Breeding Places for Ethnic Entrepreneurs:
A comparative marketing approach
Research Memorandum 2002-23
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Abstract
This paper aims to examine the performance conditions of ethnic (migrant) entrepreneurs in a modern economy. After a broad overview of key issues, an analytical tool from marketing theory is proposed, based on 5 P’s (product, price, place, personnel and promotion). Next, an empirical application is presented, in which results from an in-depth interview study on Moroccan entrepreneurs in Amsterdam are discussed. Given the linguistic and qualitative information in our data base, two recently developed pattern recognition methods for categorised information, viz. a priori and rough set methods, are deployed in order to derive meaningful association and classification rules which are helpful to identify conditional success or performance rules.

Acknowledgement
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1. In Search of New Opportunities

The rise and decline of cities is closely connected with successful entrepreneurship (see van Delft et al. 2000). In the Schumpeterian tradition, entrepreneurship is associated with opportunity-seeking behaviour of firms who deliberately are willing to take considerable risks through a permanent learning process of innovation and ‘creative destruction’ (see Kilby 1971, Musse11 and Maln1berg 1999, and Nijkamp 2002). The entrepreneur has to demonstrate his ability through a change mechanism coined ‘the entrepreneurial event’ by Shapero (1984), in which motivational and contextual determinants come together. Motivational factors refer to personal traits such as family culture, experience with venture, forward-looking attitude etc. Contextual factors are related to new market possibilities, regulatory systems, technological trends etc. In a modern society, cities offer many opportunities through which the above mentioned motivational and contextual driving forces can create competitive advantages, for instance, informal contacts, educational and research facilities, and industrial networks (see for an excellent overview Malecki 1997).

We have also witnessed an upsurge of new entrepreneurship among migrants in many cities. The birth rate of such migrant firms is rather high. Are these events to be considered as signposts of creative entrepreneurship in the emerging ICT economy?

In this context, it is noteworthy that in recent years we have witnessed an avalanche of literature on ethnic (or migrant) entrepreneurship in the city, either from a structuralist or a culturalist perspective (see Waldinger et al. 1990, Mavratsar 1997, van Delft et al. 2000, and Ram and Smallbone 2002). Cities appear to offer promising breeding places for new business activities of individuals of various ethnic origins and different cultures (Markusen 1996). In particular, the shelter function of cities for people of different ethnic and cultural backgrounds is responsible for the urban concentration of starting ethnic entrepreneurs (the ‘urban ethnic network externalities’; see Maure1 et al. 2002, N1oen et al. 2000, De Graaff 2002).

This paper will address the development opportunities of ethnic entrepreneurship. After a concise discussion of various key elements of ethnic entrepreneurship in general, it aims to identify its critical success conditions in urban areas. The paper will in particular address the relevance of marketing theory as an analytical framework for tracing and identifying success conditions. It tries to offer an empirical underpinning by means of a case study research among Moroccan entrepreneurs in Amsterdam, in which also new statistical tools from artificial intelligence will be deployed.

2. Ethnic Entrepreneurship in Perspective

Ethnic entrepreneurship is a broad concept and refers to business activities in a certain area driven or undertaken by people of a different ethnic or cultural (including
religious) origin than the indigenous population. Earlier studies on this phenomenon can be found in Light (1972), Ward and Jenkins (1984) and Waldinger et al. (1990). Ethnic entrepreneurship is certainly not a new phenomenon in our modern society, but is a consequence of migration flows of (potential) businessmen (sometimes induced by economic motives, sometimes by external forces such as war, suppression, natural disasters of famine). For example, the Golden Age in the Dutch economy (characterised by international trade and merchandise) was not in the last place the result of large migration flows of Portuguese Jews who had to leave their home country for religious reasons. Their extensive international networks and expertise in international business laid the foundation for successful entrepreneurship in The Netherlands. inter alia in the field of finace, insurance, retailing, diamond industry, tobacco, clothing and free professions (e.g., lawyers, medical care).

The rise of migrant entrepreneurship (e.g., Chinese restaurants, Italian ice-cream vendors, Egyptian shawarma shops, Islamic butchers, Indian clothing shops or Turkish coffee-shops) prompts a range of research questions on the type of entrepreneurship, its financing, its growth potential (e.g., break-out strategies) and the role of ethnic-cultural traditions. Several authors (e.g. Choenni 1997) have questioned whether ethnic entrepreneurship is distinctively different from ‘normal’ entrepreneurship, as ‘business is business’. Although apart from the ethnic-cultural origins of entrepreneurs there is not a principal distinction between ethnic entrepreneurs and other forms of entrepreneurship, it ought to be recognised that ethnic business is often concentrated in small identifiable market niches which derive their strength from their ethnic-cultural background (e.g., the food or clothing sector). In addition, ethnic enterprises have often a predisposition towards small business activities with low entry thresholds (often of a rather informal nature) and towards less formal ownership and financing conditions, while they are highly reliant on group and family contacts and ethnic-cultural networks (see Waldinger 1996).

In the literature much attention has been given to the question whether the rise and successful performance of ethnic entrepreneurship is the result of cultural or structural factors (Ward and Jenkins 1984, Portes 1995). In the culturalist approach ethnic migrants are supposed to possess culturally determined features which are prerequisites for economic success and entrepreneurial attitudes, such as dedication to work, membership of a strong social network, acceptance of risk, compliance with social value patterns, solidarity and loyalty, and orientation towards self-employment. In the structuralist approach the external environment of migrants is supposed to play a decisive role, for instance, the existence of entry barriers on the labour market (e.g., Shapero’s (1984) ‘displacement’ factor), the presence of socio-political boycot or the need to maintain an intrinsic social identity. An intermediate approach between both classes of theories is the middleman minority theory.
developed by Bonacich (1973) who sees a combination of socio-economic exclusion and entrepreneurial spirit as the source of ethnic entrepreneurship.

An attempt to offer a synthesis between the culturalist and the structuralist perspective was made by Waldinger et al. (1990) who launched the interaction theory. The core of this approach is that ethnic entrepreneurship can be explained from a dynamic match between local market opportunities and the local demand on the one hand and the specific available ethnic resources on the other hand. Their interaction model comprises three classes of factors, viz.:

- the opportunity structure: the market conditions for ethnic and non-ethnic products as well as the access conditions for entrepreneurship (e.g., competition, regulatory systems).
- the group characteristics: predispositional factors (e.g., language deficiency, low education, discriminatory behaviour) and mobilisation of resources (e.g., contact networks, informal information channels, dedicated government policies).
- the ethnic strategy: development of specific survival patterns in business life (e.g., self-employment with long working days for family members, formation of alliances with relatives based on solidarity and loyalty, informal financing of business investments).

The advantage of the interaction theory is its rather comprehensive approach, although the integration of its various constituents is not in all respects very strong (see Rath 1998, Tastan 1999).


Ethnic groups tend to cluster in large cities as a result of network externalities (see Carrington et al. 1996, de Graaff 2002). Such a clustering has from an economic perspective two major advantages: (i) the presence of a critical mass of potential customers of the same ethnic origin leading to viable market niches, and (ii) the rise of informal networks of a sufficient size which facilitate the recruitment of cheap personnel, up-to-date information or low-cost financing capital. There are also significant disadvantages: (i) fierce competition in identical market niches with low access barriers in the same urban areas, and (ii) low opportunities for market expansion ("break-out strategies") due to low education and limited product scope in traditional branches. It has to be added though, that in recent years the younger generation of ethnic migrants (often second generation migrants) tends to be...
involved in professional service provision and business consultancy, a phenomenon which is also due to their higher education (Borjas 1992).

Despite a high birth rate of ethnic enterprises in recent years, it ought to be recognised that their death rate is also higher than that of the indigenous population. But the net survival rates among different ethnic groups shows also a high dispersion (see Tastan 1999). The same holds for the survival rates per economic branch, which appear to differ significantly as well.

We may thus conclude that self-employment may be a promising route for migrants as a spring-board for socio-economic progress (Brezniz and Temin 1999). It may favour their social integration and reinforce their economic position. Furthermore, successful ethnic entrepreneurs offer a role model for other migrants or second generation migrants. Ethnic business activities may also create important benefits for the local economy, especially in large cities where many advanced sectors tend to outsource non-core activities, such as cleaning, surveillance, transportation, catering etc. But self-employment by ethnic groups may also have weak elements, such as a structural position in marginal and informal activities or in highly competitive and low-profit business sectors. Besides, an exclusive orientation towards ethnic products may hamper socio-economic integration of ethnic groups (the ‘middlman minorities’). Ethnic entrepreneurship does not offer a guaranteed economic success. It provides a variable trajectory with many opportunities, but also with many hurdles and failures (Nodoushani and Nodoushani 1999). To identify these chances and barriers, more empirical field work is necessary. Therefore, in the next section we will describe the results of a case study research on Moroccan entrepreneurs in Amsterdam.

3. Moroccan Entrepreneurs in Amsterdam: An Exploratory Investigation

The Netherlands has become an immigration country for large groups of people with a Turkish, Moroccan, Surinam or Antillean origin. Many of them are concentrated in the four large Dutch cities in the western part of the country, viz. Amsterdam, Rotterdam, The Hague and Utrecht. Although a significant part of these foreign migrants come for socio-economic reasons (e.g., as a guest worker), we witness an increasing share of these migrants as ethnic entrepreneurs. According to Kruiderink (2000) the number of ethnic entrepreneurs in the Netherlands was in 1986 still approx. 9,400, but it rose to approx. 19,000 in 1992 and it amounted even to approx. 27,000 in 1997. And this trend is still continuing, so that at present the number of ethnic entrepreneurs falls in the order of magnitude of 40,000 (approx. 10 per cent of the number of firms in The Netherlands). Clearly, most of these enterprises are small (single person firms), and are mainly active in commerce or in the restaurant and café (or hospitality) sector. The percentage rise of starters is far higher for ethnic groups than for domestic people, although the failure rate is also much higher. The survival rate of ethnic starters is relatively low (see Table 1).
The low survival rates of starting ethnic entrepreneurs may partly be ascribed to low educational and professional preparation (including language skills, legal information, insufficient business experience such as bookkeeping) and lack of entrepreneurial qualification (e.g., design of a business plan, low access to business consultancy, inadequate financial plan). Many of the survivors appear to stay in small ethnic niches, and are unable to make a "big jump" towards market expansion. The question is then which expertise is necessary for such a break-out strategy.

In order to trace opportunities and bottlenecks for ethnic entrepreneurs, an in-depth field survey was organised among a limited set of ethnic entrepreneurs in Amsterdam of a Moroccan origin (see for details Aakouk 2001). The total size of first and second-generation Moroccans in The Netherlands is approx. 250,000. An increasingly large share of these migrants has tried to start an own business. The main question was whether they succeeded in making a transition from an internal market orientation on their own ethnic niche towards an external market orientation beyond the own ethnic group. In this context it is noteworthy that Moroccan entrepreneurs tend to be rather internally oriented, although the younger generation seems to be more convinced of the need for break-out strategies (e.g., taxi companies, cleaning firms).

In the present study we will analyse the behaviour of Moroccan entrepreneurs in Amsterdam from the perspective of marketing theory, by investigating the role of five key marketing instruments (the 5 P's), viz. product (the assortment that serves to meet the customers' demand), price (the remuneration asked for the good or service delivered), place (the logistic strategy through which the firm ensures that the right product is distributed towards the right place), personnel (the employees - paid and non-paid - who keep the business running), and promotion (all business activities aimed at favouring sales increase).
These concepts are used here in a rather general and qualitative sense. The marketing mix is a set of strategic marketing tools employed by the firm to pursue its marketing objectives in the target market. Usually four marketing tools are distinguished in the literature, viz. product, price, promotion and place. We have added a fifth one here, viz. personnel, in order to address some specificities of ethnic entrepreneurship.

Given the need to obtain reliable in-depth information on all marketing factors of Moroccan entrepreneurs, it was decided to organise well-prepared, extensive personal interviews with a limited number of rather representative Moroccan entrepreneurs. This approach was deemed to be more informative than the use of broad survey questionnaires for this ethnic group. From the perspective of case study research, this sample size may be regarded as sufficiently high in order to derive generalizable conclusions, provided a strict systematic protocol is used (see Yin 1994).

The semi-structured interview scheme was designed in the Moroccan language and the interview was held by a Moroccan business expert, in order to ensure a flexible and profound communication. From the total number of 34 Moroccan entrepreneurs who were approached for an interview, at the end 14 were actually prepared to participate in the interview process. The age of these entrepreneurs ranged from 21 to 48 years old (with an average of 32 years old). Apart from personal characteristics, a wide array of questions was raised on product and market orientation, classes of customers, personnel employed, and use of information channels. It was noteworthy that several of the Moroccan entrepreneurs interviewed were rather externally oriented, in the sense that a significant part of their products sold or of their customers did not address or cover their own ethnic group.

In the vein of the above mentioned marketing research, the next step in the field work was to address more specifically the five P questions. These questions aimed to examine whether in the perception of the Moroccan entrepreneurs a jump from internal to external market orientation might offer better opportunities to serve target groups outside the Moroccan niche. The following answers were allowed: yes, no, perhaps, and don’t know. In the in-depth interview these answers formed then a source for a long discussion on the (dis)advantages of each of these 5 P’s and on the critical implementation conditions for these P’s. The results are concisely summarised in Table 2. Full details can be found in Aakouk (2001).

<table>
<thead>
<tr>
<th>marketing instrument</th>
<th>yes</th>
<th>no</th>
<th>perhaps</th>
<th>don’t know</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>71</td>
<td>14</td>
<td>14</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 2. Frequency distribution of Moroccan entrepreneurs who regard a given marketing instrument as important for external market orientation

<table>
<thead>
<tr>
<th>Promotion</th>
<th>43</th>
<th>43</th>
<th>7</th>
<th>7</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>43</td>
<td>36</td>
<td>21</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Personnel</td>
<td>7</td>
<td>57</td>
<td>29</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Place</td>
<td>7</td>
<td>11</td>
<td>8</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Askouk (2001)

The results from Table 2 are rather illuminating. A majority of the Moroccan entrepreneurs considers the supply of new products as a critical success condition for a breakthrough strategy. On the contrary, personnel and place were not seen as important strategic tools for external orientation. It should be added that in the subsequent in-depth discussion on each of the P-factors the product extension was interpreted in a rather broad sense, including in particular service and quality improvement.

Clearly, the scope for market expansion is restricted by the prevailing ethnic niches and the existing geographical location. As a consequence, promotion is important to attract clients from elsewhere.

The price instrument appears to have ambivalent perceptions among the Moroccan entrepreneurs, as the socio-cultural and religious climate they are operating in does not allow much flexibility in terms of price increases for better products.

In conclusion, from the five interlinked P instruments the market expansion (in terms of a broader product assortment or quality improvement) appears to have the highest support among Moroccan entrepreneurs in Amsterdam. The size of the ethnic home market appears to offer a solid basis for an external market orientation. Such a dual marketing strategy is most likely the critical success condition for these entrepreneurs.

4. Application of Qualitative Pattern Recognition Methods: Apriori and Rough Set Rules

Our data base is only based on a limited sample of 14 migrant entrepreneurs of Moroccan origin. This is certainly not an impressive size, but it ought to be recognised that the extensive in-depth interviews during the field work turned out to generate fairly consistent and reliable information. The use of standard protocols appeared to be an appropriate means to extract interesting and rather representative information on the attitudes and perceptions of Moroccan entrepreneurs in Amsterdam. Although from a purely statistical perspective such small samples may be doubtful, we know that the use of well-prepared and focused interview protocols may nevertheless lead to reliable and transferable information (Yin 1994).

Therefore, it is a meaningful research endeavour to seek for associations and regularities in our data base characterised by qualitative, categorical or linguistic information. Since standard statistical tools do not hold for qualitative small sample data, alternative
methods have to be deployed. We will resort here to the use of recently developed decision-analytic tools from artificial intelligence which seeks to identify dependency structures, causal linkages or association patterns in a qualitative information base. The two methods for qualitative pattern recognition used here are called Apriori algorithm and rough set analysis.

The Apriori algorithm is a special case of artificial intelligence tool which aims to construct association rules between qualitative data and the attributes of the objects under consideration. Based on the frequency of occurrence of a certain phenomenon and the membership of a qualitative or linguistic class, the apriori algorithm tries to identify prominent correlation patterns between these data and the attributes. These correlations are then formulated as deterministic association rules which map out quasi-causal associations between the information on the relevant set of items, based on quantitative performance indices called confidence and support factors (or indicators). We will not provide more details here in this method, but refer the interested reader to the standard literature on this topic (see Agrawal et al. 1996).

The principal question dealt with in our empirical investigation is now which market niches (i.e., which groups of customers) are addressed by the Moroccan entrepreneurs and for which background motivations. These motivations comprise elements from the 5 P marketing theory as well as information on the age (i.e., year of birth of the entrepreneur), the specific sector he is working in, the year of start of his business, the level of education, and the degree of business experience.

The results of the application of the apriori algorithm can be found in Table 3, where the conditional results by way of a qualitative system’s model (if . . . then statements) are given. The association rules seek then to identify a combination of factors from the interviewers’ characteristics (such as education or prior experience) and one or more of the five P-factors with a view to the identification of regular patterns in the occurrence of the phenomenon concerned. Table 3 has to be read essentially as a qualitative or categorical causality table. It specifies the conditions under which a certain event (e.g., the use of a marketing instrument, the type of clients etc.) may emerge as a result of an underlying background factor (e.g., the type of sector the entrepreneur is involved in).

Table 3 reveals that Moroccan entrepreneurs in Amsterdam tend to orient themselves to a wider group of clients, as they are more involved with non-retail activities and have more business experience. Also the product choice and its distribution Channel seem to play a rather important role. These factors may be seen as decisive for break-out strategies and confirm our observations made before.
Next, we have employed another artificial intelligence method, coined rough set analysis. This is a qualitative multivariate decision-analytical classification method that originates from the artificial intelligence literature. This method seeks for patterns among explanatory variables (in terms of a categorical assignment to qualitative or linguistic classes) and a relevant ‘endogenous’ variable to be explained (in this case, the type of customer). It is based on mathematical concepts that deal with uncertainty. In the rough set model an upper and lower bound is defined, each of which has members and non-members respectively. Members of a boundary region are “possible members”.

The classification rules are again represented as “if . . . then” statements, with the aim to make the maximum reliable prediction for the assignment of a certain event to a given class. It should be stressed here that rule induction is not a part of rough set theory. It can rather be seen as a tool for preparing data for induction especially for defining classes for which rules are generated. For example, rough set analysis may be used for determining the approximation or the boundaries of a decision class, which in turn may be used as an instrument for a rule induction algorithm. Based on frequency countings of class occurrences, the main issue in rough set analysis is the sensitivity (or robustness) of such class allocation, while taking into account the variation in results as a consequence of class boundaries. There is an abundance of literature on rough set analysis, both from a methodological perspective (see e.g. Pawlak 1991 and Slowinski 1992) and from an applied perspective (see Van den Bergh et al. 1998, van Delft et al. 2000 and Masurel et al. 2002). Details can be found in these references.

The statistical goodness-of-fit results of the rough set analysis are recorded in Tables 4 and 5. The results offer rather significant and convincing conclusions. The main purpose of Table 4 and 5 is to identify the conditions under which in our data set Moroccan entrepreneurs are oriented towards their clients, classified as Moroccans and non-Moroccan customers. The classification rules in Table 5 can be read in the same way as those in Table 3. The classification results appear to be rather robust (see Table 4). Table 5 reveals interesting patterns in the orientation of Moroccan firms towards their countrymen. Especially such factors as involvement in traditional retail, low experience or medium age are decisive for their focus on Moroccan clients. Thus, the rough set results reveal the background for the
embeddedness in traditional markets. Alternative, the focus on new markets, a younger generation and more business experience leads to an external orientation towards non-Moroccan clients.

<table>
<thead>
<tr>
<th>Class</th>
<th>Objects</th>
<th>Lower approximation</th>
<th>Upper approximation</th>
<th>Accuracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moroccans</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Non-Moroccans</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 4: Lower and upper approximation and accuracy of the classification.

<table>
<thead>
<tr>
<th>If</th>
<th>Then</th>
<th>support</th>
<th>Relative strength (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of birth = 1952-1961 &amp; Experience = no</td>
<td>class = Moroccans</td>
<td>1</td>
<td>75.00%</td>
</tr>
<tr>
<td>Sector= other &amp; experience = yes</td>
<td>class = non-Moroccans</td>
<td>1</td>
<td>55.56%</td>
</tr>
<tr>
<td>Start= 1995-1999</td>
<td>class = non-Moroccans</td>
<td>1</td>
<td>55.56%</td>
</tr>
</tbody>
</table>

Table 5: Rough set classification rules.

5. Ethnic Entrepreneurship: Retrospect and Prospect

The market of migrant firms is dynamic and increasing in many cities. Starting from a focus on traditional products and services, many ethnic entrepreneurs seek to expand their market domain by offering products and services for a broader group of clients, outside their own indigenous ethnic group. It turns out that experience and promotion are decisive for their success in broader markets, especially in the non-retail sector. The older generation of migrants tends to be more oriented towards traditional sectors serving the needs of their own ethnic groups. The younger generation is more open and looks for new opportunities outside the traditional markets. This offers interesting handles for policy support, as apparently information provision, training and education, and a broader cultural orientation are a sine qua non for break-out strategies. Traditional business strategies may give the impression of a 'safe haven', but do not create promising opportunities for economic expansion of the firms concerned. One may expect that promising ethnic business perspectives in the emerging new ICT economy are to be found in niches outside traditional sectors.

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