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# Ethnic Minority Entrepreneurship

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## Introduction

The importance of small and medium-sized enterprises (SMEs) is widely recognised. SMEs account for over 99% of businesses in OECD countries, 70% of employment and over half of value added (OECD, 2010). In many countries, ethnic minority owned SMEs are responsible for a considerable percentage of new business start-ups. For example, in the UK 6.3% of SMEs are ethnic minority led, contributing £25 billion to gross value added (Small Business Survey, 2010). Ethnic SMEs typically consist of two to fifty employees. They have a centralised decision-making structure whereby the members of a single ethnic family living in a host country own and manage the business (Basu and Altinay, 2002; Iyer and Shapiro, 1999) and possess limited financial, information and human resources (Altinay, 2008). Ethnic minority SMEs tend to dominate the hospitality and tourism industry, particularly the independent restaurant sector. The relative low entry barriers, limited skill requirements and the cultural business tradition of ethnic groups has led to an increase in the number of ethnic restaurants, takeaways and cafes in developed countries (Basu and Altinay, 2002; Basu, 2004; Basu and Goswami, 1999).

Whilst ethnic minority SMEs are surrounded by the cultural environment of their community, relying heavily on co-ethnics for the sale of their products (Ram and Hillin, 1994), they tend to be influenced by economic, political and socio-cultural aspects of the host community (Barrett *et al.*, 2002). Ethnic minority SMEs face fierce competition not only from other ethnic minority businesses but also from mainstream businesses and brands. Major retailers, groceries and other

service providers have adjusted their business strategies to target ethnic minority consumers, by selling ethnic products while attracting second generation immigrants whose needs and wants are more aligned with those of the host country.

The purpose of this chapter is to advance your knowledge on hospitality and tourism ethnic minority SMEs. Specifically, by the end of this chapter you should be able to:

- Explain the theories of ethnic minority entrepreneurship;
- Explain the immigrants' motives for self-employment;
- Evaluate how the networks of ethnic businesses influence their enterprises;
- Evaluate how the socio-cultural backgrounds of ethnic minority business owners influence their enterprises;
- Explain the strategic needs for ethnic minority businesses in order to remain competitive.

The chapter begins by presenting the theoretical background of ethnic entrepreneurship. The motives of immigrant entrepreneurship are discussed and then the relationship between ethnic networks and entrepreneurship is explored, by identifying related influential factors. Finally, the chapter considers competitive strategies that ethnic businesses can adopt to improve their performance and chances of survival.

## Theories of ethnic entrepreneurship

The nature of ethnic entrepreneurship is at the centre of a long-standing debate, with theory demonstrating a strong economic-sociological influence. One stream of literature suggests that ethnic SMEs are often simultaneously founded, owned and managed by one or more ethnic minority entrepreneurs, and hence, manifest certain cultural traits which are associated with the entrepreneur's origin (Zhou, 2004). Ethos and culture are ethnic resources conducive to entrepreneurship (Werbner, 1990). Wilson and Portes (1980) proposed the *ethnic enclave theory* to discuss the interconnectedness of ethnic SMEs with a complex system of co-ethnic social networks characterised by co-ethnicity, co-ethnic social structures and location (Light and Karageorgis, 1994). However, as ethnic enclaves are evolving into multi-ethnic neighbourhoods and new businesses developing in affluent middle-class suburbs, with skilled and educated second generations of ethnic minorities transforming the ethnic SME landscape, this theory has begun to lose its relevancy.

Another school of thought argues that the role of ethnicity has been overstated and proposes that attention is paid to class-based relationships and the wider socio-economic context in which ethnic SMEs operate (Virdee, 2006; Deakins *et al.*, 2007). Ward (1987) suggested that ethnic entrepreneurship arises as a reaction to the structural disadvantage in the labour market, whereby structural barriers in the socio-economic context act as a driver for entrepreneurial activity. Reconciling these opposing viewpoints, Waldinger *et al.* (1990) conceptualised the *interactionism approach*, which proposes that ethnic entrepreneurship stems from the interaction of the opportunity structures in the environment with ethnic minority group characteristics. In parallel to these theories the *concept of embeddedness*, first formulated by Polanyi (1957), was proposed by Granovetter (1985) as relevant to ethnic entrepreneurship. The embeddedness approach synthesises the previously advanced notions of ethnic disadvantage, ethnic resources and opportunities and class resources. It argues that the nature, depth and extent of an individual's ties into the environment are configuring elements of businesses. Therefore, the concept advances understanding of how broader socio-economic factors promote or impede the entrepreneurial process (Karlsson and Dahlberg, 2003). Immigrant entrepreneurship depends on the interaction of socio-economic and ethno-social characteristics of the immigrant group in the opportunity structure. For example, unemployment pushes immigrants towards entrepreneurial activity in traditional sectors (retailing, restaurants and cafes) where informal production gives them a competitive advantage. Additionally, immigrant entrepreneurs tend to set up businesses within their neighbourhoods, where high concentration of their co-ethnic population exists, and which allows them to establish a co-ethnic network with easy access to information, capital and labour (Altinay, 2008).

What is generally agreed by scholars is that entrepreneurship requires means as well as motive. Motive for entrepreneurship is a dominant factor in ethnic entrepreneurship theory. Whilst immigrants tend to be over-represented in the self-employment sector, there is little consensus over the reasons for immigrants' propensity to self-employment. Motives for self-employment are discussed in the section below.

## **Motives for self-employment**

Three sets of explanations for immigrant business entry are identified in the literature (Altinay and Altinay, 2006). The first set of explanations focuses on the disadvantage suffered by immigrants in the host country's labour market. Poor knowledge of the host country's language, lack of qualifications, lack of job market information and racial discrimination force immigrants into self-employment.