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Chapter 18

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IMMIGRANT AND ETHNIC ENTREPRENEURSHIP: A U.S. PERSPECTIVE

Introduction

THIS CHAPTER REVIEWS THE literature about the immigrant and individuals from ethnic-minority backgrounds who seek self-employment over employment in order to attain economic security as permanent residents in the United States or to return to their native countries with increased wealth.

Light (1988–1989), a leading researcher, asks whether immigrant entrepreneurship is still a phenomenon of immense importance as it was historically for major cities. To partially answer his question, he notes that the rate of self-employment among immigrants is generally higher than the rate among native-born citizens, and immigrants tend to utilize entrepreneurship in identifiable industries and localities. There is an emerging consensus among social scientists that ethnic entrepreneurship is a critical element in the current restructuring of Western industrial economies (Waldinger and Aldrich 1990). With the broadening and deepening integration of emerging economies in the global network, high-skilled immigrant entrepreneurs from Third World countries may become much more prominent in the near future.

Another aspect is that immigrant and ethnic-minority entrepreneurs may have linkages with their native countries. What import and export trade do they foster with their home countries? Are they only self-help firms, or are they becoming interlinked with the global economy? Do ethnic-minority entrepreneurs make a local economy in the host country more export-driven? Considering the likelihood that many ethnic-minority entrepreneurs tend toward

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informal or even underground enterprises, how can we really count their contribution to the U.S. economy and the economies of their countries of origin? These are a few of the many questions that still have to be answered.

What do we know about the ethnic entrepreneur? We know that ethnic entrepreneurs are concentrated in certain areas, certain markets, and certain industries, and we know that the ethnic entrepreneur's propensity to own a firm varies by national origin. We know ethnic-minorities comprise about 11 percent of the U.S. population, and we know that all large metropolitan areas in the U.S.A. have a proliferation of ethnic-owned businesses. What we do not have is a single explanation for this phenomenon, although several explanations seem feasible: discrimination in the employment market, market demand for ethnic goods, home country's limited employment and self-employment opportunities, ethnic-minority entrepreneurs are successful because they have community information networks, sources of credit within their communities, a built-in customer base for their goods and services, and an excess supply of cheap co-ethnic labor. Ethnic-minority entrepreneurs come from the "middleman minority" that was historically most active in trading and helped to support and perpetuate business success.

How are immigrant entrepreneurs different? Research shows that immigrant entrepreneurs from less developed countries are different from the indigenous population (Kloosterman and Rath 2001). They are more dependent on a limited set of opportunities because they can only take advantage of segments that require a small outlay of capital, low levels of education, or specific skills. Some immigrants, therefore, stretch the conventional meaning of entrepreneurship. For instance, low-skilled day-laborers from Latin America, so-called "survivalist entrepreneurs" because of their lack of documents or proficiency in English, face significant barriers in the regular labor market. By becoming self-employed, they are able to circumvent those barriers. Conversely, in the U.S.A., the number of very highly skilled immigrant entrepreneurs from emerging economies is rapidly growing. Software specialists from China and India have become very important entrepreneurs in Silicon Valley.

Immigrant, ethnic, and minority entrepreneurship

What is meant by "ethnic"? Is it in the background of the entrepreneur? In the products sold or delivered? In the perception of doing business? Is it a combination of these? In many instances, there is a gradual shift away from the stereotypical ethnic-minority-run corner shop toward more diversified sectors, such as computers, global trade, leisure and recreation management, estate agencies, and cultural enterprises. The new generations of migrant and ethnic-minority entrepreneurs, especially young men and women, are moving in that direction (Freitas 2003).

At first glance it seems that studies of immigrant-, ethnic-, and minority-owned businesses should all be the same. Are not all immigrants a minority? Yes. Are not all immigrants ethnic? Yes, but the term "ethnic" includes more

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than immigrants. From a federal perspective, the three groups are treated differently. Minority businesses are provided with preferential treatment in the competition for government contracts. Immigrants are controlled by federal immigration laws; and a majority of "ethnics" are citizens of this country and part of our American fabric that we commonly identify as "the melting pot." The three are certainly interrelated but are treated separately in research and policy.

How does immigrant and ethnic entrepreneurship differ? In some works, the distinction between the immigrant and the ethnic entrepreneur is not always apparent. Some authors use the terms "immigrant entrepreneur" and "ethnic entrepreneur" interchangeably, but most authors tend to use the terms to identify two mutually exclusive groups. For instance, Light (1972) proposed to use "immigrant entrepreneur" to distinguish between the first-generation immigrant entrepreneur and the second-generation ethnic entrepreneur. Chaganti and Greene (2002) define "ethnic entrepreneur" as a function of the strength of an individual's identification with an ethnic enclave regardless of generation.

A second confusion is the use of surnames to identify ethnicity. Researchers have used ethnic surnames regardless of immigration status to measure immigrant and ethnic entrepreneurs. To complicate the definition further, Fairlie (1996) has identified the sojourner entrepreneur as an immigrant who comes to this country to accumulate wealth rapidly and then return to his or her native country. Therefore, such a person is not an immigrant seeking permanent residency.

Finally, researchers use the term "minority entrepreneur" for an aggregation of all immigrant entrepreneurs as well as indigenous ethnic entrepreneurs. The issue of African–American entrepreneurs is being treated separately and in-depth by two authors because African–Americans have been exposed to a long history of more intense and enduring discrimination than other ethnic groups.

Literature

The literature on the immigrant and ethnic entrepreneur shows three parallel research efforts: immigrant and ethnic entrepreneurs, African–American entrepreneurs, and minority entrepreneurs.

The current research on immigrant and ethnic entrepreneurs started in the early 1970s with the publication of Ivan Light's book, *Ethnic Enterprise in America* in 1972, and Edna Bonacich's article, "A theory of middleman minorities," in *American Sociological Review* in 1973. Two other notable publications followed: Light's *Ethnic Enterprise in America: Business and Welfare Among Chinese, Japanese, and Blacks* in 1972 and John Modell's *The Economics and Politics of Racial Accommodations: The Japanese of Los Angeles, 1900–1942* in 1977. During the same time period, Howard Aldrich published related articles in the *Urban Affairs Quarterly* and presented articles at annual meetings of the American Sociological Association. Those researchers of the 1970s were joined by Waldinger in the 1980s. These five researchers were also co-authors of several articles during the 1990s.

The research on African–American entrepreneurs started decades earlier,

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but this stream of research was based on individual case studies and therefore lacked a theoretical framework. Early researchers who wrote about the African–American business experience include W.E.B. DuBois in 1898, with the publication of *The Negro in Business*; Jesse B. Blayton (1936), "The Negro in banking"; William Kenneth Boyd (1927), *The Story of Durham: City of the New South*; Colonel Clarence Douglas (1921), *The History of Tulsa, Oklahoma*, Vol. 1; Walter L. Fleming (1927), *The Freedman's Saving Bank: A Chapter in the Economic History of the Negro Race*; Abram Harris (1936), *The Negro As Capitalist*; Arnett Lindsay (1929), *The Negro in Banking*; Henry M. Minton (1913), "Early history of Negroes in business in Philadelphia"; Harry Pace (1927), "The business of banking among Negroes"; and Booker T. Washington (1911), "Durham North Carolina: a city of Negro enterprises."

Two present-day researchers have added to our understanding of the African–American entrepreneurial experience by explaining it within a theoretical framework: Robert W. Fairlie (1996) and John Sibley Butler (1991). Both authors have revisited the prevailing paradigms about entrepreneurship and ethnic entrepreneurship to help us understand the significant contributions of the entrepreneurial spirit in African–Americans, which remained buried under the more dominant social and historical events of our country. The authors suggest that the entrepreneurs from different ethnic groups have reacted differently owing to explicit and implicit forms of discrimination.

The primary questions addressed by scholars concern the varying levels of business involvement and success of different ethnic and immigrant groups (Teixeira 2001): what are the determinants and implications of the ethnic enterprise (Waldinger and Aldrich 1990; Barrett *et al.* 1996; Light and Gold 2000)? Why do certain immigrant groups concentrate in entrepreneurship? What factors facilitate or prevent the entrepreneurial phenomenon from occurring within particular ethnic groups? Why do some groups do better than other ethnic groups? What are the proportional effects of the discrepancies between wealth and civil liberties in the native and foreign countries? Is the growth of ethnic entrepreneurship driven by the growth of entrepreneurial opportunities, or are entrepreneurial opportunities driven by the immigration of entrepreneurially inclined individuals (Light 1988–1989)?

Leading explanations

A fundamental belief about ethnic entrepreneurship is that the new ethnic business begins by serving other members of that ethnic community, and that business growth is facilitated by the tendency of ethnic groups to live geographically concentrated in ethnic enclaves (Galbraith and Stiles 1999). After achieving success in serving their ethnic enclave, the entrepreneurs expand their businesses to non-ethnic markets.

Although this explanation is valid in some cases, it does not provide a sufficient explanation for immigrant ethnic entrepreneurs. In the literature, researchers have used three basic explanations: sociological, economic, and immigration policy.

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Sociological explanations

Disadvantage theory: displacement, human capital, and blocked mobility

Displacement theory argues that the disadvantages of poverty, unemployment, and racial discrimination cause immigrants and ethnics to seek self-employment because a wage or salary job is not open to them or advancement is blocked by a "glass ceiling."

Lack of human capital prevents immigrants and ethnics from obtaining wage or salary jobs because they are not fluent in English and their experience, skills, and education are not completely transferable to the U.S. labor market. Therefore, self-employment is the only choice.

Blocked mobility occurs because ethnics have limited knowledge of the language and culture of the majority and discrimination leads some ethnic minorities to seek self-employment rather than employment.

Ethnic resource theory (or cultural theory)

Immigrants and ethnics have a preference for entrepreneurial, self-employment opportunities rather than being driven to them as an only alternative. Ethnic groups have resources that facilitate entrepreneurial behavior and benefit the ethnic self-employed (Fairlie 1996). Light argues that equally disadvantaged ethnics can have different rates of self-employment because of differences in ethnic resources (Light 1972; Waldinger and Aldrich 1990).

Ethnic enclaves

The ethnic enclave acts as the greenhouse for the development of budding capitalists (CEIP 1997), providing critical community support for the start-up business during uncertain times. It is rare that an entire family network from the native country is transplanted. Therefore, the missing familial connections increase the need to cultivate the non-family links for social and economic support. Light (1972) describes the "immigrant brotherhood," and Lovell-Troy's (1980) work found evidence of a broad clan structure that extended beyond the nuclear family. Zhou (1992) discusses two entrepreneurship-promoting attributes of the ethnic enclave:

- enforceable trust. The communities are both business and social and provide efficient mechanisms for enforcing fairness and contractual honesty
- bounded solidarity. Immigrants manifest a tendency to affiliate with others of their own ethnicity or national origin, creating a community of buyers, sellers, laborers, employers, and financiers, as well as tightly meshed networks of information.

Theory of middleman minorities. Some ethnics who cluster in certain commercial occupations and supply an abundance of entrepreneurial talent to some

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areas are generally considered economically unpromising, such as inner-city grocery services.

Immigrant entrepreneurs as sojourners. Some immigrants come to this country to accumulate wealth quickly so that they can return to their native countries. Therefore, they avoid occupations that require extensive training or education and instead seek wealth in small business trade and commerce. Light (1979) suggested that the Chinese in the nineteenth century are good examples of sojourners. However, Waldinger and Aldrich (1990) suggested an alternate explanation, that sojourners would choose the less risky wage or salary job over opening a small business.

Economic theories

The economic explanations provide insights into the variation in self-employment across ethnic groups as a function of skill, capital, and motivation. Aronson (1991) has a good review of economic literature on self-employment.

- *Risk aversion.* The immigrant has a choice between wage or salary employment and self-employment; and his or her decision is determined by which is less risky.
- *Liquidity.* The assumption is that the greater the wealth the higher the likelihood that the immigrant will seek self-employment.
- *Utility.* The immigrant seeks the better of the two choices on the basis of his or her ability and aspirations.
- *Niche economic and market conditions.* Ethnic entrepreneurs may provide goods and services that serve the unique needs of co-ethnics and enter businesses with low barriers to entry (Waldinger and Aldrich 1990).
- *Abandoned markets.* Business sectors are abandoned by the majority culture and left open to "middleman" minorities (Bonacich 1973) and other ethnic entrepreneurs (Waldinger and Aldrich 1990).
- *Regional and sub-regional economics within the country's overall gross domestic product.* Small businesses form within the ethnic group, initially grow by trading with other ethnic groups, and, then, after attaining a critical mass, become viable businesses by expanding into high-volume trade with the general population.
- *Equal expansion hypothesis.* When opportunities exist in the market, all ethnic groups do not share equally. Light (1988–1989) suggests that ethnic groups are endowed differently; market opportunities never increase evenly; ethnic groups do not share a common definition of what constitutes a market opportunity; and they have different "mean opportunity costs of entrepreneurship." The same sources of information that lock certain ethnics into a certain industry lock other ethnics out of that same industry; ethno-religious groups also serve as a community standard for acceptable and unacceptable market opportunities.

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Immigration policy

The Immigration Act of 1990 limits immigration and sets the preference categories used to select immigrants that may have a direct impact on immigrant and ethnic entrepreneurships (U.S. Immigration and Naturalization Service 2001):

- the U.S.A. has a flexible annual cap on immigration of 675,000, or approximately 0.25 percent of the current population, involving three categories: employment-based immigrants make up approximately 21 percent of allowable immigrants; family-sponsored, approximately 71 percent; and diversity program selections, approximately 8 percent.
- the current policy places a strong emphasis on high-skilled immigrants and allows a lower proportion of unskilled workers.
- the program is designed to ensure that "the admission of aliens to work in this country on a permanent or temporary basis will not adversely affect the job opportunities, wages and working conditions of U.S. workers."

Light and Bonacich (1988) were the first to explore the importance of U.S. immigration policy and its ultimate responsibility for the degrees of immigrant and ethnic entrepreneurships. Immigrant entrepreneurship will vary as U.S. immigration policy changes due to levels of war and peace, international trade and tariffs, unemployment and welfare, world capital markets, and now terrorism.

Model development

Self-employment is anything but self-evident (Light and Rosenstein 1995). This holds true for indigenous aspiring entrepreneurs and, arguably, even more so for immigrants from less-developed countries who have moved to advanced economies (Kloosterman and Rath 2001). Several models have been developed to help explain the phenomenon of immigrant and ethnic entrepreneurships. This section summarizes those models and provides a brief explanation. Variable definitions and measures are especially difficult for all models.

Model 1: neo-classical model

Entrepreneurship is rational within the traditional neo-classical model (Kloosterman and Rath 2001).

- Opportunities for business occur, and entrepreneurs seize them because committing resources to set-up shop is more rewarding than any alternative use for their resources.
- Opportunity structure is completely transparent and is assumed to be economically rational with profit-seeking actors.

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- Opportunities can be pursued by easily transferring resources from one economic activity to another with no obstacles from closed shops, cartels, rules and regulations, branding, or marketing to hamper the new entrepreneur.
- Opportunities will eventually disappear when the markets clear and blissful equilibrium returns once more.

Model 2: simple linear model

Immigrant and ethnic entrepreneurships can be explained as a linear regression relationship by using the attributes as the independent variables and ethnic start-up as the dependent variable.

Model 3: structural versus cultural factors

This model suggests that there are two fundamental explanations for ethnic entrepreneurship. Structural and cultural factors explain the differences in business involvement and the rate of success among ethnic and immigrants groups.

Structural factors such as the blocked mobility thesis or disadvantage theory point to racial discrimination and cultural barriers as structural forces that block the advancement of ethnic minorities in mainstream economic markets, forcing them to channel themselves into entrepreneurship as their principal means for economic prosperity. In this view, entrepreneurship is not seen as a sign of success but as an alternative to underemployment and low wages and becomes a sign of the ethnic group's disadvantage and social position in society (Bonacich and Modell 1980; Li 1992, 1997; Reitz 1980, 1990; Waldinger 1986).

Cultural factors suggest that immigrant and ethnic entrepreneurs seek entrepreneurship because of unique cultural characteristics that promote entrepreneurial success as an attribute of their ethnic group. This thesis holds that certain traditional values and cultural backgrounds serve to explain both the rates of entrepreneurship for immigrant and non-immigrants, as the blocked mobility thesis does, and the differences in entrepreneurship between ethnic and minority groups (Light 1972; Li 1992, 1997; Light and Bonacich 1988; Light and Rosenstein 1995a; Waldinger 1986).

Model 4: ethnic markets versus mainstream markets

This model presumes that there are two basic markets for ethnic entrepreneur

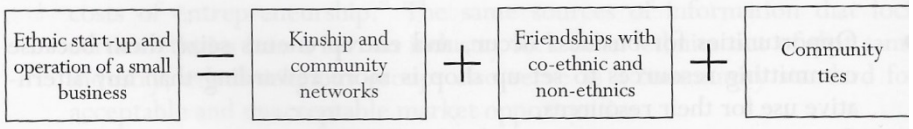


Figure 18.1 An illustration of the basic linear regression relationship

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– ethnic markets and mainstream markets – and proposes that the ethnic entrepreneur begins with a business in the ethnic community.

For the ethnic market, promotion will only be through ethnic sources, ethnic media, ethnic community, and ethnic information networks. The reasons to stay with the ethnic market is the sharing of background, language, and consumption patterns, such as homeland products, rituals, holidays, and celebrations.

In order to grow and expand into the mainstream market, ethnic entrepreneurs must have the desire for integration and/or assimilation into the larger mainstream market, including a more developed perception of risk based on the native culture and the support and encouragement of their ethnic community, for example, encouragement by co-ethnics or by social embeddedness characteristics.

Model 5: interactive model

The interactive model of ethnic business development says that there is not a single characteristic that is responsible for the entrepreneurial success of an ethnic group but the success is related to a complex interaction between two dimensions: opportunity structures and group characteristics (Waldinger and Aldrich 1990). The interactive model brings together four factors (Figure 18.2):

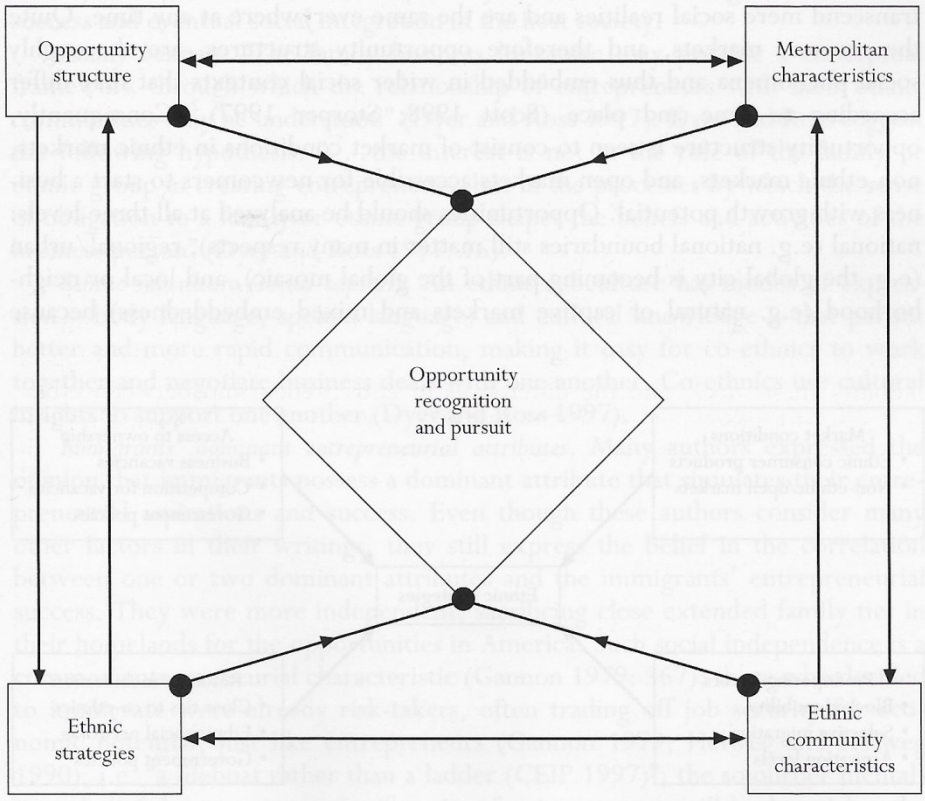


Figure 18.2 Interactive model of ethnic business development

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1 the characteristics of the ethnic community, especially those characteristics that contribute to immigrants' entrepreneurial success;
2 opportunity structure, including market conditions and blocked mobility;
3 business strategies that come from the interaction between the ethnic group and the opportunity structures; and
4 characteristics of the metropolitan area.

Waldinger *et al.* (1990: 22) also provide a model to explain ethnic strategies when the strategies emerge from the interaction of four factors (shown in Figure 18.3) as ethnic entrepreneurs use the available resources to carve out their own niches.

Model 6: mixed embeddedness: opportunity structure and market

Mixed embeddedness is used by several researchers in order to identify the matching process between entrepreneur and potential opportunity that takes place within social networks and socio-economic and politico-institutional environments (Kloosterman and Van der Leun 1999).

This model maintains that markets are not metaphysical phenomena that transcend mere social realities and are the same everywhere at any time. Quite the reverse: markets, and therefore opportunity structures, are thoroughly social phenomena and thus embedded in wider social contexts that may differ according to time and place (Scott 1998; Storper 1997).[2] Consequently, opportunity structure is seen to consist of market conditions in ethnic markets, non-ethnic markets, and open markets accessible for newcomers to start a business with growth potential. Opportunities should be analyzed at all three levels: national (e.g. national boundaries still matter in many respects), regional/urban (e.g. the global city is becoming part of the global mosaic), and local or neighborhood (e.g. natural or captive markets and mixed embeddedness) because

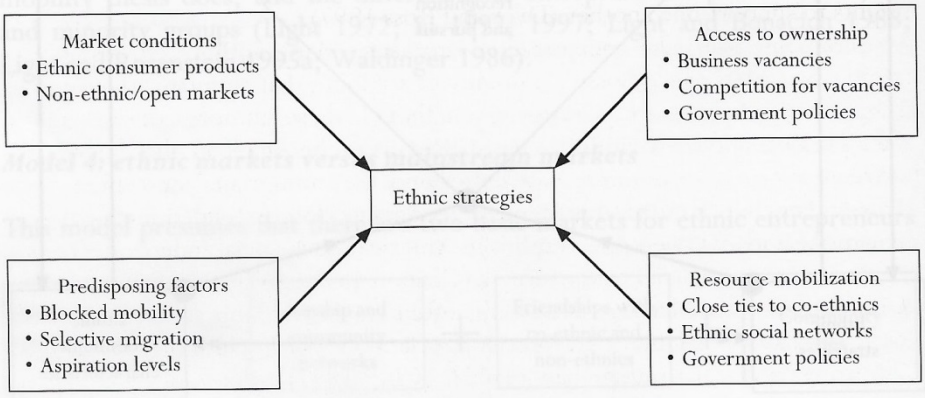


Figure 18.3 Sources of ethnic strategies

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different factors at each level shape the opportunity structure (Kloosterman and Rath 2001). The three assumptions of the mixed embeddedness models are:

1 opportunities have to be accessible to aspiring entrepreneurs and not blocked by very high minimum efficiencies of scale or industry rules or government regulations;
2 an opportunity must be perceived as one for starting a business that will provide sufficient income; and
3 entrepreneurs must be able to seize opportunities in a palpable way, i.e. by actually starting their own businesses, as shown in the following model of ethnic entrepreneur's innovative behavior (Kloosterman and Rath 2001).

Hypotheses

The following hypotheses are not intended to be mutually exclusive. Instead, the list includes various hypotheses discussed or tested by researchers in the field.

Horatio alger hypothesis. Immigrants are naturally entrepreneurial owing to the challenge of beginning life in a new country. Enterprises owned and operated by immigrants are one of the primary routes for the immigrant's economic success and eventual social integration in the host society.

Family business. "The family business literature may provide a conceptual framework through which the relationship of entrepreneurs with their ethnic communities may be understood" (Dyer and Ross 1997). Dyer and Ross suggest the following hypothesis: ". . . the interest is not in the role of the family or ethnic group in creating entrepreneurs, but in the processes by which the sense of obligation to a family or ethnic group shapes the beliefs and activities of the business person" (Dyer and Ross 1997: 16).

Ethnic subculture (social capital). An ethnic subculture has modes of expression – body language, spoken language, and cultural knowledge – that permit better and more rapid communication, making it easy for co-ethnics to work together and negotiate business deals with one another. Co-ethnics use cultural insights to support one another (Dyer and Ross 1997).

Immigrants' dominant entrepreneurial attributes. Many authors expressed the opinion that immigrants possess a dominant attribute that simulates their entrepreneurial aspirations and success. Even though these authors consider many other factors in their writings, they still express the belief in the correlation between one or two dominant attributes and the immigrants' entrepreneurial success. They were more independent, sacrificing close extended family ties in their homelands for the opportunities in America. Such social independence is a common entrepreneurial characteristic (Gannon 1979: 367); those who decided to immigrate were already risk-takers, often trading off job security for economic potential, just like entrepreneurs (Gannon 1979; Helweg and Helweg 1990), i.e. "a lifeboat rather than a ladder (CEIP 1997)"; the sojourner mentality, a belief that temporary sacrifices in a foreign country will lead to riches the immigrants can take with them when they return to their homeland, makes

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some immigrants work harder than normal (Light and Bonacich 1988); the decision to emigrate to a foreign country can stem from a strong desire to get ahead and more tolerance for uncertainty and risk than others in their own country have (Rosentraub and Taebel 1980); the lifestyle of many immigrants has led to success. Although financially secure, the immigrant professionals had no one to go home to, so they worked long hours at their jobs to relieve the loneliness (Helweg and Helweg 1990: 158).

Zero-sum competition thesis. Failure or success of immigrants, economically or socially, is a function of whether they are perceived negatively by individuals who identify with the receiving society (Esses *et al.* 2001). This hypothesized relationship may explain why we may admire immigrant entrepreneurs for their rags-to-riches success but may target them with envy and hostility. The perception of an immigrant is explained by the zero-sum competition thesis. Esses *et al.* (2001) provide insights regarding the perceived competition for resources that determines negative attitudes toward immigrants. Their article does not specifically mention the ethnic entrepreneur but does identify an underlying principle that affects immigration policy and, in term, affects the ebb and flow of immigrants. The authors explain how the chronic belief in zero-sum relations among groups is a major factor in the prevailing negative attitude toward immigrants and immigration policy, i.e. more for immigrants means less for non-immigrants.

Topics that need to be covered

Dual nationality

Dual nationality is a growing issue not yet discussed in the immigrant and ethnic entrepreneurship literature. Dual nationality represents the growing complexity in a world that increasingly comes to resemble a global village, and can affect patriotic loyalty. Dual citizenship can make it easier for holders to work, travel, and own property abroad and make unrestricted investment back home. Some researchers estimate that as many as 25 million U.S. residents can hold dual citizenship. In 1967, the U.S. Supreme Court affirmed the right to dual citizenship, but the argument continues: "no man can serve two masters" versus "a child has two parents and can love both mother and father."

Women ethnic entrepreneurs

Unfortunately, the literature about ethnic entrepreneurship includes very little concerning the self-employment initiatives of ethnic women. Demographic analysis shows that ethnic women represent a very small percentage of the self-employed. Yet we know that often the skills of a married ethnic woman are the basis for an ethnic business that is built in cooperation with her husband.

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True Native American Indian entrepreneurs

They start the fewest businesses (see Garsombke and Garsombke 1998). There is still a need for a researcher to discover the uniqueness of the Native American ethnic entrepreneurship background: "Most information available regarding Native American businesses has been compiled by the U.S. Bureau of Indian Affairs and has focused on tribal business such as natural resource development enterprises, production of Native American tourist products and gambling casinos" (USASBE 1998).

The illegal immigrant

No in-depth discussion of the impact of illegal immigrants is formally included in any model. We know the illegal immigrant is here, but we seem to imply that they are included in the aggregate, meaning what is true for the legal immigrant will also be true for the illegal immigrant.

According to the present INS Commissioner, James Ziglar, there are an estimated seven million illegal immigrants in the U.S.A. (Ziglar 2002). Seven million illegal immigrants as a proportion of the total U.S. population is either a significant or relatively small number, depending on your perspective. However, seven million as a percentage of the population under study, immigrant and ethnic entrepreneurs, is very significant.

Notes

1 The author wishes to acknowledge Elif Izberk-Bilgin, UIC Ph.D. student, for her assistance in this research project.

2 Kloosterman and Rath (2001) refer to these two sources. (Note: the immigrant entrepreneurs and their social embeddedness are well covered by Granovetter 1985, 1990, 1995; Portes and Sesenbrenner 1993; Waldinger 1996.)

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