003 were almost exactly the same as those for the total labor force. The reasons for these different conclusions may lie in the way these rates were measured, but also in the fast-changing ethnic and immigrant makeup of the US, which is discussed below.

The number of immigrants has been growing in the US in recent decades, and thus Fairlie found that the proportion of immigrants among the self-employed has grown

from 10.9% in 1994 to 14.7% in 2003. As the proportion of Latinos in the population has grown, so too has their share of the self-employed, up from 3% in 1979 to 8.5% in 2003. Overall, the share of whites among the self-employed has fallen from 91.5% in 1979 to 79.3% in 2003, according to Fairlie's calculations. This suggests that the combination of an increase in immigrant Latinos and a rise in (native-born) Black rates may have changed the balance in self-employment rates in recent decades.

Unfortunately, Fairlie's data source suffers from high non-response rates, and this has led some to cast doubt on its reliability.<sup>32</sup> On the other hand, Fairlie points out, measures of other researchers may underestimate self-employed individuals with incorporated businesses, which tend to have the greatest economic significance. Moreover, as previously mentioned, self-employment rates are a less than perfect measure of entrepreneurship. Finally, these results take no account of differences in demographic characteristics between ethnic and migrant groups, such as age and gender, which may also contribute to variations in entrepreneurship rates. The age profile of foreign-born individuals in the United States is very different from that of the native-born. According to the US Census<sup>33</sup>, in 2000, 58% of foreign-born individuals of working age (20-64) were aged between 25 and 44, the peak age for entrepreneurial activity according to the 2003 Global Entrepreneurship Monitor United States Executive Report<sup>34</sup>, compared with only 51% of native-born individuals. In addition, the proportion of males to females in this key 25-44 age group was slightly higher for foreign-born and slightly lower for native-born individuals. This means that age and gender differences between foreign-born and native-born individuals could also account for some of the difference in entrepreneurial activity between them.

One of the few studies to control for age, gender, education, wealth, ethnicity and foreign-born status, and to measure people who were starting businesses rather than running existing businesses, is that of Phillip Kim, Howard Aldrich and Lisa Keister<sup>35</sup>. Using the Panel Study of Entrepreneurial Dynamics (PSED) random sample of 816 nascent entrepreneurs, i.e. individuals who were actively trying to start a business, and a comparison sample of non-nascent entrepreneurs, they found that being foreign-born, or having foreign-born parents, did not significantly change the odds of being a nascent entrepreneur, when the other variables were controlled for. However, being Black or Hispanic rather than White significantly increased the odds. This suggests an independent role for ethnicity rather than migrant status in entrepreneurship in contemporary American society. However, it should be noted that while the self-employment statistics suggest that Blacks have a low rate of self-employment, the PSED data suggest that Blacks have a high rate of business startup activity. Both are probably correct, but this again illustrates the measurement problems that can cloud our understanding of this area.

In the UK, a variety of databases suggest that self-employment rates vary widely among different ethnic groups, although when all ethnic minority groups are combined, their overall self-employment rate is similar to that of the ethnic majority, or White, population. As in the US, absolute (uncontrolled for other variables) rates of Blacks, both of African and Caribbean origin, tend to be much lower than the average, while rates among Pakistanis and Chinese tend to be much higher than average. The UK Small Business Service<sup>36</sup>, using Labour Force Survey data for spring 2003, found that ethnic majority and minority self-employment rates were identical at 11%, although there were significant variations between ethnic minority groups, with Asian rates of 14% and Black

rates of 7%. It must be recognized, however, that factors other than ethnicity may help to explain such variations in the propensity towards entrepreneurial behavior, including an individual's age, education and socio-economic status. The UK ethnic minority population is considerably younger than the ethnic majority population, which largely reflects differences in birth rates. According to Jonathan Levie<sup>37</sup>, age difference accounts for the bulk of the overall difference in entrepreneurship rates between ethnic groups in the UK.

In the same study, immigrants had significantly higher entrepreneurship rates than those who had never moved from their home region (8.4% versus 4.3%) but, interestingly, did not have significantly higher entrepreneurship rates than UK-born regional migrants within the UK (7.0%). Levie's analysis of Global Entrepreneurship Monitor data suggested that neither immigrant status nor ethnic minority status significantly changes the odds of being a nascent or new entrepreneur, when a range of demographic and attitudinal variables is controlled for. However, being a recent migrant (i.e. having arrived in the region within the last 4 years) increased the odds, although being an ethnic minority recent migrant had the reverse effect. Thus, based on this analysis, in the UK, ethnicity appears to affect the speed with which individuals start businesses in a new location, whether they are immigrants or in-migrants.

As Per Davidsson<sup>38</sup> has emphasized, entrepreneurship must be interpreted in its social context, and this can be illustrated with reference to examples drawn from various European countries. Recent ethnic minority immigrants face a new social context, and it may take time for them to adjust before embarking on a new venture that requires local resources. There is some evidence for this, apart from the UK study by Levie, although

ethnic minority immigrants are not distinguished from ethnic majority immigrants in all studies. In Sweden, a detailed study of self-employed immigrants by Mats Hammarstedt<sup>39</sup> suggested that recent ethnic minority (i.e. non-Nordic) immigrants, irrespective of origin, had lower rates of self-employment than the native population. More established immigrants from Southern and Western Europe and Asia had higher levels, but that was not true of immigrants from other regions of the world. George Borjas<sup>40</sup> also found that self-employment rates were lower among recent immigrants than among those who had been resident for 5 to 10 years. However, Felix Buchel and Joachim Frick<sup>41</sup> studied sources of income in a number of European countries (but not the UK or Germany) and found that the proportion of income from self-employment was about the same for immigrants as for native-born across Europe. Together, these studies suggest that if entrepreneurship is initially low among recent immigrants in Europe, it may rise to at least match native-born rates once immigrants have become established.

From this summary of research on ethnic and immigrant entrepreneurship rates, it appears that ethnic minority and immigrant status, on their own, do not necessarily bring a higher propensity to engage in entrepreneurial activity. This is because of the need to consider other contingent factors, such as which ethnic minority an individual identifies with, the length of time an individual has lived in the host country; various personal attributes, the country of origin, the circumstances which led to migration, and the opportunities presented by the host environment. Further insight into how such factors are interrelated may be gained from the following section.

## **Why do different ethnic/immigrant groups have such different rates of entrepreneurial activity?**

There is a long-established literature on what makes ethnic minority and immigrant groups more or less entrepreneurial<sup>42</sup>. One stream of literature took the view that in ethnically stratified societies, opportunities emerged to act as economic middlemen. Early writers observed that certain ethnic groups acted as middlemen between the dominant class or race, and subject or minority races or ethnic groups. The minority groups constituted both markets and sources of supply for the ethnic majority groups and vice versa, but typically the majority would refuse to trade directly with certain minority groups thus creating an arbitrage opportunity for an ethnic minority group that was tolerated by both. Examples of this theory of middleman minorities (coined by Edna Bonacich in 1973<sup>43</sup>) included Chinese and Koreans serving a mainly Black and Latino customer base in parts of the United States, Indians in British colonial Africa, and Parsis in India. This phenomenon undoubtedly exists in certain contexts, although, at best, it offers a partial explanation for the differences in entrepreneurial activity found between different immigrant and ethnic groups, given that it applies only to situations where economic interaction with one ethnic group is avoided by another ethnic group, but a third ethnic group is tolerated by both.

Early literature on ethnic minority enterprise, such as that of Ivan Light, tended to emphasize the role of cultural differences between ethnic groups as a key element responsible for differences in entrepreneurship rates<sup>44</sup>. More generally, such explanations attach significance to so-called ethnic resources, such as family or co-ethnic labor, as a resource to initiate and sustain the enterprise. In later works, Light distinguished between

cultural practices that stemmed from the home country, such as rotating credit arrangements of some East Asian groups, from practices that arose from being in the host country, such as employing immigrant or ethnic resources, and between ethnic and class resources. As a simplification, one might think of resource-poor ethnic minority immigrants, based in urban ethnic enclaves, as most likely to draw on ethnic resources, while wealthier ethnic minority individuals might draw on their personal resources but also on their different, more individualistic, values<sup>45</sup>.

Other researchers have found that interaction between culture and entrepreneurship may be stronger in some groups than in others. For example, in an empirical study of 163 London-based immigrant entrepreneurs from six different immigrant communities (i.e. Indian, East African Asian, Pakistani, Bangladeshi, Turkish Cypriot and Turkish), Anuradha Basu and Eser Altinay<sup>46</sup> found that entrepreneurs' motives for starting their own businesses, their sources of start-up finance, and the degree of family involvement varied across the ethnic groups. However, they also reported that sometimes culture has little influence where one might expect it. For example, they found that Muslim entrepreneurs seemed just as likely to borrow from banks as non-Muslims.

This emphasis on cultural perspectives has been challenged, firstly, for over-emphasizing the role of ethnicity, rather than socio-economic status or the class of business owners<sup>47</sup>, and secondly, because insufficient attention being paid to the social and economic context in which ethnic minority firms are operating<sup>48</sup>. Such criticisms have informed a perspective, which has been described as a 'material structural' approach, which emphasizes the material constraints faced by ethnic minority businesses, notably racial discrimination, which limit their labor market opportunities<sup>49</sup>. In such a



view, ethnic minority business activity often arises from a context of disadvantage, rather than from the development of cultural or ethnic resources.

The “disadvantage theory” argues that those who are excluded from the mainstream economy because of discrimination may turn to business ownership as an alternative to the labor market, thereby choosing self-employment as an alternative to unemployment<sup>50</sup>. This theory has been used to explain why, in a wide variety of societies, immigrants and minorities often embrace entrepreneurship as a survival strategy and have high rates of small-business ownership<sup>51</sup>. As we have seen in the previous section, however, self-employment rates can actually be higher among more advantaged racial groups than among less advantaged racial groups. Thus the disadvantage theory does not completely explain the complex pattern of ethnic and immigrant entrepreneurship.

A further stream of literature, emerging in the 1980’s, introduced the idea of ethnic and immigrant entrepreneurship as stemming from the interaction of opportunities and resources rather than mainly from cultural values. The classic statement of this school was written by Howard Aldrich, Trevor Jones and David McEvoy in 1984: “the opportunity structure of the receiving society outweighs any cultural predisposition toward entrepreneurship” (p.205)<sup>52</sup>. In addition, Roger Waldinger<sup>53</sup>, among others, has written about the ‘other side’, that is, the disadvantages and sometimes dead-end nature of ethnic and immigrant entrepreneurship trapped inside an ethnic enclave. This theory seems much closer to mainstream entrepreneurial management theory which is based on the premise that entrepreneurs seize opportunities within a possibility set that is limited by the resources they can access<sup>54</sup>.

More recently, the emergence of the so-called ‘mixed embeddedness’ perspective, introduced by the Dutch researchers Robert Kloosterman, Joanne van der Leun and Jan Rath seeks to understand ethnic minority entrepreneurship by locating it more explicitly in the socio-economic milieu in which it operates<sup>55</sup>. In this view, ‘social’ aspects of ethnic minority entrepreneurship are assessed in the light of the economic and institutional contexts in which such enterprises operate. Accordingly, the particular forms that ethnic minority enterprises take will be influenced by a range of factors, such as their sector of activity, locality, labour markets and institutional support. The complex interplay of these processes, rather than the simple mobilization of ethnic ties, is likely to account for the manner in which ethnic minority firms ‘differ’ from the wider small business population. Hence, a key strength of mixed embeddedness is that it is a comprehensive perspective that aims to locate ethnic minority businesses in the wider societal structures in which they are embedded. The mixed embeddedness approach builds on the opportunity-resources approach by specifying some of the contexts for those opportunities and resources for ethnic minority and immigrant entrepreneurs, and in doing so achieves some reconciliation with earlier cultural perspectives and disadvantage theory. Mixed embeddedness emphasizes the role of the institutional framework in enabling and/or constraining immigrant entrepreneurship, not just in terms of the socio-economic aspects, but more widely to include legal restrictions, immigration policies, attitudes to small businesses and so on.<sup>56</sup>

The Dutch researchers noted how immigrants to Dutch cities had transformed derelict areas, introduced new ways of doing business, made transnational economic links; in short, created new economic activity and in ways that the native-born

community would never have conceived of. This perspective does not just distinguish between ethnic minority or immigrants and the native population; it recognizes that the particular origin and history of individuals, as well as their position within the host country, creates a unique set of circumstances that affects their propensity to engage in entrepreneurial activity. Mixed embeddedness recognizes the downside as well as the upside of ethnic and immigrant entrepreneurial activity; for example, discrimination in the labor market, the lack of capital forcing entry to highly competitive sectors, and the low returns of many immigrant and ethnic businesses. At the same time, it recognizes that the achievements that have been made that are a consequence of the origin and distinct cultures of these groups, often despite restrictions within the host society. The implications of a mixed embeddedness perspective for our understanding of individual behaviour in ethnic minority and immigrant groups, in an international context, are to emphasize the role of differences in national legal systems, policies on immigration and differences in socio-economic institutional frameworks as key influences.

Building on this, one of the positive aspects of a synthesis of culture and opportunity perspectives is awareness of the emergence of the transnational entrepreneur. Transnational entrepreneurship straddles continents. With their personal links in both host and origin country, transnational entrepreneurs can rapidly take advantage of innovative market-creation opportunities and arbitrage opportunities, shifting production across continents to gain competitive advantage. Because they do not have the routines of a large multinational organization, they can move more quickly. Although one theme in the transnational entrepreneurship literature has been the shift of entrepreneurs from highly regulated to less regulated economies, for example the presence of European

entrepreneurs in Silicon Valley as noted by Sami Mahroum in 1999<sup>57</sup>, a more positive one has been Anna-Lee Saxenian's documentation in 2002<sup>58</sup> of the Taiwanese "astronauts" who have shuttled regularly across the Pacific ocean to California, creating a major computer industry in Taiwan that is intimately connected with, and a major supplier to, Silicon Valley. Saxenian has also expressed the hope that the liberalization of the economy in India and other developing countries would prompt a similar flowering of transnational entrepreneurship by US-educated but foreign-born engineers.

Transnational entrepreneurs are not restricted to one highly visible California valley. They exist in other regions and other sectors. For example, Alejandro Portes, William Haller and Luis Eduardo Guarnizo<sup>59</sup> have researched Latin American transnational entrepreneurs in the US, and have found that they are well educated, well connected, and more likely to come from stable countries. Ewa Morawska<sup>60</sup> has documented three distinct varieties of transnational entrepreneurs in New York, while Bill Jordan and Frank Duvell<sup>61</sup> have studied how Turkish transnational entrepreneurs shift production of their garment industry between Turkey and London and back again according to market prices, labor costs and customer specifications.

Another emerging theme in the literature is the hypothesized link between (ethnic) diversity, entrepreneurship and competitiveness, often associated with the work of Richard Florida<sup>62</sup>. Drawing on the work of Jane Jacobs<sup>63</sup>, Florida argues that diversity influences economic competitiveness indirectly by fostering 'creativity'. Human creativity, in all its forms, is seen as the principal driving force of economic development. Creative people, Florida suggests, are attracted to tolerant places, which are understood in terms of low barriers to entry to people. Although Florida's work has been criticized on

the basis that correlation does not necessarily mean causality, the link between ethnic diversity, entrepreneurship and innovation has some empirical support. For example, in describing the role of Asians in London's creative sectors, Smallbone with Marcello Bertotti and Ignatius Ekanem<sup>64</sup> identified areas where ethnic diversity appeared to be a source of creativity and innovation, contrasting firms owned by young, relatively well educated Asians in London's creative industries, with the low value added nature of many traditional areas of Asian business activity in the UK.

To conclude, this section has traced the evolution of concepts of ethnic minority and immigrant entrepreneurship from early theories of cultural- and class-based disadvantage to a more balanced 'mixed embeddedness' approach. Empirically, this has been associated with a recognition of transnational entrepreneurs and of the contribution that ethnic and immigrant entrepreneurs can make to the regeneration of cities through creativity and innovation.

### **Policy and immigrant and ethnic minority entrepreneurs**

The previous section has given us a perspective on why immigrant and ethnic minority entrepreneurs behave in certain ways. We now take a look at government policy and how it may influence (positively or negatively) entrepreneurial behavior by altering the opportunities and constraints facing immigrants and ethnic minority groups to engage in entrepreneurship. First we consider different types of policy relevant to immigrant and ethnic minority entrepreneurship, followed by some examples of how such policies can, deliberately or inadvertently, affect ethnic minority and immigrant entrepreneurs.

There are a variety of ways in which government policies can affect the nature and extent of immigrant and ethnic minority entrepreneurship, particularly when a broadly based view of what constitutes policy is adopted. The contemporary interest in a ‘mixed embeddedness’ approach to explaining immigrant and ethnic minority entrepreneurship emphasizes the role of the institutional context in this regard, particularly in relation to the macro-economic, political and regulatory environment. The approach emphasizes that entrepreneurship and self employment, among any groups in society, cannot be understood by focusing solely on the micro level, because of the influence of institutional structures on the choices of individual actors.

This can be illustrated with reference to a paper by Kloosterman<sup>65</sup>, who presents a typology of policies that may affect the opportunity structures faced by immigrant and ethnic minority entrepreneurs. Kloosterman’s classification is based on a three-dimensional conception of opportunity structures, in terms of the types of policy impacts. It includes what he describes as policies with ‘direct’ impacts, such as deregulation or privatization; policies with ‘indirect’ impacts, such as policies that affect the price of factors of production; and ‘the effect of enforcement or non-enforcement’ of laws and regulations. Privatisation policies can increase the range of market opportunities, such as through outsourcing, although Kloosterman suggests that immigrants from less developed countries are not well positioned to benefit from such opportunities, because of their lack of ‘financial clout’. In contrast, the indirect effect of policies, in the Netherlands, aimed at increasing female participation in the labor force did have an impact on immigrant entrepreneurs, who are becoming increasingly active in personal services, such as house cleaning and childcare. Whilst this tendency is not caused by the indirect effects of policy

interventions, it is encouraged by them. Shifts in the enforcement regime can have significant consequences for immigrant entrepreneurs, particularly if they are heavily involved in informal economic activities.

As in the case of Kloosterman, the paper by Jock Collins<sup>66</sup>, in the same special issue of *Entrepreneurship and Regional Development*, also demonstrates the role of macro-level policies on immigrant entrepreneurship. Referring to the case of Australia, Collins shows how the changing policy context over the last 20 years has helped to shape the rates of formation and growth of ethnic minority enterprise, through its influence on the nature of the opportunity structures these entrepreneurs face. According to Collins, micro-level policies targeted at minority entrepreneurs remain underdeveloped in Australia, which helps to justify his emphasis on macro-level policies.

Other studies show the unforeseen consequences that can arise from regulatory policies, where immigrant and ethnic minority entrepreneurs adjust their business behavior in response to regulatory pressures. This can be illustrated with reference to Maggi Leung's study of Chinese restaurant owners in Germany, where regulations designed to maintain the authenticity of Chinese restaurants by controlling who can legally work as chefs in them, encouraged some restaurant owners to shift to fast food, where the skills required by staff are minimal<sup>67</sup>. The creativity of human nature, combined with the adjustment capability of small enterprises, means that the impacts of regulation are not always what policy makers intend. The effects of the regulatory environment are transmitted through a broad range of state activities<sup>68</sup>, including through the knock-on effect of immigration laws, which may not have had an intended influence

on entrepreneurship, but may do so in practice if they affect the status of immigrants and their descendants, for example, by contributing to their feeling of insecurity<sup>69</sup>.

In the UK context, restrictions on immigration, combined with birth rate trends, contribute to a growing proportion of second and third generation migrants in the ethnic minority communities. This has implications for entrepreneurship because younger members of these communities are increasingly reluctant to become involved in traditional family business activities, such as catering, and instead use their educational qualifications to gain entry to the professions and corporate employment<sup>70</sup>, or if they become entrepreneurs, to engage in higher value added activities than their forebears.

For some years, the entry of labor migrants into Germany has been highly regulated, which has had some specific implications for the involvement of immigrants in entrepreneurship. For example, Leung<sup>71</sup> describes the case of a program that encouraged the development of the Chinese catering sector in Germany in the 1960s. At this time, the German government initiated a skilled worker recruitment scheme with Taiwan, largely for political reasons. Under the policy, 5000 cooks from Taiwan were invited to work in Germany. Each chef was allowed to set up a restaurant and invite five others to join them, within five years after their arrival. Leung reports that this policy greatly affected the pattern of development of the Chinese restaurant trade in Germany, alongside the influx of Hong Kong Chinese, who entered Germany via the UK in the 1960s and '70s. This German-Taiwan agreement provides a specific example of politically motivated immigration policy impacting on the development of immigrant entrepreneurship.



Turning to measures specifically targeted at ethnic minority or immigrant entrepreneurs, at the micro level, a key aim in a number of countries has been the reduction of social exclusion and the raising of living standards in groups that are often among the more disadvantaged in society. Moreover, because of a tendency for ethnic minorities and immigrants to concentrate in particular localities, the development of some local economies, and the standard of living within them, may be heavily influenced by the nature and extent of business development among these groups.

Given the geographical concentration of ethnic minority and immigrant groups, and the fact that some of these are relatively disadvantaged, some governments have sought to develop support programs to boost ethnic minority and immigrant businesses through the work of dedicated agencies. In the US and in the UK, for example, government assistance for ethnic minority business developed in response to civil unrest, in the 1960's in the case of the US, and the 1980s in the case of the UK<sup>72</sup>. In the UK, targeted assistance has also been developed because of an apparent reluctance of some communities, notably Asians, to utilize mainstream business support services despite a higher than average level of self-employment<sup>73</sup>. There have been various approaches to this issue over the years, including the development of specialist business support agencies targeted at ethnic minority groups; the appointment of specialist advisers within mainstream agencies; and the use of 'cultural awareness training' for mainstream business advisers. However, it has been suggested that the key element is an approach that is focused on maximizing the level of engagement with ethnic minority and immigrant communities<sup>74</sup>.

In terms of the targeted support offered to ethnic minority and immigrant owned businesses, a key question concerns the extent to which their support needs are similar to, or distinctive from, those of other small firms. In a large scale survey of business support organizations across 15 EU member states and selected ‘Accession countries’, specialist support organizations for minority entrepreneurs identified a range of problems facing their clients, that in many cases were typical of those facing small businesses in general, but appeared to be particularly intense for ethnic minority entrepreneurs<sup>75</sup>. Problems identified included:

- difficulties in accessing finance for start up and business development;
- perceived discrimination on the part of some financial institutions and support providers;
- problems associated with language difficulties; and
- limited skills and experience in business and management issues.

Since finance emerges as the most commonly reported problem, we review the recent literature on this topic first. We then briefly review language and skills issues, and then consider access to public procurement, an issue which did not feature highly on this list but which has recently attracted the attention of policymakers in Europe.

Access to finance for ethnic minority entrepreneurs is a controversial issue. The most comprehensive study of this topic in the UK to date included a large-scale survey, comparing a sample of ethnic minority businesses in the UK with a White control group. It showed that, as a group, ethnic minority businesses were not disadvantaged in terms of start-up capital from banks and other formal sources<sup>76</sup>. This applied to their propensity to raise some finance, as well as to the typical percentage of total start-up capital raised.

However, more detailed analysis shows considerable variation between ethnic minority groups, with Chinese entrepreneurs showing significantly higher success rates in accessing bank finance compared with white owned firms, and their African and Caribbean counterparts significantly lower. In the US, David Blanchflower, Phillip Levine and David Zimmerman provide evidence that black-owned businesses in the United States experience higher loan denial probabilities and pay higher interest rates than white-owned businesses even after controlling for differences in credit-worthiness and other factors<sup>77</sup>. In addition, Fairlie<sup>78</sup> finds evidence that the relationship between assets and entry into self-employment appears to be much stronger for Blacks than for Whites. Using data on Trinidad and Tobago, David Storey also finds that denial rates on loan applications are higher for Africans compared with other ethnic groups, and interprets this as possible evidence of discrimination<sup>79</sup>. Along similar lines, using the 1993 National Survey of Small Business Finances, Ken Cavalluzzo, Linda Cavalluzzo and John Wolken find a substantial difference in denial rates between firms owned by Black Americans and white males, although unobserved variables like personal wealth may account for some of this difference<sup>80</sup>. They also find that Black American owners were less likely to apply for credit in lending markets characterized by higher concentration. Finally, Timothy Bates finds that racial differences in levels of financial capital partly explain racial patterns in business failure rates<sup>81</sup>.

Turning to language difficulties, Toussaint-Comeau<sup>82</sup> concluded from the fact that recent and less well educated immigrants have relatively lower self-employment rates than more established immigrants that policy initiatives that promote language and entrepreneurship training were worth considering for some immigrant groups. With

regard to language training, Alberto Davila and Marie Mora<sup>83</sup> demonstrated using U.S. Census data that immigrant entrepreneurs who are proficient in English earn more than those who do not, and that the economic return to fluency in English has grown over time. This would support the case for language training. Other researchers have shown that for some US immigrant groups in particular, poor English skills can restrict the opportunities available for entrepreneurs to within their own ethnic community<sup>84</sup>.

In the US, several government agencies have developed programs that cater specifically for immigrant rather than ethnic minority groups. An example from Maine in the US is StartSmart. This program uses one-to-one coaching rather than classes to cater for the specific needs of its very diverse clients, who come from all over the world with very different ideas about how businesses should be run and about the role of government in business<sup>85</sup>.

A potentially significant policy area that has been attracting increasing attention concerns access to procurement contracts from both public and private sector organizations by ethnic minority enterprises<sup>86</sup>. There is international interest in this topic, with policy makers and academics in some European countries looking closely at the US experience in this regard. For example, a potentially important source of opportunities for ethnic minority business in the US is the Public Works Employment Act of 1977, which requires state and local government to reserve 10% of federal funds for public works to contract with minority-owned businesses<sup>87</sup>. The focus is on so-called ‘supplier diversity initiatives’ and their potential for increasing market opportunities for ethnic minority businesses. The context is the need for increased business diversification among

ethnic minority firms, in order to increase the scope for significant business and income growth.

In the UK, few ethnic minority businesses appear to be successfully accessing procurement contracts. This may result from discrimination in some cases, but it is also affected by supply side factors, such as their typically small size and sectoral mix. This means that they do not always have the capacity to supply to match the purchasers' needs, or access to information about those opportunities that are available. Evidence of successful policy interventions from the US, where affirmative action and supplier diversity initiatives are well established, is somewhat mixed. Although there have been some notable successes<sup>88</sup>, such initiatives have also attracted criticism, because of allegations of favoritism and the effects of overly relaxed bidding procedures on the quality of supplies. One of the positive lessons that can be drawn from the US is that the private sector has recognized the 'business case' for the adoption of supplier diversity initiatives, since minorities now represent the largest sales growth markets for some products.

Having demonstrated that there are some real differences in the needs of ethnic minority and immigrant entrepreneurs, we now turn to issues related to their access to business support to help address these needs. A consistent finding of previous research on ethnic minority businesses is their low propensity to use mainstream national, regional or local business support agencies, often relying instead on self-help and informal sources of assistance<sup>89</sup>. The low take up of formal sources of business support draws attention to the capacity of mainstream business support agencies to cater adequately for the needs of ethnic minority firms. In this regard, based on the largescale study of business support for

minority entrepreneurs across Europe referred to above, Steve Johnson and Smallbone<sup>90</sup> identified five different approaches to delivering support to minority groups, as follows:

- ‘full integration into mainstream provision’, where ethnic minority and immigrant entrepreneurs are treated the same as any other clients;
- ‘targeted marketing and monitoring by mainstream agencies’, based on the assumption that the key reason for low take up of business support is a lack of awareness of mainstream provision by minority entrepreneurs;
- ‘special modes of delivery by mainstream agencies’, focusing on delivery methods that are suited to the nature and background of minority entrepreneurs;
- ‘special services within mainstream agencies’, since some groups of minority entrepreneurs may suffer from specific problems (e.g. discrimination) and/or suffer ‘general’ problems (e.g. access to finance) more intensely than do mainstream entrepreneurs; and finally,
- specialist agencies for minority entrepreneurs.

Johnson and Smallbone concluded that one of these approaches is not necessarily superior to others in all circumstances, and for all groups of entrepreneurs. This is because of differences in the size and distribution of ethnic minority groups, differences in needs, and differences in business support models in different countries and localities. What is important, however, is to ensure that support for minority entrepreneurs is not marginalized, and that specialist support, regardless of the type of organization providing it, needs to be linked in appropriate ways with mainstream provision of support services to small businesses in general.

In concluding this section, we note that policymakers see scope for enhancing both the opportunities for doing business for members of ethnic minority and immigrant groups, for example, through opening up public procurement systems, and enhancing the resources available to entrepreneurs, for example by improving access to finance and upgrading language and business skills. We have seen that how governments do this can be just as important as what they do. Delivery often needs to be customized so that targeted policies actually reach ethnic majority and immigrant groups, whilst at the same time not isolating them from mainstream support services. Instead, support for these groups should act as a bridge to the wider economy, if it is to avoid marginalising them.

## **Conclusion**

What do we know about ethnic minority and immigrant entrepreneurship and what do we not know? While our review is not exhaustive, it does reveal the tremendous diversity of rates and types of entrepreneurial activity among different ethnic minority and immigrant groups both within and across countries. Current context and past history shape the individual decisions of people to start a restaurant that sells the food they used to eat in the ‘old country’, for example, or to grow a transnational clothing enterprise that shuffles the links of its value chain between countries to the rhythm of global supply and demand. The result is a kaleidoscope of ventures that add immeasurably to the variety of entrepreneurship in a nation.

Clearly, our knowledge of the nature and extent of entrepreneurial activity among different ethnic sub-groups is partial. As in other aspects of entrepreneurship research it is affected by the quality of the data available. Researchers working with different databases

come up with different answers to the question how does entrepreneurial activity vary across different ethnic and immigrant groups. Getting an accurate answer to this question is an important part of the evidence base needed by governments to make appropriate policy interventions. We are also just beginning to understand what may become a powerful globalizing and wealth-creating force: transnational entrepreneurship. At the other end of the scale, we need to understand how ethnic entrepreneurs can break out of the confines of their local ethnic communities and generate wealth from the wider economy, and what policy measures and delivery mechanisms are appropriate in this regard.

The need for answers to these questions prompts us to make the following specific suggestions for further research. On the topic of entrepreneurship rates, the recent emergence of large scale databases of nascent and new business entrepreneurship such as PSED and GEM holds out the possibility that researchers will be able to more accurately quantify the entrepreneurship dynamics of different ethnic and immigrant groups, getting closer to the phenomenon than self-employment data alone permits us to do, provided they contain sufficiently large samples of individual ethnic minority or immigrant sub-groups. With this proviso, such large scale databases are necessary to isolate differences in entrepreneurial activity that are due to being a member of a particular ethnic or immigrant group from those that could be due to other, more basic factors such as age or education. They may also enable us to more accurately estimate the apparent phenomenon, noted by several researchers, that entrepreneurial activity can change with time in country, or even time in region, as immigrants move out from ethnic enclaves and disperse through a host country.



At the same time, such large scale studies are usefully complemented by detailed case study research that can provide a greater understanding of the processes operating and the social context in which particular ethnic and immigrant groups find themselves, and the implications these have for entrepreneurial activity. A particularly challenging subject for case study research is transnational entrepreneurship, because of the global reach and shifting nature of the phenomenon. As trade barriers fall, and as the quality of communications and transportation improve while costs decline, transnational entrepreneurship may well become a significant feature of the global economy. Researchers may have to create new transnational consortia to track and understand this phenomenon. There remains considerable scope for high quality, policy-related research in the field of ethnic minority and immigrant entrepreneurship, which adopts the broadly based view of policy and institutions, represented in the mixed embeddedness framework. Proper contextualisation of policy approaches is essential if useful and relevant lessons are to be drawn from the growing international experience in this field.

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## End Notes

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