Ethnic minority entrepreneurship: Influencing factors of ethnic minority entrepreneurs’ entrepreneurial activities.

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ABSTRACT

Purpose: Ethnic minority entrepreneurs make a significant social and economic contribution with their entrepreneurial activities. This research, therefore, aims to clarify the meaning of ethnic minority entrepreneurship and highlight the factors that influence ethnic minority entrepreneurs’ decision to engage in entrepreneurial activities.

Design/methodology/approach: In this secondary research, existing literature has been reviewed and integrated to highlight factors that influence ethnic minority entrepreneurs.

Findings: This research could also create opportunities for further research in the ethnic minority entrepreneurship domain and help policymakers in understanding the needs of ethnic minority entrepreneurs.

Research limitations/implications: These influencing factors are categorised into cultural aspects, disadvantage aspects, opportunity aspect and the resource aspect.

Practical implications: Insight of this paper could help to clarify the meaning of ethnic minority entrepreneurship and provide a better understanding of the drivers and barriers of it.

Originality/value: This paper is original

Paper type: Literature review

Keywords: Entrepreneurship, ethnicity, ethnic minority entrepreneur, immigrant entrepreneurship, entrepreneurial activity.

Received : February 9th
Revised : March 12th
Published : March 31st

I. INTRODUCTION

Entrepreneurial activities exist in every society on earth but, owing to some systems of government, entrepreneurship is encouraged in some societies, while it is discouraged in others. Entrepreneurs, therefore, may travel to the most favourable environment where they can conduct their entrepreneurial activities (Ram & Smallbone, 2003). Ethnic minority entrepreneurship has become an important area of study among academics, since it is specific enough to be analysed separately from other areas of entrepreneurship (Glinka, 2018). In addition, ethnic minority entrepreneurs have very high propensity of engaging with new venture creation (Basu, 2008; Carter et al., 2015), therefore, it is important to have good understanding of what ethnic minority entrepreneurship means and what factors influence on ethnic minority entrepreneurs’ decision to engage in entrepreneurial activities.

A. Ethnic minority and minority entrepreneurship

In one of the earliest pieces of literature on ethnic minority entrepreneurship, Weber (1978) defined ethnic groups as a group of people who have similarities in physical type or custom, or both, and can form a group where they do not have to have a blood relationship. While Weber’s definition indicates some sense of belonging of the individual to a group, Wimmer (2008) defined ethnicity in relation to how those people construct differences from other people and establish boundaries for their group with individual culture and
norms. Wimmer’s perspective, however, does not clarify the context, while Bhopal (2004:441) provided a simple and clear definition. The author mentioned that “ethnicity refers to the group to which people belong, and/or are perceived to belong, as a result of certain shared characteristics, including geographical and ancestral origins, but particularly cultural traditions and languages”.

The main concern of this paper is ‘ethnic minority entrepreneurship’, which is one of the most important topics considered by entrepreneurship researchers and, therefore, defined by a number of them. Masurel et al. (2004) defined ethnic minority entrepreneurship as business activities in a particular location undertaken by individuals from different cultural background to the indigenous population. Valdez (2008) defines ethnic entrepreneurship as business ownership among immigrants, an ethnic group, or both. It is important to highlight that some researchers have used the term ‘immigrant entrepreneurship’ interchangeably with ‘ethnic entrepreneurship’ (Chand & Ghorbani, 2011). Waldinger (1990) stated that there are some differences between them; ethnic entrepreneurship refers to entrepreneurial activities of a certain ethnic group, but immigrant entrepreneurship refers to the business activities being undertaken by all kinds of immigrants present in a country.

On the other hand, the term ‘minority entrepreneurs’ does not clearly refer to a precise group of people, because minority entrepreneurs can be misunderstood as the business owners who are not from the majority people (Ken Clark & Drinkwater, 2010). It varies from region to region, because entrepreneurs from urban areas are a minority in the metropolitan city (Sriram et al., 2007).

B. Why ethnic minorities become entrepreneurs

Ethnic minority entrepreneurship researchers have identified various causes of the business entry decisions of ethnic minority entrepreneurs. Basu (2008) claimed that increased immigration can increase the number of entrepreneurs. He further mentioned that immigrants become involved in business activities for different reasons, which can be classified as ‘push’ and ‘pull’ factors. Like many other ethnic minority entrepreneurship researchers, Basu used self-employment as a term to explain the entrepreneurial activities of minority entrepreneurs. The author highlighted an important insight, saying that market discrimination and a lack of skills ‘push’ ethnic individuals towards self-employment. On the other hand, their orientation towards vision, risk-taking attitudes and opportunities ‘pull’ them towards self-employment. Among the numbers of other theories that have been proposed to describe the entrepreneurial orientation of ethnic minorities, disadvantage theory, cultural theory, opportunity structure theory and mixed embeddedness theory have been used the most (de Vries, 2014; Jones et al., 2014). Disadvantage theory suggests that because of the relative disadvantages in the labour market with language deficiencies and non-recognition of foreign qualifications, people accept entrepreneurship (Ley, 2006). On the other hand, cultural theory suggests that social norms, beliefs, and family ties have a significant impact on the business start-up intention of ethnic minority entrepreneurs (Volery, 2007). Singh & DeNoble (2003) talk from an opportunity perspective and explain that the majority of immigrants leave their home country looking for a better life for themselves and their families. In addition, Basu (2004); Singh & DeNoble (2003) stated that the unavailability of a suitable labour market, an assumed earning advantage, the desire for upward social mobility in the host country and the entrepreneurial culture in the group can be responsible for the entrepreneurial activities of ethnic minorities. It was noticed that prominent researchers have used a number of theories to understand ethnic minorities’ involvement in entrepreneurial activities. This section looks into those theories from cultural, disadvantage, opportunity and resource perspectives.

C. Cultural aspects

Most studies on ethnic minority entrepreneurship are based on the issue of culture and agree that national culture can have greater influences on individual’s economic activities. In addition to that, Global Entrepreneurship Monitor (GEM) report has always highlighted that the cultural and social norms are major strengths of entrepreneurial orientation. The report also mentions that these elements work as a differentiating factor in various countries for entrepreneurial activities. Piperopoulos (2010) conducted a study using face-to-face interviews with 391 ethnic minority entrepreneurs from 8 different countries. Their study identified that ethnic entrepreneurs have such distinct traditional values and socio-cultural backgrounds, which not only differentiate between ethnic minority groups, but also contribute to the high rate of new venture creation. This finding is significant because it highlights the fact that ethnic minorities are hugely involved with new venture creation, despite having distinctive cultural values and social backgrounds; for example, ethnic communities such as Chinese, South-Asian and Korean communities have been able to succeed because of their distinctive cultural approach to entrepreneurship (Ram, 1997). The possible reasons for this may be because of an ethnic minority’s social engagement with their home country and the cultural norms of their community, which can act as an important factor for their entrepreneurial processes. This is also supported by Waldinger (1990), who mentioned that different cultural groups have a particular mix of pre-migration, migration and post-migration characteristics that influence engagement in economic activities in the host country. Similar findings were
identified by Ram & Carter (2003; Singh & DeNoble (2003), who claim that ethnic entrepreneurs have special skills and personal motivation, values and aspirations for achievement, which are brought from the country of origin and transform into entrepreneurial activities in a particular business sector. This reveals that individuals from a distinctive cultural background could act in a particular way and perform entrepreneurial activities in a distinctive manner.

When discussing of the cultural aspect, researchers have also attached importance to ethnic entrepreneurs’ social capital in identifying the determinant factors of their entrepreneurial activities. Ramachandran & Shah (2007) claimed that social capital benefits a firm in three forms, i.e., it provides information, gives power and ensures solidarity. This is also supported by Waldinger (1990), who pointed out that cultural values, such as family ties and group trust, are embedded in certain ethnic groups in order to succeed in business because members of that group consider them to be a part of that group and they like to help each other. For example, close kinship and peer networks generate social capital (employees, local customers and financial resources) and contribute to the success of South Asian businesses in Britain (Ibrahim & Galt, 2011). A similar scenario is also presented in a recent study conducted in New Zealand, which shows that in order to form a minority business, the ethnic individual exhibits interdependence with other members of the group who are located close to the network (X. Wang & Maani, 2014).

D. Disadvantage aspects

The disadvantage aspect describes how ethnic minority groups experience structural limitations when trying to enter the labour market, which pushes some of them to take up entrepreneurial activities (Basu, 2008; Parker, 2009; Volery, 2007). Discrimination can also be seen in the capital market and product markets (Basu, 2008; Parker, 2009). Discrimination in the labour market may occur by preventing ethnic minorities from giving paid employment or restricting them to low paid jobs (Ken Clark, 2015; Parker, 2009). Clark (2015) pointed out that expected earning differences between self-employment and paid-employment plays an important role in determining an ethnic minority’s business venture creation. Interesting findings from Chaudhry & Crick (2004) also show that ethnic entrepreneurs are disadvantaged in the labour market for a number of reasons including poor education and qualifications, negative events, discrimination and being underpaid at work. They further suggested that, even though these seem to be working as barriers to minority entrepreneurs when attempting to enter into potential careers, in return these barriers can be potential opportunities for minority entrepreneurs to create new ventures.

The findings of Clark (2015) highlight that ethnic workers are often not placed in highly demanding jobs that can give them the opportunity to progress in the corporate hierarchy, and they are not given appropriate job training for building skills. This disadvantaged group may later accept whatever they find available to them. In addition, ethnic minorities often suffer from earning differences in the labour market. This situation is clearly exemplified by the findings of Metcalf (2009), who shows that, in the UK, non-white men’s earnings are at least 10% less than equally qualified white men. This percentage has a significant disparity between different ethnic groups: 27% less for black African and Bangladeshi men and 15% less for black Caribbean and Indian men. Similarly, Heilman & Chen (2003) have found that, in terms of employee promotion, white individuals receive higher ratings in performance and high encouraging appraisals compared to their counterpart black individuals. As a result, ethnic minority entrepreneurs may consider entrepreneurship as an escape route from such uncertainty in unemployment, lower salary, limited skills and less promotional opportunity. Ethnic entrepreneurs believe that their achievement and success can come from their own effort, knowledge and skills and, thus, they do not need to depend on other work settings (Sequeira & Rasheed, 2007). This is also supported by Hussain & Matlay (2007); Ibrahim & Galt (2011), who have pointed out that the negative experience ethnic entrepreneurs encounter because of their cultural setting, as well as cultural barriers, can hinder their progress in the economic markets and can exclude them from companies. This could also, however, channel them into alternative success and economic development.

Discrimination in the capital market is evidenced by the reluctance of banks to offer loans to ethnic minorities. The loan denial rate has been noticeably higher for ethnic minorities compared to native people in the past; for example, Blanchard et al. (2008) surveyed study results and found that, in the USA, black-owned businesses are about twice as likely to be refused credit as white-owned businesses, and that blacks face higher interest rates compared to whites. The scenario is different in the UK, and researchers have not found any discrimination in the loan providing process between different races; for example, Fraser (2007) detects no sign of significant racial discrimination in access to loans in the UK loan market. Bates & Bradford (2007), however, found that when minorities encounter difficulties acquiring bank loans, they seek other funding possibilities including family finance, banks owned by minorities and trade credits. This implies that discrimination in the capital market cannot hold minority entrepreneurs back from their entrepreneurial activities but, rather, they find their own way to become an entrepreneur.

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In terms of product market discrimination, Parker (2009) was concerned that non-minorities may dislike buying products from minority entrepreneurs, which could cause a huge impact on the returns of minority businesses and, therefore, that they may be discouraged from becoming an entrepreneur. On the other hand, Ibrahim & Galt (2011) state that isolation from the mainstream product market benefits ethnic businesses in two ways, since it protects ethnic business from mainstream market competitors, as well as opening opportunities for entrepreneurs who cannot compete or integrate with the mainstream market. This may be one of the reasons for increasing the entrepreneurial activities of minorities in their own community. Sequeira & Rasheed (2007), however, claimed that excessive dependency on co-ethnic customers may restrict the potential growth of the business. In this regard, the findings of Kenneth Clark & Drinkwater (2000) clarify that Bangladeshi and Chinese entrepreneurs are highly likely to generate ethnic products, although it seems that these products will be consumed by co-ethnic consumers instead; seventy-five percent of entrepreneurs mentioned that customers from the majority community were the larger proportion of their customers. This may be true because Bangladeshi and Chinese communities own restaurants in the UK, from where British customers mostly consume their foods. This finding may not, however, be relevant across every other industry.

E. Opportunity aspects

Ethnic minority entrepreneurs require only low amounts of financial capital that turn out to be an opportunity for them to create a new venture. For example, Jamal (2005); Sriram et al. (2007) explained that ethnic entrepreneurship requires low amounts of financial capital owing to the smaller and specific markets that they operate and such markets are ignored by large organisations blaming security issues and low purchasing power of the poorer minorities. This may be because ethnic minority entrepreneurs only tend to focus on garments, services, groceries, confectionery, catering and other low-rewarding economic sectors; for example, in the UK ethnic minorities from India, Pakistan and Bangladesh compete in catering, clothing and the retail sectors, along with takeaways by Chinese and construction by Afro-Caribbeans (Azmat, 2010).

Ram & Smallbone (2003) posited that even though ethnic entrepreneurs require minimum investments, they may still face each other competitively in the same industry. In opposition to that, Singh & DeNoble (2003) pointed out that ethnic entrepreneurs generally avoid mainstream markets and demonstrate minimum inter-ethnic competition, which is considered as an opportunity by many ethnic minorities for creating new ventures. They further agree, however, that this situation significantly reduces the possibility of expanding businesses into a broader market because of the challenges they face outside of their community.

Moreover, ethnic entrepreneurs are privileged by knowing the needs of the customers from their own ethnic community, which brings them opportunities and attracts them to entrepreneurship. Ma et al. (2013) supports this, explaining that ethnic enclaves play a significant role by creating information networks, highlighting needs in the community and being a source of financial resources. Ethnic enclaves are geographical clusters of ethnic group members who can create economic communities to support themselves (Parker, 2009). Wauters & Lambrecht (2006) also claim that, owing to the knowledge and awareness of the ethnic group, ethnic entrepreneurs can create demand for the special ethnic products that open entrepreneurial opportunities. Moreover, knowing test and need of the same ethnic group, some entrepreneurs identify a gap in the products and services that are not available in the host country and, therefore, take the opportunity of being a mediator for importing them (Volery, 2007). For example, in the UK, Bangladeshi and Indian entrepreneurs dominate the South Asian clothing industry because they take advantage of the knowledge of their ethnic enclaves. Acknowledging the contribution of the ethnic enclaves in creating entrepreneurial opportunities, researchers also question their usability in some aspects, for example, C. L. Wang & Altimay (2012) stated that a second generation of ethnic minorities have started to transform their traditional ethnic-based businesses to professional and technology-oriented businesses in order to operate in a broader market. Thus, Parker (2009) thinks that such changes are making the ideas of enclaves less relevant as an entrepreneurial opportunity.

F. The resource aspects

While culture, disadvantage and opportunity can drive individuals to engage in entrepreneurial activities, an ethnic minority’s resources have also been considered as an important determinant of entrepreneurial venture creation by researchers; for example, Deakins et al. (2007) pointed out that ethnic minority entrepreneurs gain an advantage from low labour costs and a committed workforce in their communities. On the other hand, the findings of Chaudhry & Crick (2004); Sriram et al. (2007) have demonstrated that ethnic entrepreneurs have the benefit of strong networks and family and community resources for obtaining business information and practical knowledge about products and service market opportunities, which facilitate their new venture creation. Researchers also identified that ethnic entrepreneurs create ethnic enclaves, which provide access to cheap financial and human resources, while they have insufficient access to employment and economic resources (Silva, 2013).
In addition, families have a major role in the entrepreneurial activities of ethnic entrepreneurs, because ethnic entrepreneurs use the previous entrepreneurship experience of family members, as well as acquiring the financial and human resource support from that family to establish new ventures or to grow an existing venture (Deakins, 1996). This is also supported by the findings of Chand & Ghorbani (2011), who posited that during the early phase of entrepreneurship, a family plays an important role by providing social capital in pursuit of economic advancement.

Hussain & Matlay (2007; Ram & Smallbone (2003) posited that ethnic entrepreneurs have never used, nor had benefits from, financial organisations because they have relied on their social resources, including families. Trust plays an important role in this regard, and this was highlighted by Chaudhry & Crick (2004), who argued that a family is a smaller version of social capital, where strong ties exist and the level of trust is higher among the family members. The patterns of start-up finances and use of family members varies, however, among the various ethnic groups (Basu & Altinay, 2002). They further added that the degree of dependency on family members and the use of family members would be different and, therefore, would influence new venture creation differently.

II. CONCLUSION

The influencing factors discussed above are general and relevant to ethnic minority entrepreneurs, especially in western countries. In this secondary research, some other relevant and important research may not have been identified and included unintentionally as literature has been searched using google scholar only. However, appropriate attention has been given, therefore, identified factors can open new insights for ethnic minority entrepreneurship researchers who can take this research further by looking at each aspect discussed individually. This research could also assist policymakers to understand ethnic minority entrepreneurship better and know the factors responsible for their entrepreneurial activities. This knowledge could help policymakers to design a new policy framework to assist ethnic minority entrepreneurs to prosper businesses.

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