The Process of Migrant Entrepreneurship through Social Ties: Towards an Integrated Theoretical Framework

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ABSTRACT

The paper aims to examine the role of ties in the development of migrant businesses, through exploring how migrant entrepreneurs’ ties influence the opportunity discovery, evaluation and exploitation in the host country. In order to do so, this paper critically analyse the relevant literature on migrant entrepreneurship and social ties published in selected English-language journals with the goal of developing a framework of research. This has resulted in a conceptual framework of understanding how ties influence the process of migrant entrepreneurship. As an outcome, this paper highlights the need to deeper understand the role of different types of ties in entrepreneurship, in the context of migrant businesses.

Keywords: Entrepreneurship, International Entrepreneurship

The purpose of this paper is to explore the different forms of migrant entrepreneurs’ ties and their role on the development of migrant businesses by reviewing past literature. Migrant entrepreneurs are regarded as entrepreneurs operating in a limited setting, facing cultural and institutional barriers in the host country, thus social ties are seen as a supportive mechanism. With regards to social ties in migrant entrepreneurship, strong and weak ties with co-ethnics and non-ethnics have profound influence in migrant businesses. A contribution of this paper is a deeper understanding of the role of ties in entrepreneurship through a conceptual framework, with a focus on migrant entrepreneurs. Policy implications are also included in this paper in relation to migrant entrepreneurs’ social ties and business development.
SOCIAL TIES AS AN ELEMENT IN THE DEVELOPMENT OF MIGRANT ENTERPRISES

Forms of Capital and Social Ties in Entrepreneurship Studies

As a factor of production, capital can be classified into financial, physical, human and social, based on its source (Coleman, 1988), and three types of resources are deemed important for venture survival, namely financial resource (Bates, 1990), knowledge resource (Autio, Sapienza, & Almeida, 2000), and environment (Venkataraman, Van de Ven, Buckeye, & Hudson, 1990). These classifications closely match the three fundamental “forms of capital” which are economic capital, human capital, and social capital (Bourdieu, 1986), which are largely interactive in migrant entrepreneurship (Kloosterman, Van Der Leun, & Rath, 1999; Ram, Smallbone, Deakins, & Jones, 2003; Valdez, 2008). Forms of capital, the interconnectedness and their relations to migrant entrepreneurship will be discussed in this section.

From entrepreneurship point of view, social capital is defined as “…investment in social relations with expected returns in the marketplace” (Lin, 2001, p.19).

The varying views of social capital have a growing consensus in social capital refers to the ability of an actor to secure benefits by being a part of a membership in social networks (Portes, 1998). For this study, the definition of social capital by Lin (2001) will be used, as for the case of migrant entrepreneurs, engagement in different social relations may lead to different types of outcomes in the marketplace, such as exposure to entrepreneurial opportunities, financial resources and human capital.

According to Bourdieu (1986), economic capital includes financial and physical assets that are readily convertible into cash, which is vital for the survival of any venture (Bates, 1990). This study follow the views of Portes (1998) and Sanders & Nee (1996), considering financial capital and economical capital interchangeable as physical assets can be convertible into cash, thus can be transformed into financial capital. Generally, migrants face stronger institutional barriers in terms of debt capital provision in the host country, but evidence shows that migrants or foreign-born individuals have higher propensities in starting a business in comparison to the natives of the host country (Light & Rosenstein, 1995).
Human capital is referred to as an individual’s investment in personal productivity, and education, including work experience (Becker, 1964). Evidence has shown that human capital increases the rate of entrepreneurship across all ethnic and racial groups (Bates, 1997; Light & Rosenstein, 1995). For entrepreneurs, it is valuable and worthwhile to invest in human capital as it enables the access to knowledge that provides an entrepreneur to recognise and use relationships to achieve intended outcomes (Autio, et al., 2000; Reuber, Dyke, & Fischer, 1990). For migrant entrepreneurs, Nee & Sanders (2001) claimed that human capital is overlapped with cultural capital, justifying on the emphasis of cultural components in human competence. Cultural capital accentuates the competency in cultural practices (DiMaggio & Mohr, 1985) and both are acquired through formal and informal (for example, migrant entrepreneur may gain entrepreneurial experience by working at their parent’s shop) education. For this study, human capital and cultural capital will be regarded as overlapping concepts echoing the claims done by Nee & Sanders in 2001.

Research in migrant entrepreneurship suggests that establishing and sustaining entrepreneurial initiatives is challenging for minority groups such as the migrant community due to institutional and cultural challenges (Fuller-Love, Akehurst, & Lim, 2006). To obtain access to business resources, migrant entrepreneurs often rely on the social capital of their ethnic group, an outcome of social ties such as in-group ties (Kalnins & Chung, 2006). For new entrepreneurs, these ties enable access to information, resources and opportunities (Tsai & Ghoshal, 1998) on resources such as financial capital and labour support, and act as an organic business incubator as entrepreneurs are usually employed within their ethnic community before starting a business (Fuller-Love et al., 2006).
The interdependence of various forms of capital and the implications for migrant entrepreneurs

Migrant entrepreneurs are claimed to utilise the social capital that they have within their own community, given the institutional and cultural barriers that they face in the host country (Baycan-Levent, Masurel, & Nijkamp, 2003). This community-based social capital, a result of ethnic and kinship ties, exists in the form of trust, reciprocity of obligations and solidarity (K. C. Kim & Hurh, 1985; Sanders & Nee, 1996) is used in obtaining other support in business. These three forms of capital are interdependent (Kloosterman, et al., 1999; Ram, et al., 2003; Valdez, 2008) because social capital has the capacity to evolve into other forms of capital, as highlighted by Light (2001). For instance, Korean migrant entrepreneurs in the US have been documented to receive financial capital through rotating credit associations in their community (Portes & Zhou, 1992); also, Waldinger and his associates (1990) illustrated how a migrant entrepreneur in the restaurant industry may receive an informal training by being employed by a fellow countrymen in the host country. In terms of entrepreneurial opportunities, utilisation of these kinship ties also lead to quick access to information and resources and minimising the costs of searching business information (Uzzi, 1997). Family ties are also evident in facilitating migrant entrepreneurship, as the employment of family members have been documented in various migrant communities such as the Iranian entrepreneurs in Los Angeles (Min & Bozorgmehr, 2000) and the South Asian community in the UK (Basu, 1998). In short, migrant businesses are facilitated by the interaction of human-cultural capital such as skills, education and experience; financial and economic capital, which includes tangible material goods related to class background; and social capital (Valdez, 2008).

Forms of Ties in Entrepreneurship

In the context of entrepreneurship and opportunities, social ties influence information flow on opportunities in foreign markets as examined by Ellis (2011), making social ties among co-ethnics crucial in the inception of migrant enterprises (Bonacich & Modell, 1980; Light & Bonacich, 1988; Sanders & Nee, 1996; Sequeira, Mueller, & McGee, 2007) and social ties among non-ethnics important in obtaining outside information in order to pursue the non-ethnic market (Sequeira & Rasheed, 2006). Social capital
is usually built to develop mutually beneficial relationships in fulfillment of business and social needs, through the entrepreneurs’ personal networks (Marger, 2001).

**Tie Strength, Strong and Weak ties**

Tie strength is defined by Granovetter (1973) as “a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterise the tie.”

In this study, personal connections with family and friends can be classified as strong ties and migrant entrepreneurs’ connections with distant business contacts and acquaintances are classified as weak ties (for example, see Batjargal (2003) and Davidsson & Honig (2003)). Continuous measure of strength, based on the frequency of interaction between the entrepreneurs and their network contacts and/or the emotional closeness of these relationships (see Patel & Terjesen (2011)) is also taken into consideration in the measure of strength, where connections with high frequency of interaction and emotionally intense are classified as strong ties.

*Strong and weak ties*

Strong ties among co-ethnic members facilitate access to information, resources and opportunities (Tsai & Ghoshal, 1998) with regards to financial capital, market opportunities and economical labour supply for new migrant entrepreneurs. Implementation of a major initiative, such as starting a new business, may require strong ties as the agent of resource enabler (Min & Bozorgmehr, 2000). The benefits of strong ties have been emphasised in terms of increasing the willingness and ability of an entrepreneur’s network contacts in delivering needed resources (Batjargal, 2003). Due to the greater trust conveyed, more fine-grained information exchange and cooperation are being enabled (Coleman, 1988), and this includes information on entrepreneurial opportunities within the ethnic market.

Granovetter’s (1973) argument on weak ties, in particular, describes the benefit of weak ties in enabling actors to gain access to new information and ideas through ties that lie outside of their immediate cluster of contacts. In support of this view, information in general flows through weak ties more often than
through strong ties (Jenssen & Koenig, 2002). Weak ties are often more important than strong ties in spreading information or resources as they serve as ‘bridges’ to other groups (Granovetter, 1973). In this regard, it is more likely for migrant entrepreneurs to receive various types of information from weak ties, as they are more diverse. It is suggested that entrepreneurs benefit from a moderate level of embeddedness as they balance strong and weak ties and their respective benefits (for example, see Uzzi (1997)). How forms of capital and social ties relate with migrant entrepreneurship process will be discussed in the next section.

**THE MIGRANT ENTREPRENEURSHIP PROCESS**

The Process-View of Entrepreneurship and Migrant Entrepreneurship Opportunities

The view of entrepreneurship as a process have been focusing on discovering opportunities (Davidsson & Honig, 2003), and entrepreneurs are defined by Shane & Venkataraman (2000) as “individuals who discover and exploit entrepreneurial opportunities”. This study uses the definition of migrant entrepreneurs by Constant & Zimmerman (2006), describing migrant entrepreneurs as:

“Self-selected group of rational individuals who are willing to undertake risks in order to maximize their lifetime earnings and better their lives. By virtue of their willingness to assume the risk of migration (both pecuniary and psychic) and undertake this new and often risky venture they become the first entrepreneurs.” (p. 280).

Although migrant entrepreneurs are often regarded as disenfranchised and lack access to various resources (Portes & Bach, 1985), business opportunities in the host country does exist in the co-ethnic market and the non-ethnic market (Waldinger, et al., 1990). The decision to operate in which market is largely influenced by the forms of capitals that a migrant entrepreneur has (Sequeira & Rasheed, 2006). For example, a migrant entrepreneur may have low on human-cultural capital of the host country in terms of lacking local language skills and local cultural knowledge, so he or she may choose to operate in the
co-ethnic community, or the ethnic enclave. Entrepreneurial opportunities in the host country and international markets will be discussed in the next section.

FRAMEWORK DEVELOPMENT AND RESEARCH QUESTIONS

Utilisation of Different Ties in the Development of Migrant Businesses

According to Iyer & Shapiro (1999), the growth of migrant businesses follow a sequential process and the exchange of capital with different strengths of ties may occur at different stages of the process, with different outcomes (Sequeira & Rasheed, 2006). The work done by Iyer & Shapiro (1999) found that the stages of growth for migrant businesses start in the enclave, where a migrant entrepreneur is employed as a worker and starts a business catering co-ethnic members. The next stage in the process is horizontal expansion in terms of market; where the migrant entrepreneur begins to serve the non-ethnic market. Eventually, the migrant entrepreneur may wish to invest internationally, most probably in his home country. This process is depicted in Figure 1:

As migrant entrepreneurs rely on the social capital that they have with their social ties for their businesses, it is worthwhile to investigate how these ties influence the migrant business development with regards to entrepreneurial opportunities and forms of capital, hence the main research question (RQ):

How do migrant entrepreneurs’ social ties influence the migrant business development?

Strong ties within the migrant community are particularly important for new migrants as the ties in the ethnic enclave enable them with employment and a place to stay (Portes & Manning, 1986). Generally, individuals in an ethnic enclave tend to have strong ties with each other, forming a dense network (Granovetter, 1973) which can be a highly beneficial resource when the migrant is ready to open a business. The question of how do these ties factor in the initial stages of migrant business development, starting from the migrant entrepreneur hired in the enclave is shown in RQ1:
RQ1. How do migrant entrepreneurs’ social ties factor in the start-up of their business?

In business expansions of migrant enterprises, some migrant entrepreneurs may choose to grow within the enclave, preferring to remain in familiar surroundings, but this is possible for entrepreneurs whose businesses in larger enclaves (Chaganti & Greene, 2002). For migrant entrepreneurs whose businesses are in smaller enclaves, and aspire to grow, they may wish to serve the larger, non-ethnic market outside of the enclave (Aldrich & Waldinger, 1990). According to Kim (1999), calculative networks made up of weak ties may be more useful during the growth stage as the migrant entrepreneurs may feel the need to acquire additional resources (Hammarstedt, 2004). Weak ties also provide entrepreneurs more flexibility to search for new and additional resources that can support the growth of business as they require less emotional attachment (Coviello, 2006; Maurer & Ebers, 2006). Diverse information are also found in weak ties (Granovetter, 1973), and this includes information on entrepreneurial opportunities outside of the ethnic market. A clearer view of the how different ties result in different types of capital and resource in the horizontal expansion of business is inquired in RQ2:

RQ2. How do migrant entrepreneurs’ social ties factor in the horizontal expansion of their business?

Studies have found that businesses perform better in similar cultural or ethnic affinities, by taking advantage of their membership of local and international ethnic networks (Aldrich, Jones, & McEvoy, 1984; Zahra & Dess, 2001). Furthermore, it is typical for migrant business founders to trade with their countries of origin (Saxenian, Motoyama, & Quan, 2002). Migrant entrepreneurs, who still possess strong ties to their homeland, are often the strongest contributors to foreign direct investment (FDI) and business creation abroad and may use these ties as a means to invest in their home countries (Iyer & Shapiro, 1999). In a further stage of international expansion and investment, migrant entrepreneurs infuse international activity into the social and ethnic networks of their host and target countries using social ties, as illustrated by RQ3:
**RQ3. How do migrant entrepreneurs’ social ties factor in the international expansion of their business?**

Viewing migrant entrepreneurship through the lens of capital and ties, and integrating them into the sequential process of migrant entrepreneurship and supported by the process-view of entrepreneurship by has resulted in a conceptual framework, demonstrated in Figure 2:

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**CONCLUSIONS, POLICY IMPLICATIONS AND FUTURE RESEARCH**

Migrant entrepreneurship, as a field of study, is contributed by diverse views. Therefore, this paper attempts to view migrant entrepreneurship using the lens of social capital and ties, with the underpinning of migrant entrepreneurship process, further supported by the process-view of entrepreneurship. The intended contribution of this paper is an understanding of the migrant entrepreneurship process, combining the views from social capital, social ties and migrant entrepreneurship process. The findings of the selected literature are linked and articulated in a framework as shown in Figure 2. This framework is anticipated to provide a better understanding on how social capital and social ties factor in the development of migrant businesses. Practice and policy-wise, a further comprehension on the role of ties in migrant entrepreneurship will help shape policies related with immigration, particularly with regards to family reunification and international trade. For future studies, a cross-comparison research or an empirical investigation may contribute in understanding migrant entrepreneurship in terms of testing the variables and their relationships with the subject.
REFERENCES


APPENDIX

Figure 1: The process of migrant business growth

Stage 1
Pre start-up
Prospective entrepreneur being employed in an enclave

Stage 2
Start-up
Self-employment of migrant entrepreneur
Serving ethnic market

Stage 3
Growth
Expansion to non-ethnic market

Stage 4
International investment
Investments in small business/equity/capital in homeland

Figure 2: Proposed framework of research