

# A Literature Review on the Benefits of Ethnic and Minority Entrepreneurship

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## Abstract

Ethnic/Minority entrepreneur is a business owner who does not represent the majority population of a country. Ethnic/Minority entrepreneurship can bring benefits to individual, society, region, economy, and globe too. So, understanding the importance of ethnic/minority entrepreneurship will really be useful to all the stakeholders. The unique culture and value system of ethnic minorities are the most wanted characteristics for any successful entrepreneur in general. Many industrial nations like U.S, U.K., Germany, etc. have utilised the ethnic minorities to build their economy. The future of the minority businesses looks bright as the world economy is booming, availability of experienced and already successful minority entrepreneurs as role models, and institutional support services. In this paper, literature relating to the benefits of ethnic and minority entrepreneurship is reviewed to understand its magnitude of benefits.

Key Words: Ethnic and Minority Entrepreneurship, Characteristics and Values, Individual Benefits, Socio-Economic Benefits, International Benefits, Regional Benefits

## Introduction

The origins of *minority* enterprises in the business literature can be traced to a pioneering effort by Pierce (1947)<sup>1</sup>. Bates (1987) says that studies show that *minority* groups tend to prosper in self-employment by moving away from traditional fields

such as personal services and small-scale retailing<sup>2</sup>. Many contemporary sociologists say that disadvantages in the general labour market lead *minorities* to turn to self-employment in small business. When it comes to a career decision whether to enter self-employment or wage employment (with all the required resources), the existing market opportunities and the current labor market circumstances matter<sup>3</sup>. It is supported by Moore (1983) who says that wage and employment discrimination represent disadvantages in the labor market causing some groups to favour self-employment<sup>4</sup>. That means, some groups like minorities prefer self-employment or entrepreneurial activities not by choice rather by compulsion. For example, in U.S. the Whites may prefer entrepreneurship to make wealth; where as the African-Americans and other minorities may prefer entrepreneurship as an alternative for discrimination in the job market.

Entrepreneurship is not only an alternative to salaried employment, but also a better option for a sustainable wealth creation for minorities. Labor market discrimination can reduce the incentive for minorities to enter self-employment<sup>5</sup>. Through entrepreneurship ethnic minorities try to achieve a higher social mobility<sup>6</sup>. Ultimately, it is business ownership that will provide better living and wealth<sup>7</sup>.

According to a report to the European Commission (2000 July) minority businesses have been the subject of growing interest from a variety of sources in recent years for a number of reasons. From an economic standpoint, it can be argued that the ability of European economies to be enterprise based depends on their ability to encourage and support entrepreneurship in all sections of society, including ethnic minorities<sup>8</sup>.

### **What is Ethnic and Minority Entrepreneurship?**

According to U.S. Department of Commerce (1997) 'Minority Entrepreneur' means "business ownership by any individual who is not of the majority population". For example, in U.S., any business owner from Hispanic, Latinos, Asians, Pacific Islander, American Indian, or Alaska Native is categorised as minority entrepreneur. This is very simple and straight definition of Minority Entrepreneurship<sup>9</sup>. But, the definition by Thomas M. Cooney is very broad-based who defines 'Minority Entrepreneurship' as follows:

"Minority Entrepreneurs are not just ethnic; they are any group of entrepreneurs who are considered to be outside mainstream society. Minorities not only include ethnic groups but also the travelling community, the gay community, socio-economically disadvantaged, and the disabled. In entrepreneurship terms, minorities also include females, greys (over 50s), and home-based entrepreneurs".

Cooney's definition shows that minority entrepreneurship is quite different to the general understanding that the majority of people possess.

Characteristics and Values of Ethnic and **Minority** Entrepreneurs

Research suggests that, in terms of Hofstede's dimensions of culture, entrepreneurial activity is associated with low Uncertainty Avoidance (UA), high Power Distance (PD), Individualism (IND), Masculinity (MAS), and Long-term Orientation (LTO)<sup>10</sup>. Social capital in the form of norms, values and a variety of networks can influence development outcomes<sup>11</sup>. Values play an important role in venture formation and entrepreneurial activity<sup>12</sup>. Light and Bonacich (1988) cited resources such as values, knowledge, etc. as drivers of ethnic entrepreneurship<sup>13</sup>. Achievement, opportunity, and job satisfaction are the strongest motivations for starting a business by minority entrepreneurs<sup>14</sup>. It is supported by Feldman et. al. (1991) who say that minority business owners have strong personality types. They believe they can control their own lives, have a high need for achievement and power, and are extremely self-confident in their ability to do their jobs<sup>15</sup>. A study by Enz et. al. (1990) show that *minority* business owners attach greater importance to organization-based values such as collectivism, duty, rationality, novelty, materialism, and power than do their non-minority counterparts<sup>16</sup>.

A survey examining the organizational value orientations of *minority* and non-minority small business owners indicates significant differences between the two groups. Overall, findings show that *minority* business owners attach greater importance to organization-based values (such as collectivism, duty, rationality, novelty, materialism, and power) than do their non-minority counterparts. Moreover, the research suggests that *minority* owners, even when differing from each other in education and birth location, more strongly identify with those values of white corporate America than do non-minority entrepreneurs<sup>17</sup>.

Certain social groups, normally small minorities, have been so successful at business in developing countries due to the liberating or stimulating effect of minority status and the 'ethos' of the group that encourage the kinds of behaviour believed to hold the key to business success: striving, deferred consumption, a drive to achieve, and calculating or rationalistic attitude to business and to social relationships generally<sup>18</sup>. It is seen that generally the minority entrepreneurs have an edge over the non-minority entrepreneurs in terms of motivation, values, etc.

### Benefits of Ethnic and Minority Entrepreneurship

The importance of minority entrepreneurship can be seen from the individual, social, economic, regional and international stand points. The following are the benefits of Ethnic and Minority Entrepreneurship:

#### **Individual benefits**

Theodore (1995) says that minority-owned firms hire minorities in high proportions<sup>19</sup>. Due to the utilization of a peculiar co-ethnic recruitment network by ethnic minorities' enterprises, the economic growth accompanied by the creation of new jobs entails first of all an increase of employment among ethnic minorities themselves; say Golik and Teder (2006)<sup>20</sup>. Over one million Filipinos have emigrated from the Philippines in the past 20 years. Crane (2004) pointed out that

emigration has been socially accepted in society and has been viewed as a means towards the attainment of economic prosperity<sup>21</sup>. All these evidences drive home the point that minority entrepreneurship brings many benefits at individual level. Co-ethnic members stimulate self-employment, work flexibility, and training<sup>22</sup>.

### **Socio-economic benefits**

Entrepreneurial aspect of human action is the prime catalyst for economic growth<sup>23</sup>. Entrepreneurship provides a route out of poverty and an alternative to unemployment<sup>24</sup>. Recent times, minority entrepreneurship has emerged as a topic of growing interest among social scientist. Golik and Teder say that there are both social and economic reasons that make ethnic minorities entrepreneurship highly important. Minority businesses are an essential part of a society in which personal initiative is encouraged and in which opportunity is within the reach all citizens. Significant increases in minority business ownership are providing an engine for economic growth and helping more of other citizens succeed. Minority business owners have made U.S. economy stronger<sup>25</sup>. Zhou (2002) pointed out that ethnic entrepreneurship facilitates community building and information flow, and enhances relationships<sup>26</sup>.

In several industrial countries like USA, UK, The Netherlands, the ethnic minority entrepreneurship has proved itself to be an efficient means of socio-economic integration contributing at the same time to the overall economic growth and development of these countries.

### **International benefits**

Entrepreneurial activities pursued by ethnic minorities pave the way for domestic and international trade expansion<sup>27</sup>. Golik and Teder (2006) say that minority entrepreneurship has an international impact<sup>28</sup>. For example the Muslim communities in India, apart from focused on business activity in India, a strong Indian Muslim merchant diaspora exists, usually owning businesses on a small to medium scale across the globe.

There is a good example how the minority entrepreneurs can help the countries of their origin. Recently, Indians living abroad adopted a village in rural Punjab (a northern state in India) or building houses for the impoverished in the hinterlands of India. Harinder Takhar, the first Indian origin minister in Canada's biggest province Ontario, says that this is a new philanthropic mantra which has fired the imagination of Indians living abroad. Takhar is the Minister of Small Business and Entrepreneurship in Ontario. He is a 50-something businessman who migrated to Canada from Punjab, India in the early 1970s. He further says that "Indians abroad can bring their skills and expertise to benefit India<sup>29</sup>. This reflects the point made by Basch et al. (1994) who said that immigrants build upon multi-faceted social networks between their country of origin and country of residence<sup>30</sup>.

## **Regional benefits**

Galster et al. (1999) pointed out that ethnic entrepreneurs have the ability to prosper in their host countries by capturing local market niches<sup>31</sup>. Ethnic entrepreneurship can be practiced in “enclaves” consisting of co-ethnic members that serve as avenues for economic improvement<sup>32</sup>. Ethnic minority businesses can benefit from niche markets within concentrations of ethnic minority population, such as in large urban areas in The Netherlands or the UK, for specialty products and services demanded by co-ethnic customers. In such cases, selling may be mainly by word of mouth, although the development potential of such businesses may be very limited. Clearly, if ‘breakout’ into majority markets is to be achieved, more proactive marketing may be required as part of a broader preparation for growth or development. Hence, whilst marketing is a weakness of many small firms, it can present particular challenges to ethnic minority firms as part of a strategy for breaking out into mainstream markets<sup>33</sup>.

Moreover, because of a tendency for ethnic minorities to concentrate in particular localities, the development of some local economies, and the standard of living within them, may be heavily influenced by the nature and extent of ethnic minority business development<sup>34</sup>.

## **Conclusion**

Ethnic/Minority businesses are becoming the subject of growing interest because business ownership is the main alternative to wage/salary employment for making a living and wealth for them. We have seen that the impact the minority entrepreneurs and their ventures have on themselves and on society at large, both in quantitative as well as qualitative terms, is so significant. The importance of minority entrepreneurship should be seen from the individual, social, economic, regional and international stand points. Regarding the future of minority entrepreneurship, we can positively note that the economic growth and institutional factors such as governance can motivate minorities and immigrants to strive towards new directions. It is predicted that the fastest growing population segment in many industrialised nations will be ethnic minorities. Accordingly, these countries must put in place strategic business policies and an infrastructure that fosters an environment where minority entrepreneurs can realise their hopes and dreams of business ownership and prosperity. Like in all business development programmes, assistance extended to promote ethnic entrepreneurship needs to embrace the aspects like awareness raising, creating a conducive policy environment, building up institutions and developing appropriate services. There is no doubt that striving to increase business ownership among minorities will ensure a competitive nation and a prosperous future for minority businesses. It may ultimately lead to the inclusive growth which is the ultimate aim of the economic growth of a country.

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