THE ROLE OF THE ETHNIC ENCLAVE IN FACILITATING IMMIGRANT BUSINESS PERFORMANCE AND SOCIAL INTEGRATION.

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The role of the ethnic enclave in facilitating immigrant business performance and social integration.

ARC Grant Part C – Project Description

Project title:
The role of the ethnic enclave in facilitating immigrant business performance and social integration.

AIMS AND BACKGROUND

Chinese immigrant entrepreneurs, known the world over for their successful business practices (Kee, 1994), tend to start businesses within their ethnic enclave. But in a move away from multiculturalism, host countries increasingly fear that immigration and asylum pose a threat to social integration resulting in a lack of social cohesion and a plethora of government programs (Cheong, Edwards, Goulbourne & Solomos, 2007).

For many immigrant entrepreneurs, the EE is an integral part of their social and cultural context and the location where ethnic resources reside (Logan, Alba & Stults, 2003). Immigrant entrepreneurs can harness the networks for labor and customers through various ties in their EE (Portes and Zhou, 1996). Yang, Ho and Chang (2010) illustrate in their paper that the Chinese immigrant entrepreneurs (IE) were able to utilize ethnic network resources as their social capital in order to reduce transaction costs and thus enhance business performance. Tilly (1990) explains that immigrants’ reliance on such networks for business or other information minimizes the socioeconomic hardships they would experience in host countries (Raijman & Tienda, 2000). Acquiring jobs in ethnic businesses and establishing businesses within an EE may facilitate migrants’ social integration into the host country (Tian & Shan, 1999).

Although an EE has distinct economic advantages for immigrant entrepreneurs, Sequeira and Rasheed (2006: 367) argue that ‘Exclusive reliance on strong ties within the immigrant enclave has a negative effect on growth outside the enclave community.’ Similarly, Drori, Honig and Ginsberg (2010: 20) also propose that ‘The greater the reliance of transnational entrepreneurs on ethnic (versus societal) embedded resources and network structure, the narrower their possibilities of expanding the scope of their business.’

This research asks, ‘What is the role of the ethnic enclave in facilitating immigrant business growth and social integration?

This project has the following important aims:

A1 To better understand the role of IE, in particular Chinese IE in the Australian economy
A2 To investigate the role of the EE in facilitating or inhibiting immigrant business performance
A3 To understand how locating their firm inside or outside of the EE will affect the IE’s embeddedness in co-ethnic and nonco-ethnic networks and social integration
A4 To understand how an IE’s social network affects business performance and social integration

RESEARCH PROJECT

This research addresses two national goals of:

1. FRONTIER TECHNOLOGIES FOR BUILDING AND TRANSFORMING AUSTRALIAN INDUSTRIES #5: Promoting an innovation culture and economy recognises the need for research that maximises Australia’s creative capability by
understanding the factors conducive to innovation and its acceptance. Our research does this by understanding a very important group of entrepreneurs who introduce new businesses and products into our economy and engage in international trade.

2. SAFEGUARDING AUSTRALIA #2. Understanding our region and the world, which recognizes the importance of research enhancing Australia’s capacity to interpret and engage with its regional and global environment through a greater understanding of languages, societies, politics and cultures. Our research does this by increasing our understanding of a very important group that links Australia to our region and the rest of the world, immigrant entrepreneurs.

**Significance and Innovation**

This project is significant in 5 major areas:

1. **The project contributes to knowledge of social capital development in EE.**

   This research clarifies the differential effects of embeddedness in co-ethnic and nonco-ethnic social networks; and the location inside or outside EEs on the businesses performance and social integration of IE.

   We use a social capital perspective (Burt, 1992), to investigate . The ‘embeddedness’ theory defines social capital as capital that can be exchanged (Rutten & Boekema, 2007), through ties such as in co-ethnic (i.e. Chinese) and non-ethnic networks. The stronger the cohesiveness of this social network (this web of social relations) the stronger the network ties, the more mobilized the social capital, the larger the effect on human behavior and on economic activities (Rutten & Boekema, 2007). Hence IEs within the EE would likely have stronger ties in their co-ethnic network, which would give them better access to resources to start and run their businesses. McGlinn (1995) found that embeddedness assisted small Chinese immigrant enterprises in Pennsylvania, particularly those within an ethnic enclave, to grow and be successful, although McGlinn did not test the relationships between co-ethnic and non-co-ethnic embeddedness and business growth. In contrast, Burt’s concept of structural holes (1992) proposes that connecting agents, who have weak ties between groups, such as ethnic businesses are more likely to have with non-ethnic ties, can gather more varied information, or contact more people, thus creating a knowledge advantage compared to those embedded in relationships with strong ties, i.e. ethnic businesses in co-ethnic networks. This would suggest that immigrant businesses near but outside the EE would have more varied contacts, which could assist growth, more so than those inside the EE. In spite of these theories, we know relatively little about how an organization's social capital and its utilization evolve over time, and what implications a business’s social capital has on business growth (Adler & Kwon, 2002), especially in immigrant businesses. We suspect that these effects may differ over time, such that early embeddedness in the EE may facilitate business start-up and early growth but weaker connections with the non-co-ethnic network outside the EE may enable greater long term growth of the mature business. In this line of thinking the EE plays a role in facilitating an IE’s development of ethnic resources, but it is these resources that predicted the survival and development of the business. This research therefore clarifies the relationship between embeddedness in EE, the development of the co-ethnic and non-co-ethnic networks, and the business performance. *The research will therefore examine the relative effects over time of strong and weak ties in co-ethnic and non-ethnic networks inside and outside the EE on business performance and social integration.*

2. **The project contributes to knowledge of IE.**

There are over 200 million immigrants worldwide, which is about 3% of the world population (United Nations Department of Economic and Social Affairs, 2008). There has
been drastic growth in international migration in the last few decades, from 82 million in 1970 to 190 million in 2005. This growth has been fuelled by the economic boom in emerging economies, like China and India (Enderwick, Tung & Chung, 2011). Until now the literature on immigrant business communities has fallen into two categories. The first examines why immigrants are over-represented in the self-employed sector, emphasizing the availability of opportunities in the host society for ethnic entrepreneurs (Raijman & Tienda, 2000). The second category examines variations in success among immigrant groups (Hammarstedt, 2004; Teixeira, 1998). This research indicates that immigrant business communities have a high level of self-employment driven by labor market disadvantage within them (Ram & Smallbone, 2003). By starting their own businesses, immigrant entrepreneurs may circumvent some of the barriers and disadvantages encountered in looking for a job (Sequeira & Rasheed, 2006). It has been accepted that self-employment is often considered by migrants as a favorite recourse to overcoming the difficulties of unemployment (Waldinger, Ward, Aldrich & Standfield, 1990), although Zolin and Schlosser (In press) also found that immigrant entrepreneurs are over-represented in starting International New Ventures. Market disadvantages and ethnic resources are central to understanding the development of immigrant entrepreneurship (Aldrich, Waldinger & Ward, 1990). Immigrants face a variety of market disadvantages, such as exclusion from job opportunities in the general labor market (Aldrich & Waldinger, 1990); unemployment and underemployment (Iyer & Shapiro, 1999); and lack of host country language skills, education and specific career-related skills (Barrett, Jones & McEvoy, 1996). These disadvantages create greater group cohesion (Aldrich & Waldinger, 1990) and ethnic solidarity (Light, 1984) among immigrant groups. This sense of ethnic solidarity enables a prospective immigrant entrepreneur to draw from the pool of resources that exist within the immigrant community. Most of the research concludes that immigrant self-employment is an adaptive strategy, rather than a free choice. With this large and growing population of immigrants and consequently IE, little is known about IE and the advantages and disadvantages of their tendency to operate in EE. This research will therefore examine the tendency for IE to locate in EE and seek to understand if that provides advantages in terms of early compared or disadvantages in terms of longer term business growth.

3. The project advances our knowledge of the contributions of IE in Australia.

Approximately 299,900 people around the world migrate to Australia each year (ABS, 2010), increasing our population of almost 23,000,000 by approximately 1% per year. In 2010, 27% of the population was foreign-born (6 million people) and Australia is considered an immigrant country (ABS, 2001). Successful IE integrate into the economy, creating jobs, providing products and services for members of their own ethnic community as well as society as a whole, and introducing new products and services that expand consumers’ choices (Rath & Kloosterman, 2000). Research has also shown that immigrants have many of the personal characteristics and social capital factors that facilitate the development of international new ventures (INV) or Born Global enterprises (Schlosser & Zolin, In Press). Yet, although immigrant entrepreneurship is doubly beneficial, first for employing the valuable skills of immigrant entrepreneurs and secondly for generating international trade and foreign direct investment, little is known about the effect of IE on employment, international trade or foreign direct investment. This research studies the impact of IE on employment, international trade and foreign direct investment.

4. The project contributes to knowledge of Chinese IE.

China will play an increasingly important role in the future of Australia as explained in the recent report Australia in the Asian Century (2012). Chinese immigrants represent 4.9% of
This research draws on the theoretical framework of social capital and social networking to investigate behaviors of immigrant entrepreneurs in and out of EEs. As shown in Figure 1

5. The project contributes to knowledge of the role of EE in social integration of immigrants.

Host countries like the USA, Canada and Australia welcome qualified immigrants from around the world, who are screened for their valuable skills, family connections and financial contributions. After arriving in the host country many migrants find it difficult to gain employment in their professions for which they were selected, and so they look for business opportunities (Ram & Smallbone, 2003). But lack of understanding of IE and EE could lead governments to develop less than optimal policies for issues related to immigrants, such as immigration and refugee resettlement, to name just a few. Policies that not only encourage, but actually demand migrant locations outside ethnic communities may cause more personal difficulties and economic harm than social good. This research studies the role of EE in social integration of immigrants.

Innovations

Innovations in the proposed research include:

1. Developing a new model of EE success using the social capital perspective (see Figure 2 below). Compared to the current understanding in the literature in Figure 1, this new perspective offers new methodology and measurement to study EE success. In this new approach will understand:
   - The comparative benefits of strong versus weak ties on business growth and social integration
   - The comparative benefits of co-ethnic and non-ethnic networks on business growth and social integration
2. The study of more than one industry
3. Distinguishing the impacts of social network connections and location in the EE
4. An international comparison between Australia and the USA
5. A survey methodology that builds upon a national panel study to investigate a smaller segment of the population.
6. Comparison of the Chinese IE with other IEs in general and with local entrepreneurs using CAUSEE study as the baseline data
7. The establishment of an IE Facebook community for communicating with participants and collecting network and qualitative data

Conceptual Framework

This research draws on the theoretical frameworks of social capital and social networking to investigate behaviors of immigrant entrepreneurs in and out of EEs. As shown in Figure 1
previous literature proposes that location in the EE positively affects Business growth at a young business age but negatively affects firm growth at an older age.

![Diagram of Years in Operation and Business Performance](image1)

**Figure 1 Current Understanding in the Literature for a Theoretical model of Business Performance of Immigrant Entrepreneur: EE has a direct affect on Business Performance and Social Integration**

![Diagram of Location in Ethnic Enclave and Business Performance](image2)

**Figure 2 Our Proposed New Theoretical model of Business Performance of Immigrant Entrepreneur based on the embeddedness theory and the social capital perspective: EE affects development of ties.**

In contrast, based on social capital and social network theory, we propose that location in an EE increases the IE’s embeddedness in co-ethnic networks (H3A), as shown in Figure 2. We then propose that embeddedness in co-ethnic networks will have a positive effect on business performance (H1A) and social integration (H2a), which is defined as embeddedness in non-ethnic networks. Our logic for a positive connection between co-ethnic embeddedness and non-co-ethnic embeddedness is because good networkers in co-ethnic networks are likely to be good networkers in non-co-ethnic networks. But more importantly, a business located in the EE with a rich co-ethnic network is better capable to reach out to make connections in non-co-ethnic networks. For example, if an IE needs to hire a tradesperson not available in the network, one of their co-ethnic ties are likely to have a non-co-ethnic tie with the required trade, but also more likely to have good cross-cultural communication skills. Hence embeddedness in a co-ethnic network, rather than reducing non-co-ethnic ties required for social integration, may actually increase non-co-ethnic ties and over time enhance social integration.

**Approach and Methodology**

The population we wish to study is Chinese immigrant entrepreneurs in all types of businesses in Australia and the USA. We propose to use a mixed methods approach. We propose to deliver the research objectives using a two phase design.

**Phase I is a Longitudinal Panel Study** modeled closely on the Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE, DP0666616, Davidsson, Steffens, Gordon and Reynolds, 2008; QUT). The CAUSEE project used a two-stage procedure to collect panel data over the course of four years. A random sample of 15000 Australian residents
were first selected through a random digital dialing of household numbers. An initial screening question was posed to determine the eligibility of the individual called, and valid cases were immediate directed to a long initial interview. A follow up questionnaire was then mailed to the respondents to reduce the initial interview time and increase the variation of data collection formats for different types of questions/response scales. The eligible sample was then contacted for follow-up phone interviews every 6-12 months. Importantly for our study, this methodology allows for the random capture of active nascent and young ventures, thus gaining a more representative sample than most other survey methods. In the CAUSEE database, young firms with immigrant founders represented 26% of the sample, closely reflecting the 25% first generation immigrants in the Australian population.

The CAUSEE study established the baseline data for venture activities in Australia. However, only 25% (748) of the participants in CAUSEE were Immigrants, and 4% (117) were Asian (even less Chinese). Thus to better understand the economic activities of IE we propose a comparative panel study sampling a larger number of Asian Immigrants. This telephone survey study will use similar random digital dialing method as CAUSEE, however, the sampling frame will be restricted to those residential household with a Chinese surname. A two-stage data collection method will also be followed, collecting the same baseline information such as demographic variables (e.g. gender, education, experiences) and economic activities (e.g. entrepreneurial intentions, entrepreneurial team versus sole trader, number of businesses started, number of businesses currently owned, opportunity versus necessity motivations, business performance and networking activity). We expect similar response rate as CAUSEE, and we aim to randomly dial 6000 household with Chinese surnames in known Ethnic Enclaves Australia, and we expect a total sample of 2000 Chinese participants willing to answer the first set of simple questions about social networks and integration and 500 of these Chinese participants to be either currently running or in the process of starting their own businesses.

The mail out survey will be sent to IE only (N=500) collects information pertaining to the specific ethnic resources and social networks utilized by individuals to start and maintain their venture activities. The survey also identifies the location of the business thus reflecting the positioning of the business inside, outside, or near the Chinese EE. For those Chinese Immigrants who are NOT running or starting their own businesses, the telephone survey will also ask them questions about their current and past employment history (within or outside the co-ethnic network) to ascertain their level of social integration professionally into the host society. All participants will also be asked in the phone interview about their social networks (co-ethnic and non-coethnic) to assess their level of integration socially into the host society.

At the end of the interview, all participants will be asked to visit the community facebook group created to support Chinese Immigrant businesses, this provides the participants a forum to exchange and share resources and the researchers a portal for communicating with all participants, they will grow the sample by referrals, and to collect additional network information and stories of Chinese Immigrant Businesses. We anticipate the IE to be interested in the network and marketing opportunities provided on the website, and Facebook is a popular platform among Chinese immigrants for communicating with relatives and friends overseas.

**Phase II** of this project involves qualitative analyses of the data collected via this website, and a sub-sample of 64 case studies drawn from Phase I based on their representativeness of the theoretical variables studied in this project. Table X below illustrates the theoretical sampling for Phase II of this project. There were 4 theoretical variables of interest, thus
creating 16 possible combinations of IE characteristics. We aim to collect 4 cases (from retail, restaurant, e-business, import/export) of each type of business, resulting in a total sample of 64 cases. For each case study we will combine the longitudinal survey results with indepth interviews and possibly further data collected via the community website.

<table>
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<tr>
<th>Location</th>
<th>Embeddedness in the co-ethnic network</th>
<th>Integration into the non-co-ethnic network</th>
<th>Growth Strategy</th>
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<tr>
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**Timeline**

This will be a three year project with two phases:

1. Phase 1
   - The Asian telephone survey study
   - The IE mail out survey
2. Phase 2
   - Qualitative analysis of Facebook Chinese IE stories

**Measures and Analysis**

In addition to the measures currently used in the CAUSEE study, this project includes measurements of embeddedness in co-ethnic and nonco-ethnic networks. The study proposes embeddedness to be the frequency of contact (times per year), number of contacts (number of co-ethnic and non co-ethnic contacts) and common acquaintances (eg. mutual friends, social groups, family members) (Chung & Whalen, 2006; Hoang & Antonicic, 2003). We measured the Chinese immigrant entrepreneur’s embeddedness in both co-ethnic and non-co-ethnic networks in the same manner. We equate embeddedness in nonco-ethnic networks with **Social Integration.** Embeddedness is calculated by multiplying the entrepreneur’s number of contacts (number of co-ethnic and non-co-ethnic contacts) by frequency of contact (times per year), by number of common acquaintances (e.g., mutual friends, social groups, family members). This operationalisation of embeddedness allows us to capture both the size and the density of the network in a single composite measure. This was done for both the formal and informal networks (Chung & Whalen, 2006; Hoang & Antonicic, 2003). The formal and informal networks are then summed for the overall embeddedness.

**Feasibility and Timeline**

The research team has work together in the past. They have supervised a master student project together in this topic area. The student completed the project successfully and they have published the work together with the student in leading journals for Chinese research (see the publication list in section E). This project is an extended from the research team’s prior project, **Impact of Embeddedness in Co-ethnic & Non Co-ethnic Networks on Business Performance: Evidence from Chinese Immigrant Entrepreneurs in Australia.** The two CIs have also supervised another master student to completion and are currently supervising a PhD student together investigating Chinese family business in Indonesia. Dr Chan g demonstrated through her publication records her methodological expertise on a wide range of analysis techniques, including qualitative case study, quantitative survey analyses, structure equation modeling, group level analyses, and network analyses.

This research models closely on the CAUSEE project which has demonstrated the feasibility
of the methodology. The research team has access to CAUSEE data and the expertise as described in the research environment section.

**Timeline**

1. October 2012 - February 2013: Design, pre-testing & development of Community Website
2. February - August 2013: Screening interviews, initial phone interview & mail follow-up
3. April - August 2014: 6 month phone follow-up & interviews of the subsample
4. April - August 2015: 18 month phone/mail follow-up and interviews

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Figure 3 Project Timeline

**Social and Economic Benefits from this project**

This project has important social and economic benefits relating to its aims and national goals:

A1: Immigrant entrepreneurs represent 25% of all firms in Australia. These are mainly small and medium sized enterprises, which provide a large percentage of the employment in the economy. IE are also more likely to start international new ventures than native entrepreneurs (Zolin & Schlosser, In Press). Hence, improving the growth of businesses run by IE will increase employment and international trade including exports.

A2 & A3: The international trend away from multiculturalism towards greater concern for social integration of migrants programs (Cheong, Edwards, Goulbourne & Solomos, 2007) means the role of EE will likely be questioned by policy makers hoping to shore up concerns over threats to National Identity and social cohesiveness. This research will help explain the effects of EE in business development and social integration.

A4: All businesses operate within social networks, which determine their access to resources, which will affect their business performance and social integration. Social integration can be an important deterrent to the excessive stress associated with self-employment and business management. Hence this research will help us to better understand how IEs can build business and resilience.

**RESEARCH ENVIRONMENT**

The research project will be well supported by the QUT Business School (School of Management) and the University of San Francisco (School of Management). Both CIs and the PI were located in QUT’s Business School’s largest Faculty, until 2009 when the PI moved to USF. PI Yang, located in the University of San Francisco, is Project coordinator, China General Chamber of Commerce-USA study on Chinese enterprises in the U.S. The This research project has already benefitted from a generous $4,000 School of Management grant to extend our literature review and collect additional data building on the early work done by a higher degree student advised by the CIs and PI. Quality research environment in the QUT School of Business is build through generous support provided to academic researchers,
including:

- Full funding of attendance at one international conference per year per faculty member, which will be used to disseminate the findings of this research at entrepreneurship conferences such as Babson College Entrepreneurship Research Conference (BCERC)
- Editing assistance with journal publications (which will expedite the submission of publications generated through the research);
- Financial support for international and national visitors to deliver capacity-building seminars in their field of expertise during the course of the project.
- A senior research advisor employed by QUT School of Business whose primary role is to provide high level methods and statistical advice to HDR students and academic staff and whose skills we will utilise in the survey design and analysis of process data for this project.

Entrepreneurship research is a strength of QUT with Professor Per Davidsson leading the Australian Centre for Entrepreneurship (ACE), where the CAUSEE (The Comprehensive Australian Study of Entrepreneurial Emergence research project, Australia’s largest nascent entrepreneurship research project) and Global Economic Monitor, Australia are conducted. ACE provides QUT faculty members with benefits such as:

- The ACE Annual "Paper Development Bootcamp" which provides entrepreneurship scholars with friendly reviews from colleagues and an exceptionally strong panel of invited, international experts. For example this year we have Dean Shepherd, Dev Jennings and Jennifer Jennings.
- Regular networking Coffee Club
- Visiting internationally known scholars
- The Australian Centre for Entrepreneurship Research Exchange (ACERE)
- Support to attend additional international entrepreneurship conferences, such as the BCERC.

Both CIs will continue to fully utilise these Faculty and ACE provisions.

ROLE OF PERSONNEL

CI Zolin will be the project leader, guiding the overall project, managing administrative (e.g. budget) and scholarly (e.g. methodology) issues. She will supervise the research associate and assistants, guide their fieldwork and lead the analysis of quantitative and network data and, the triangulation of multiple data sets. Her experience in leading research grants and knowledge of social capital, social networks, Chinese family business and immigrant entrepreneurship will be crucial to the project. She will provide a non-Chinese perspective to the project.

CI Chang will lead the analysis of the qualitative data and support the quantitative analyses. Artemis is a first generation immigrant herself and is currently living in the EE. Her specific expertise in quantitative and qualitative analysis, Chinese language skills and knowledge of immigrant entrepreneurship and Chinese family business is critical.

PI Zang will contribute to the theoretical development of the project, organize the corresponding study in the USA and contribute to the analysis. Her knowledge of international entrepreneurship, immigrant entrepreneurship, Chinese language and culture is critical to the project. She also has valuable editorial experience, which will be critical to the dissemination of the results.

The PhD student will coordinate and conduct the field work and with the support of the CIs,
prepare the surveys and interview schedules, work with the CIs on the survey analysis and work closely with the CIs in developing publications and in dissemination activities. Chinese language skills will be one of the selection criteria.

The **research assistants** will make calls, collect the phone survey data and assist with organizing interviews, literature searches and data management and entry. In this project we propose to call, screen and interview the participants ourselves rather than outsourcing it to a marketing company. This is because we need to call and screen only Chinese residence and the RA needs to speak English, Mandarin and Cantonese. Thus the role of these research assistance are crucial to the success of the project.

**REFERENCES**


