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**Transnational entrepreneurship and bootstrap  
capitalism : Social capital, networks and ethnic  
minority Entrepreneurs**

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**TRANSNATIONAL ENTREPRENEURSHIP AND BOOTSTRAP  
CAPITALISM:  
SOCIAL CAPITAL, NETWORKS AND ETHNIC  
MINORITY ENTREPRENEURS**

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## ABSTRACT

Based on a multi-disciplinary literature review of ethnic minority entrepreneurs' social capital and networks, this paper summarizes current theories and findings and proposes several hypotheses. Review findings show extensive use of ethnic social capital, including co-ethnic labor, co-ethnic markets and co-ethnic sources of finance. Also, studies found the presence and usage of dense co-ethnic networks (often transnational), which in many instances were considered essential to business success. However, certain ethnic groups did not make use of ethnic resources, lacked dense networks, and only utilized informal family networks. The hypotheses proposed in the paper will be tested as part of a larger, multi-year empirical study of ethnic entrepreneurship for which data collection is already completed for the Chinese, Italian, Jewish and Sikh entrepreneurs and non entrepreneurs.

## **TRANSNATIONAL ENTREPRENEURSHIP AND BOOTSTRAP CAPITALISM: SOCIAL CAPITAL, NETWORKING, AND ETHNIC MINORITY ENTREPRENEURS**

*Comprehensive explanations of entrepreneurship must include the social context of behavior, especially the social relationships through which people obtain information, resources and social support.*

**Aldrich & Zimmer (1986, p.11)**

Ethnic networks are a vital component of business success (e.g. Aldrich & Zimmer, 1986; Bonacich, Light & Wong, 1977; Boubakri, 1990; Deakins, Majmudar & Paddison, 1997; Dhaliwal, 1998; Dyer & Ross, 2000; Iyer & Shapiro, 1999; Light, 1984; Peterson & Roquebert, 1993; Ram, 1994; Teixeira, 1998; Waldinger, 1988). Acting as an informal business incubator, ethnic networks nurture new businesses and assist in their growth by providing varying amounts of physical and intellectual resources (Greene & Butler, 1996; Greene, 1997). From the fledgling entrepreneur in a South Asian ethnic enclave in England to a venture capital funded, high technology, transnational entrepreneurial team in Silicon Valley, each acquires a strong competitive advantage (Greene, 1997) through the use of ethnic networks. Saxenian (1999) has studied the highly-educated, transnational community of Chinese (mostly Taiwanese) and East Indian immigrants who have started new technology businesses in Silicon Valley and found local, international, formal and informal networks. They have created organizations (13 Chinese, 2 Indian) specifically to further their technical, professional and entrepreneurial interests (e.g. The Indus Entrepreneur, Monte Jade Science & Technology Institute) which provide both formal (e.g. meetings, and international level. (Regardless of the importance of their ethnic networks, these successful ethnic mentoring, business plan assistance), and informal (e.g. role models, angels, advice) networks at the local entrepreneurs do not isolate themselves from mainstream business organizations.) The “distinct ethnic subcultures” amongst these immigrant entrepreneurs are a function of their education, technical expertise, occupation, industry, culture, language and experiences. Some businesses, for example, have a synergistic relationship between California and Hsinchu-Taipei in Taiwan whereby products, capital, skills, and information flows freely without the usual hindrance due to national borders. About a quarter of the new high technology ventures created in Silicon Valley in the last 20 years were started by Chinese (17%) or East Indian (7%) immigrants. It is estimated that with more recent data, these figures will be higher (Saxenian, 1999). The “trans-local” (homeland and new country) networks, according to Saxenian, provide “entry points” for entrepreneurs, “duties and sanctions”, but also an increase in trade for both countries due to industry integration. The “bootstrap capitalism” of South Asians in England (Werbner, 1999) conforms to traditional perceptions of ethnic networks. The support provided by these networks can be informal from family and friends, or from the wider community including religious, other organizations, and business people. According to Rath and Kloosterman (1999), today’s economic sociologists call these social networks, “social capital”, and they consider this an essential component of an ethnic entrepreneur’s success (though not a guarantee).

Aldrich and Waldinger (1990) define *ethnicity* as “self-identification with a particular ethnic group, or a label applied by outsiders” (p. 131) and ethnic *social structures* as “networks of kinship and friendship around which ethnic communities are arranged, and the interlacing of these networks with positions in the economy (jobs), in space (housing), and in society (institutions).” (p. 127). They propose “entrepreneurship as embedded in networks of continuing social relations. Within complex networks of relationships, entrepreneurship is facilitated or constrained by linkages between aspiring entrepreneurs, resources, and opportunities [along with] chance, necessity, and purpose” (p.9). Their three-part person-to-person transaction approach includes, first, communication (what is relayed), second, exchange (goods and services), and third, normative considerations (expectations of the parties concerned). A hierarchy of social networks starts with the *role-set* (people you know), *action-set* (purposeful alliances), and *network* (“the totality of all persons connected by a certain type of relationship” [Aldrich & Zimmer, 1986 p. 12]). Networks are distinguished by their *density* or connectedness, *reachability* (direct or indirect path),

*centrality* of the individual in the network, and the group’s “internal organizing capacity” (p. 14) (Aldrich & Zimmer, 1986). Bates (1994a) explains the relationship between social capital and networks as follows: “ The entrepreneur is seen as a member of supportive kinship, peer and community subgroups. These networks, in turn, assist in the creation and successful operation of firms by providing such social capital as sources of customers, loyal employees and financing” (p. 674) (after Aldrich, Waldinger & Ward, 1990).

There is a strong rationale for studying immigrant and ethnic community entrepreneurs in general, and social capital and networks in particular. Although interest about ethnic groups and their businesses has a long history in academia, theory building in the business literature is surprisingly underdeveloped (Rath & Kloosterman, 1999; Werbner, 1999). Knowledge about the process of venture creation, business success and problems, and growth characteristics may act as a guide to framing government policies and programs for potential and new immigrants, and also for “under-represented as entrepreneurs” ethnic groups (Brenner, Celas & Toulouse, 1992; Camarota, 2000; De Lourdes Villar, 1994). Immigrants or ethnic community entrepreneurs with strong links to their homeland may have formal and informal networks, which can be of use for both the entrepreneurs themselves and for companies intending to do business overseas (e.g. Chamard, 1995; Kotkin, 1992; Razin & Langlois, 1996; Saxenian, 1999; Tseng, 1995; Wong, 1997; Wong & Ng, 1998). Immigrant and minority ethnic community entrepreneurs are one of Canada’s largest natural resources, and one that remains largely unexploited.

**Foci, Method and Organization of the Review**

Our objective in this paper is to develop hypotheses concerning ethnic social capital and networks. We have reviewed the ethnic minority literature from 1988 to 2000 (Aldrich & Waldinger, 1990, reviewed the literature to the late 1980s) for the purposes of a larger review. However, in this paper we have drawn from the larger study, to pursue the questions relating to ethnic social capital and networks. Table 1 shows the breakdown by topic of the 80 studies in our larger review, which focused on ethnic minority entrepreneurship in general. Many articles included information on social capital and networks, even if this was not the key focus of the specific article.

Table 1

Main Topic(s) Identified in each Paper across Review of 80 Empirical Studies in Ethnic Minority Entrepreneurship

Main Topic (s)	No. Studies
Social Capital, Networking	28
Motives for Entrepreneurship, Success Factors	16
Ethnic Enclaves	14
Characteristics and Profiles of Entrepreneurs	11
Factors leading to Self-Employment, incidence	10
Immigration and Refugee issues	6
Problems of ethnic entrepreneurs	3
Gender (female) specific	3
Financing Issues (not related to social resources)	3
Intra-ethnic Differences	1
Total (Some studies have multiple topics)	95

The review is multidisciplinary and includes empirical studies published in refereed journals, from the business, economics, urban and regional geographical studies, politics, policy studies and sociology literatures. Our review is a preliminary step in theory building and as such makes no claim to include all studies in the area (e.g. we have excluded papers from conference proceedings and may not have located

all studies). Both English and French language publications are included. This paper presents a brief outline of some major theories and important reviews in the field. Findings on social capital and networks follow, along with hypotheses derived from this literature review.

### **Background Literature**

Early researchers into ethnicity and entrepreneurship include Simmel (Wolf, 1950) in the late 1800s, Weber (1930) and Schumpeter (1934). According to Butler and Greene (1997), these early writers developed ideas based on the stranger as trader, the social structure of society, the value systems produced and religious tenets. These fundamental issues led to the emergence of a theoretical framework for ethnic entrepreneurship. Historically, “Enclave Theory”, “Middleman Theory” and “Theories of Immigration” are the basis for much of the research. However, current studies suggest that these existing theories need to be augmented (Marger & Hoffman, 1992). Enclave theory is concerned with immigrants, entrepreneurship and labor market issues (Nee & Nee, 1986). Ethnic enclaves, as well as being economically and culturally linked, have historically been geographically based (Wang, 1999). Middleman theory relates to the type of service/business that immigrant or ethnic entrepreneurs engage in. They act as traders or negotiators (Zenner, 1991). Theories of immigration are concerned, for example, with migration patterns, networks and economic benefits (Muller, 1993). Research about ethnic entrepreneurs is found in the business, sociology, economics, labor market, urban studies, criminology, and gender literatures and includes qualitative, ethnographic, anthropological, quantitative, survey, and census based methodologies (Weinfeld, 1998).

Aldrich and Waldinger’s (1990) three-part framework included access to opportunities (markets, ownership, state policies) on the part of different ethnic groups; the characteristics of the group (predisposing factors like settlement characteristics, selective migration, culture and aspiration levels, resource mobilization, for example, class versus ethnic resources); and finally the ethnic strategies ensuing from the two previous factors. According to Aldrich and Waldinger (1990), “The strategies adopted by the various ethnic groups in capitalistic societies around the world are remarkably similar” (p.131). Butler and Greene’s (1997) review of ethnic entrepreneurship, with a US focus, highlighted the following propositions with regard to social capital and networks: First, “the importance of a community dimension inherent in the business creation process” (p.281); and second, “significant contributions of community resources to the entrepreneurial activities of group members” (p.281). However, Butler and Greene (1997) cautioned that the stereotypes (e.g. perhaps the similar ethnic strategies worldwide, Aldrich & Waldinger, 1990) are open to re-examination. Robichaud (1999) focused his literature review on the elements and models of the business creation process for immigrant entrepreneurs. He synthesized the literature into three general approaches: First, structural theory (social and economic structures, politics of the local community, “middlemen minorities”), second “cultural theory” (general culture and values of the ethnic groups and the ethnic community), and finally, “situational theory” (the “social disadvantage” of the immigrant). Overlying the various theoretical approaches is the social and institutional structure of the wider community, and the strategic actions of the entrepreneur. Robichaud confirms the existence of ethnic enclaves and highlights the lack of studies in ethnic entrepreneurship. Deakins’ (1999) four-part framework to summarize the literature on ethnic minority entrepreneurship consists of, first, accessing resources (finance and labor); second, accessing markets, third, motivation (e.g. discrimination, push, pull factors) and finally, successful entrepreneurial strategies which include social capital factors within the framework of the first three categories. Deakins (1999) concluded that networking was vital to minority business success, that the diversity of ethnic minority enterprises has been overlooked and that:

Ethnic enterprise development has succeeded largely outside mainstream support and largely without access to special support. In Scotland, success has been achieved through entrepreneurs and other community leaders ... *Enterprise Forums* have been established by individual Asian community leaders, who have recognized the need to widen the contacts of the Asian (and other) business communities and to develop them with mainstream businesses and agencies. (p. 91).

A highly critical review of current research into ethnic entrepreneurship (Rath and Kloosterman, 1999) stated that most research in this area was driven by government funding and mainly concerned policy directives, lacking an interactive model which included structural changes in economies and a specific focus on different markets, and thus had little theoretical value. One of their recommendations was that future studies focus on social capital and ethnic networks, with international comparisons of ethnic groups. These reviews of the literature from Canada (Robichaud, 1999), the Netherlands (Rath & Kloosterman, 1999), the UK (Deakins, 1999), and the USA (Aldrich & Waldinger, 1990) all point to the limitations of current knowledge, the lack of currently viable theoretical models and the necessity for future theoretically grounded research.

Iyer & Shapiro (1999), however, have proposed an evolutionary business model for successful ethnic business, which provides an interesting framework that we can adapt when considering social capital, networks and the relationship to international business. They propose that an immigrant begins first by supplying co-ethnic labor in an ethnic enclave, second by moving to self employment, still in the ethnic enclave, third by expanding horizontally to the wider non-ethnic markets, fourth by starting to make international investments in businesses back in their homeland, fifth by initiating international expansion of their business to their homeland, and finally, by developing lateral connections between their multiple business interests in their homeland and new country.

### **Review Findings and Hypothesis Development**

Our review includes a broad range of ethnic minority groups and the studies were conducted in Europe, North America and Asia. There was a range of methodologies used, which is to be expected, especially given the inclusion of papers from several disciplines. Almost half were quantitative (40) and included analysis of Census data (20), mail surveys (14), and closed questionnaires administered at interviews (20). Eleven studies used hypotheses. These did not always use quantitative research methodologies. Only 31 papers used statistical analysis and a further 16 reported only frequencies. Just over half (49) were qualitative studies which used case studies (9), open (39) and semi-structured (3) interviews, along with a few which used personal observation, document analysis and focus groups. Nine of the studies used a mix of methodologies (quantitative and qualitative). Overall, 25 of the studies used a random sampling procedure and 55 did not. It is not within the remit of this paper to criticize the methodology of the studies. However, there was a broad range in quality within both the qualitative and quantitative papers. Furthermore, it is particularly difficult to compare findings when minority ethnic groups are defined in very broad terms, (e.g. Asians). Nevertheless, there was merit in all the studies included in the review.

### **Social Capital**

If we conceptualize entrepreneurship as “embedded in networks of continuing social relations” (Aldrich & Zimmer, 1986, p.8), then social capital and networks are central themes. Social capital, sometimes referred to as cultural capital, refers to the potential benefits derived from belonging to a specific group. In the minority entrepreneurship literature, social capital is illustrated by the use of co-ethnic employees, markets, suppliers, community sources of capital, advice and information, as well as belonging to ethnic and/or community organizations. Ethnic based networks are an integral part of ethnic social capital as it is through the interconnectedness of the attributes of social capital that the networks exist. We will present the findings from our study relating to social capital and then discuss networks.

### **Co-ethnic Employees**

Employing workers from the same ethnic group has obvious advantages in that they speak the same language or dialect, are part of the same culture and, if the customers are mainly drawn from the same ethnic group, can relate well to customers. If the products/services of the business are ethnic specific then co-ethnic labor is a necessity. Across the studies, which addressed this issue, regardless of ethnic group, country, industry type, immigrant or non-immigrant entrepreneur or stage of business, the use of co-ethnic employees was very common (e.g. Pessar, 1995; Phizacklea & Ram, 1996; Portes & Jensen, 1989;

Ram, 1994; Shin & Han, 1990; Waldinger, 1995; Walton-Roberts & Hiebert, 1997, Yoon, 1995). In a study of 59 Chinese immigrants in Canada, Wong and Ng (1998) found that 81% used co-ethnic employees in addition to a major reliance on family members. (Family labor is discussed below.) Wong (1997) had earlier found that 89% out of a group of 284 Chinese immigrant entrepreneurs had co-ethnic employees and 59% employed only Chinese. Light, Sabagh, Bozorgmehr & Der-Martirosian (1994), studying Iranians in the US found that only 4.6% of employees worked for a co-ethnic employer, which could point to either a low level of co-ethnic employment in Iranian businesses or a small number of Iranian owned businesses. Marger (1990) studying East Indians in Canada and Rafiq (1992) Muslims in the UK, found that there was a mix of employees with some co-ethnic and some from the general labor market. For Cubans in the US, Cobas & DeOllos (1989) found that there was a greater chance of self employment if there was a ready supply of co-ethnic labor. Self-employed Soviet Jews and Vietnamese refugees in the US were found to hire co-ethnic labor (Gold, 1992).

There is an alternative view regarding co-ethnic labor as a positive attribute of social capital, in that there are noted problems. Gold (1988) refers to “ethnic bonds”, sometimes entrepreneurs feel they are training would-be competitors (Lee, 1999), and they may also resent the lack of privacy regarding business matters. De Lourdes Villar (1994) found that the use of illegal co-ethnic labor caused considerable conflict with other ethnic business owners, partly because this gave an unfair advantage to some employers. Bates, discussing African Americans and Korean immigrants in the US (1994b) and Asians in the US (1995a), indicated that co-ethnic labor was not a factor in the success of the business and in fact with Vietnamese owner managers, a reliance on co-ethnic labor and markets increased the likelihood of business failure. Asian Indians, according to Bates (1994a), rely less on co-ethnic labor than the Vietnamese.

Questions, which are not answered by this review, include the role and percentage of co-ethnic employees to non ethnic employees or the role and percentage of family employees. Additional questions include the stage of the enterprise when there is a move from family to co-ethnic to wider labor market employees, and whether this varies according to industry, ethnic group, country gender, or immigrant or non immigrant status.

Based on this discussion, we propose the following hypothesis:

- ❖ The more social capital an ethnic entrepreneur has, in the form of a cohesive ethnic community which can easily provide co-ethnic workers, the greater the probability of business success. This may explain why some ethnic groups are more successful at creating viable businesses than others.

### **Family Labor**

An integral part of co-ethnic labor is the use of family members, paid but mainly unpaid. Many studies in our review indicated a heavy reliance on family members as part or all of the business workforce (Iyer & Shapiro, 1999; Juteau et Pare, 1996; Phizacklea & Ram, 1996; Portes & Jensen, 1989; Rafiq, 1992; Ram, Abbas, Sanghera & Hillin, 2000; Ram, 1994; Shin & Han, 1990; Simard, 1994; Walton-Roberts & Hiebert, 1997; Wong & Ng, 1998; Wong, 1997). Shin and Han (1990), studying Koreans in the US, found an employment pattern related to business growth and success, whereby ethnic businesses start out by using family labor then with growth hire co-ethnic employees and subsequently non-ethnic employees. One of the stereotypes of ethnic business is the exploitation of female family members by using them as an unpaid or low paid labor source in family businesses (Butler & Greene, 1997), and several studies indicated the presence of exploitation of female family members (e.g. Juteau & Pare, 1996; Wong & Ng, 1998). Several studies mentioned a related form of exploitation (not just low or no pay) by the existence of “hidden women” (women whose contribution to the business may be extensive in the form of capital, family connections, management, and long hours of work but whose contributions are largely unacknowledged [Phizacklea & Ram, 1996; Rafiq, 1992; Ram, 1994]). Iyer and Shapiro (1999) consider

the strong dependency on family and co-ethnic labor to be one of the main distinguishing factors between ethnic minorities and small business owners in general.

Based on this discussion, we propose the following hypothesis:

- ❖ Typically, ethnic businesses use family members, particularly women, as a source of low-cost labor, especially at start-up.

### **Co-ethnic Markets**

As with co-ethnic employees, a majority of studies in our review mentioned the use of co-ethnic markets. A protected co-ethnic market is considered a positive attribute of ethnic social capital (Portes & Jensen, 1989) and is a common feature of retail and service businesses that cater to ethnic minorities (Gold, 1992; Juteau & Pare, 1999; Pessar, 1995; Peterson & Roquebert, 1993; Tseng, 1995; Waldinger, 1995; Walton-Roberts et al. 1997). Although it seems advantageous to have access to a protected market, there are certain drawbacks when excessive clustering of the same type of business causes market saturation (Lee, 1999). Fierce competition amongst minority entrepreneurs who are all chasing the same market is a finding of several studies (Iyer & Shapiro, 1999; Lee, 1999; Marger, 1990; Ram, Abbas, Sanghera & Hillin, 2000; Razin & Light, 1998), even to the extent that illegal immigrant employees will be hired to help reduce labor costs, and often government regulations are broken to overcome the stiff competition (Kloosterman, Van der Leun & Rath, 1999). Businesses that catered only to the ethnic market were found to be smaller and less successful than those that served either only the wider market or the ethnic and wider market (Bates, 1994a,b; Phizacklea & Ram, 1996; Shin & Han 1990; Torres, 1988; Walton-Roberts et al., 1997). Often serving only the ethnic market is due to “blocked mobility” (Wong & Ng, 1998) because of, for example, discrimination in the host society, poor language skills of the entrepreneur, or lack of capital to buy a business or lease property in non-ethnic minority areas.

Some ethnic minority entrepreneurs have been successful in serving both the co-ethnic and wider market. One study reports on a group of Chinese entrepreneurs in Canada, mostly involved in import/export, non food retail and manufacturing, with 40% of their products for the co-ethnic market and 60% for non ethnic (Wong & Ng, 1998) (see Bates, 1994a,b; Juteau & Pare, 1999; Marger, 1989; Pessar, 1995; Rafiq, 1992; Ram, 1994 for further examples). Unfortunately the methodology used in most studies does not allow us to compare across industry categories. Is the type of industry or stage of business growth related to co-ethnic markets? In addition to the obvious benefits and drawbacks of a co-ethnic market, studies found that the larger the co-ethnic market then the greater the likelihood of self employment for members of the minority group (Cobas & DeOillos, 1989; Evans, 1989), although this finding has been contradicted by Razin & Langlois (1996).

Based on this discussion, we propose the following hypotheses:

- ❖ The use of a co-ethnic market, in its geographic enclave, increases the probability of success of an ethnic business.
- ❖ Growth of an ethnic business depends on reaching beyond the co-ethnic market to both an enlarged geographic area and the wider society.

### **Co-Ethnic Suppliers**

Along with co-ethnic markets we should consider co-ethnic suppliers, which are regarded as part of the social capital of a group when there is considerable vertical integration. This was found to be prevalent by Lee (1999), in the US for the Jewish and Korean communities (but not for the African Americans), by Juteau & Paré (1996, 1999) across four immigrant groups (Asian, Jewish, Sri Lankan, Vietnamese) in Canada, and by Peterson & Roquebert (1993) amongst the Cubans, and the Taiwanese (Tseng, 1995; Saxenian, 1999) in the US.

Based on this discussion, we propose the following hypothesis:

- ❖ The viability and growth opportunities of an ethnic business are enhanced by the existence of co-ethnic suppliers.

### **Co-ethnic Sources of Finance**

As in previous research (Butler and Green, 1997) it was found that personal and family members were the primary sources of financing for most entrepreneurs in the studies (e.g. Bates, 1997; Deakins et al. 1995; Feldman et al. 1991; Huck et al, 1999; Juteau & Pare, 1996; Pessar, 1995; Peterson, 1995; Shin & Han, 1990, Simard, 1994; Tseng, 1995, Walton-Roberts et al. 1997). There are, however, formal and informal mechanisms created and used by ethnic minority groups to provide sources of financing (Basu, 1998; Bates, 1997; Boubakri, 1999; Gold, 1992; Lee, 1999; Peterson & Roquebert, 1993; Phizacklea & Ram, 1996; Shin & Han, 1990; Saxenian, 1999; Yoon, 1995). Informal sources of finance are used by entrepreneurs largely due to the difficulty (e.g. lack of collateral) of obtaining formal (e.g. banks) financing (Basu, 1998; Deakins et al., 1997; Iyer & Shapiro, 1999). (According to Huck et al. 1999, African Americans and Hispanics, however, rely on banks more than on informal sources.) Deakins, Hussain and Ram (1994) found that ethnic minority entrepreneurs often provided inadequate information to banks (e.g. no business plan) and thus could not expect to receive financing. According to Bates (1997), these weaker start-ups rely more on informal sources of financing. Revolving Credit Associations (RCAs) are informal and temporary ethnic community sources of capital, used for example by the Haitian community in the US (Laguerre, 1998). Contributions are made by several community members and each contributor is entitled to share in the accumulated fund, according to pre-arranged guidelines. The downside of RCAs is that non-payment carries heavy penalties (Laguerre, 1998). Not all immigrant groups have informal lending associations. For example, Marger (1989), studying East Indian entrepreneurs in Canada, found no formal RCAs. Another form of a community financing association is discussed by Boubakri (1999) who found that Tunisians in Europe have access to ethnically based commerce funds, administered by a “Godfather”. Tseng (1995) found that Taiwanese in the US, in the finance, insurance and real estate industries, borrow money from ethnic banks. Regardless of whether they are informal or formal sources of finance, there are mechanisms whereby ethnic minority entrepreneurs have access to capital that is not available to non-members of the ethnic minority. We can thus regard community based sources of financing as another attribute of social capital.

Based on this discussion, we propose the following hypotheses:

- ❖ At start-up, ethnic businesses are more likely to draw on family and ethnic sources of financing.
- ❖ The more mechanisms which exist, within the ethnic community, to help finance businesses, the higher the chances of ethnic businesses being created.

### **Ethnic-based Social Networks**

We will use the *role-set*, *action-set*, and *network* framework of Aldrich & Zimmer (1989, after Merton) to discuss social networks. The *role-set* will depend on factors like the existence of an ethnic enclave, the language fluency of the entrepreneur, the personality of the individual or the culture of the group (individualistic versus collectivist), and if an immigrant, whether they are part of a chain migration, highly connected to their homeland and other immigrants. The *action-set* can be analyzed by looking at the formal and informal organizations and alliances of ethnic minority entrepreneurs. The *network* (for our purposes) will include everyone known to the entrepreneur who can in any way further their business interests. Table 2 gives specific information regarding the network by ethnic minority group, country in which the study was conducted and author(s). Included within the network details, is information on the format of the network and its relationship to business success. There are two broad categories within Table 2. First is the grouping of all the studies which found dense networks (large role-set and action-sets); the second category includes studies which found low density networks (smaller role-set and action-sets) amongst their entrepreneurs.

## **The Role-Set**

**Ethnic enclave.** The traditional conception of an ethnic enclave where ethnic minority residences and businesses are geographically clustered is a finding of several studies. It was found for the Cubans in Florida (Peterson, 1995, Peterson & Roquebert, 1993) and Portuguese in Toronto (Teixeira, 1998) and South Asians in the UK (Aldrich, Zimmer & McEvoy, 1989), but there were also multi-nuclear ethnic enclaves, where pockets of ethnic groups were found throughout a metropolitan area (Taiwanese, US, Tseng, 1995; Chinese in Canada, Wang, 1999). The Koreans in the US have businesses within the ethnic enclave and outside (Yoon, 1995). Werbner (1999) found that the enclaves were not so much geographical but rather clustered according to particular industry (somewhat like an updated “Middleman Theory”). Some ethnic minority entrepreneurs, for example Iranians (Light et al. 1994) and Latinos in the US (Marger, 1990) and East Indians in Canada (Marger, 1990), were not part of an ethnic enclave. Often class resources, which include educational and financial resources, lead to entrepreneurs distancing themselves from the traditional ethnic enclave.

**TABLE 2**

**Incidence, Usage and Importance of Co-ethnic Networks**

<b>Group</b>	<b>Country</b>	<b>Network Details</b>
<b><i>HIGH DENSITY NETWORKS- Considered essential for business success (unless otherwise stated)</i></b>		
African	UK	Network of contacts, key to new markets, best if not just co-ethnic. Network essential to success.
Tunisian	France	Formal Godfather, free association, commerce funds, sponsored association. Strong community solidarity.
Asian	Canada	Strong network. Mostly co-ethnic labor, clients and suppliers. Network part of success. (I)
	UK	Informal network.
		Network of contacts, key to new markets, best if not just co-ethnic.
		Network includes family and community, central role in business operations.
	US	Informal network overcomes low education barrier to self-employment. (I)
Bangladeshi	UK	Informal sources of capital and advice. Network part of success.
Chinese	Canada	Network at prestart-up stage includes family, friends, associates, professionals, govt. agencies. Startup stage uses in addition, partners, staff, buyers/suppliers. (I+)
		Ethnic enclave. Sub-economy includes institutions, contacts, support, co-ethnic labor. (I)
		Ethnic enclaves. Community moving to institutional completeness, cultural division of labor theory.
		Capitalist transmigration, trans-Pacific networks, astronaut syndrome. "Family/personal, ethnic, business transnational fields". (I)
		Strong family and friends network. Informal, 42% had family in Canada, 88% had friends network, 67% used it. 50% transnational and used Asia to help Cdn business. Network essential to success. (I)
	Hong Kong	Network at prestart-up stage includes family, friends, associates. Startup stage uses in addition, partners, staff, buyers/suppliers. Maturity stage uses professionals, govt. agencies.
	UK	Network of contacts, key to new markets, best if not just co-ethnic.
	US	Solidarity among ethnic group, informal yet strong network for credit, info etc., strong competition. Extensive use of family and co-ethnic labor. Network part of success.
		Ethnic business clustering. Co-ethnic advantages (access capital + lower wholesale costs), vertical integration, fierce competition.
Formal & informal, extensive, trans-local, transnational (Taiwanese mostly) prof. & tech. organizations, ethnic linked subcultures. Networks provide entry-points but also duties and sanctions. (I+)		
Indian	Canada	Informal, strong use of networks at every stage in business but differential use. Use female family labor, also source of capital, also co-ethnic labor. Network is used for getting first job, training on job, raising capital, acquiring labor, and clients.
		Small, dense co-ethnic and family. Business contacts: 28% no-one, 24% one person. Wider community friends also. (I)
	UK	Network provides informal source of capital and advice. Network part of success.
		Network includes family and community, central role in business operations.
US	Formal & informal, extensive, trans-local, transnational (Taiwanese mostly) prof. & tech. organizations, ethnic linked subcultures. Networks provide entry-points but also duties and sanctions. (I+)	
Iranian	US	Informal network. Family business overlap.
		Clustered businesses, co-ethnic labor. Network part of success.
Korean	Canada	Large ethnic community. (I+)
	US	Solidarity among ethnic group, informal yet strong network for credit, info etc., strong competition. Extensive use of family and co-ethnic labor. Network part of success.

		Extensive, strong, network. Supplies finance, labor, management. Determines success at start and early stages, less long term. Uses family at start, then co-ethnic labor, then non-ethnic. Authority stays with ethnic.
		Informal, strong embedded networks, insulated. Access to information, finance, markets, labor. Network essential to success.
		Enclaves + wider. Extensive family & non kin networks (church, school etc.). Source of finance and advice. Business clustering. Intra-ethnic bus. succession, vertical integration. (I)
Pakistani	UK	Informal sources of capital and advice. Network part of success.
		Network includes family and community, central role in business operations.
	US	Quasi-formal, like formal incubators, based on religion & community.
		Quasi-formal. Bounded solidarity, enforceable trust, no temporal constraints = strong competitive advantage. Network essential to success.
Sri Lankan	Canada	Strong network. Mostly co-ethnic labor, clients and suppliers. Network part of success. (I)
Taiwanese	US	Multi-nuclear economy, not enclave. Reliance on co-ethnic customers and suppliers varies by industry. Extensive and strong network. Linkages to homeland for capital + other resources. Dependency on local network depends on industry type.
Vietnamese	Canada	Strong network. Mostly co-ethnic labor, clients and suppliers. Network part of success (I)
S. Asian	US	Solidarity among ethnic group, informal yet strong network for credit, info etc., strong competition. Extensive use of family and co-ethnic labor. Network part of success.
European	Canada	Formal, informal ethnic networks. Also, local networks. Network part of success. (I)
Italian	Canada	All belonged to business and ethnic associations.
		All belonged to ethnic and non ethnic associations. No strong transnational network to Italy. (I+)
Jewish	Canada	Solidarity among ethnic group, informal yet strong network for credit, info etc., strong competition. Extensive use of family and co-ethnic labor. Network part of success. (I)
		Large ethnic community. (I)
		Solidarity among ethnic group, strong network for credit, info etc., strong competition.
	US	Ethnic business clustering. Co-ethnic advantages (access capital + lower wholesale costs), vertical integration, fierce competition.
Cuban	US	Ethnic enclave. Supportive Latin networks, operates like a quasi-formal incubator. Use of co-ethnic labor, markets, suppliers, finance. (I)
		No ethnic enclave. Family vital to business success. (I)
		No ethnic enclave. Family vital to business success. (I)
Dominican	US	Social capital vital. Strong networks with bounded solidarity, enforceable trust. (I)
Haitian	US	Extensive use of rotating credit associations, used for startup, growth, personal. Risks attached to non-repayment.
Portuguese	Canada	Multi-nuclear enclaves. Rely on community resources for startup (family, friends, community organizations, markets and info.), and growth. Extensive and strong network. Social embeddedness, chain migration.
Across Groups (I)Census	Canada	Network includes strong links to homeland. Don't transfer all wealth. Network part of success. (I)
		Use some co-ethnic suppliers. Playing the "ethnic card". Language used to increase affiliation and integration. Network part of success.
<b>LOW DENSITY NETWORKS</b>		
African Americans	US	Lack of informal support networks. (I)
		Lack of co-ethnic advantage.
		Intra-ethnic diversity leads to low network density and use.
Asian	Canada	Scarcity co-ethnics, low usage networks. Family network mainly.
East Indian	Canada	No enclave, little networking, family and co-ethnic labor but little social capital. Trades in ethnic and general market. (I+)/(I+)
Vietnamese (R)	US	Informal, small. Capital, labor, markets, info. from own community. Generally refugees have smaller networks. (R)/(R)
Haitian	Canada	No real use of ethnic network.
	Canada	Little financial or legal assistance, small network.

Jews (Soviet R)	US	Informal, small network. Capital, labor, markets, info. from own community. Generally refugees have smaller networks. (R)/(R)
Latino	US	No enclave. Distrust, social distance, individualistic, family, friends network only.

Note: F = study written in French. R=Refugees; I= Immigrants; I+= Immigrants and non immigrants in same ethnic group.

**Language and culture.** Our review found some instances where language was a barrier to the entrepreneur trading in the wider market (Boyd, 1990; Iyer & Shapiro, 1999; Min, 1990; Yoon, 1995). As would be expected, refugees also encountered problems with the language of country of settlement (Lerner & Hendeles, 1996). This would limit the role-set to those speaking the same language. Regarding culture, some studies found an individualistic culture, for example, for East Indians in Canada (Marger, 1990; Walton-Roberts et al., 1997) and Latinos in the USA (Pessar, 1995), which would limit the role-set and network size.

**Chain migration and ethnic solidarity.** Some studies in our review indicated there was a strong sense of bounded solidarity and enforceable trust due to shared experiences, culture including language, problems like discrimination and alienation, and shared history (Greene, 1997; Portes & Zhou, 1992; Saxenian, 1999). Chain migration was also found to lead to dense networks both in the new country and in the homeland (Teixeira, 1998).

Based on this discussion, we propose the following hypotheses:

- ❖ Ethnic businesses typically start within an ethnic enclave (single or multi-clustered), especially in a highly structured ethnic community, where a great amount of trust exists.
- ❖ With time, migration, language and cultural problems fade and businesses may then either expand or start outside the enclave.

### **The Action-Set**

**Formal and informal organizations.** Formal and informal ethnically-based organizations can be included as part of the alliances of people which form an action set. These could include religious, recreational, and businesses specific. Organizations which assist with business financing (discussed earlier) are at the center of facilitating entrepreneurship (Butler & Greene, 1997). However, there is a large range of types of ethnic organizations. Saxenian (1999), in a qualitative study of entrepreneur and non-entrepreneur Chinese and East Indians in California, provided a rich source of information about organizations. The Silicon Valley Indian Professionals Association was founded in 1991 and has 1,000 members. The remit of this organization is to encourage co-operation between professionals in the United States and India ([www.sipa.org](http://www.sipa.org)). The Indus Entrepreneur was founded in 1992 and has 560 members and fosters entrepreneurship by mentorship and providing resources ([www.tie.org](http://www.tie.org)). Similar organizations exist for the Chinese. Some of these organizations very much resemble a business incubator whereby nascent entrepreneurs are nurtured, for example, by mentoring, seminars on business plan preparation, and introductions to angels and venture capitalists. The thrust for these organizations is to assist entrepreneur and non-entrepreneur members to develop a dense and transnational network between the Pacific Rim and the United States through increases in their role-set and opportunities for action-set activities. These ethnic organizations can be deeply embedded within the social structures of the group. Kloosterman et al (1999) found, for example, that ethnically based trade associations have more influence in stopping illegal practices than the presence of government regulations. However, not all ethnic minority entrepreneurs join an ethnic business organization. Birley and Ghaie (1992) found that only 6% of the entrepreneurs in her study belonged to an ethnic based organization, and in a study by the Centre de la PME de l'UQAH (Université du Québec à Hull) (UQAH Small Business Centre) (1993), the respondents did not join any associations. In two studies of Italian business people in Canada (Dana, 1993; Triulzi, Peterson & Blatt, 1999), membership in ethnic and non-ethnic associations was common. Apart from the studies mentioned above, there is little information in the studies we reviewed about the types of ethnic organizations and details about purpose and usage.

**Informal Advice, Mentoring and Role Models.** Our review of studies shows that ethnic minority entrepreneurs look to other members of their ethnic group as a source of informal advice and support, for mentoring and contact with role models (e.g. Basu, 1998; Dana, 1993; Yoon, 1995; Dadzie & Cho, 1989; Marger & Hoffman, 1992; Peterson, 1995; Saxenian, 1999).

Based on this discussion, we propose the following hypothesis:

- ❖ Well-organized ethnic communities may develop means of helping nascent entrepreneurs through use of formal and informal ethnic-based organizations. These take different forms, according to each community history.

### **The Network**

Our review found that a dense, and often transnational, ethnic-based network was present and used by nearly all the entrepreneurs across the studies. Nevertheless, there were instances where the entrepreneurs were found to have low-density networks consisting mostly of family members (although these also could be transnational). Furthermore, the presence of dense ethnic networks was found to positively influence the propensity for self-employment for members of an ethnic group (Camarota, 2000).

**Network Patterns across Ethnic Groups.** Some groups are disadvantaged in terms of ethnic social capital and networks, for example, the African Americans (Boyd, 1990; Lee, 1999; Waldinger, 1995) and Latinos (Pessar, 1995) in the USA, and Haitians in Canada (Brenner et al., 1992; Dana, 1993). Three studies by different authors each found a lack of any co-ethnic advantage or informal networks for African Americans. Three studies found East Indians (Marger, 1990, 1989) and Asians (Bherer & Robichaud, 1997) to be using only small and informal networks, but ten studies from Canada and other countries show evidence of dense networks (Table 2). As a group, refugees have smaller networks than immigrants in general (Gold, 1992, 1988). Reynolds & White (1997) studying nascent entrepreneurs (American Indians, Asians, Blacks, Hispanics) across the USA, found an absence of dense ethnic networks, leading to the question of when does the accumulation of role-sets and action-sets reach a dense network? In our review we have omitted studies on nascent entrepreneurs. However, network development during the process of pre-start up and start-up is required (see Chu, 1996, in our review).

At this preliminary stage of hypothesis building, it is not possible to discern any other pattern across different ethnic groups or by country. Further research is required in this area.

Based on this discussion, we propose the following hypotheses:

- ❖ The more dense and transnational the ethnic network of a given entrepreneur, the higher the chance of success.
- ❖ A transnational network enhances the chances of success for the ethnic business trading beyond national borders.

### **Social Capital and Networks as Factors in Business Success**

The use of some or all components of ethnic social capital (e.g. co-ethnic employees, markets, finance), and the use of dense and often transnational networks, can be essential components of business success. As shown in Table 2, there are 33 instances where studies of entrepreneurs from a particular ethnic group showed dense network to be an essential factor in business success. The use of dense networks was considered at least a part of business success in a further 14 studies (Table 2). Within the low density network studies, there is a range of views on the use and value of ethnic networks, from low density family networks to no real use of an ethnic network.

Our review found strong support for the Social Capital Theory and Ethnic Network Advantage as being an essential factor in business success. Class resources, which include education and financial capital, however, are sometimes considered more important predictors of success (Basu, 1998; Bates, 1994a,b; DeLourdes Villar, 1994; Marger, 1989; Rafiq, 1992; Torres, 1988; Tseng, 1995). For Koreans in the USA, Pessar (1995) found that class resources precluded the use of ethnic resources, while Bates and Dunham (1993) found that business success is inversely correlated with the use of social resources among Asian immigrant subgroups in the US. It can be argued of course, that class resources include another form of social capital and networks. Selective use of ethnic social capital and dense ethnic networks along with class resources is perhaps a win-win situation (Saxenian, 1999).

Based on this discussion, we propose the following hypotheses:

- ❖ Ethnic communities which, by their histories and organization, are characterized by high social capital and dense ethnic networks, will nurture a more successful business community than those with low social capital and low-density networks.
- ❖ Among low social capital communities, those that find the means to develop social capital, will succeed more than those where social capital and networks are not organized.
- ❖ Ethnic communities, where leadership is more easily recognized, make better use of their social capital, and achieve business success more quickly, using less resources.

### **Summary and Conclusion**

In this paper, we have reviewed the multi-disciplinary literatures on ethnic minority entrepreneurship, social capital and networks. Many studies in our review found strong use of ethnic social capital which included co-ethnic labor, co-ethnic markets and co-ethnic sources of finance. We also found overwhelming evidence in the studies of the existence and use of dense co-ethnic networks, in many instances considered to be essential to business success. In some instances, the networks were transnational and integral to international business. However, certain ethnic groups did not make use of ethnic resources and did not have dense networks, but mostly used informal family networks. In other instances, businesses trading only in co-ethnic markets were not very successful. Our review was initiated with the intention of hypothesis development and we have developed several hypotheses dealing with ethnic social capital and ethnic networks. While these hypotheses will be useful first approximations, it is almost certain that during the course of our empirical work we will find that some communities may have developed other means of coping with the challenges of succeeding in business in a new environment, and we will develop other hypothesis. There is considerable scope for future research as there are relatively few studies which focus mainly on social capital and/or networks. There are only a few studies using a standardized research methodology with different ethnic groups, and more research of this type is required, especially with larger sample sizes. Future studies should also adopt both quantitative and qualitative methodologies to provide a more complete picture of ethnic social capital and networks. One of the most promising frameworks for future research is Iyer and Shapiro's (1999) evolutionary process of ethnic entrepreneurship. A study of the process by which ethnic businesses are established, span the wider market, and eventually become transnational, allows considerable scope for building theory in future studies.

### **Hypothesis Testing**

The authors of this paper are engaged in a collaborative cross-Canada study of immigrant and ethnic entrepreneurs. This project is funded by SSHRC. Over a four-year period, we are investigating two ethnic groups each year for a total of eight groups. We hope to expand the number of groups if additional funding is obtained. In the first year of data collection we studied 150 Chinese and 150 Italian entrepreneurs and 150 non-entrepreneurs from each of these ethnic groups (60 of whom were professionals and 90 non-professionals). Interviews took an average of 1.5 hours for entrepreneurs and 30 minutes for non-entrepreneurs, and were conducted in Montreal, Toronto and Vancouver. During our second year we are studying the Jewish and Sikh communities. Papers with the preliminary results of our research on Chinese entrepreneurs and non-entrepreneurs have been presented (Brenner, Menzies et al., 2000; Brenner, Ramangalahy et al., 2000) ( See also Brenner, Filion et al ., 2000; Filion, Menzies et al. 2000)

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