

Beyond the enclave? break-outs into mainstream markets and multicultural hybridism in ethnic firms

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The literature on immigrant entrepreneurship has richly described the characteristics and peculiarities of ethnic businesses catering to enclave markets. However, several indications suggest that immigrant-owned firms are increasingly entering mainstream markets and changing both their internal structures and their external networks with resource providers. One of the most substantial changes, which has been overlooked by researchers, consists of the appearance of what we define as “multiculturally hybrid firms”, which are firms that rely on inter-ethnic managerial or labor resources to carry out their activities. Therefore, in this paper we provide an understanding of the variables that affect the recourse to solutions of multicultural hybridism in the entrepreneurial teams and personnel of immigrant-owned firms. We conduct our empirical analyses on data collected through interviews on a sample of 130 immigrant entrepreneurs in Italy. Our results show that multicultural hybridism is mainly driven by the size of the founding team, the business’s maturity, the entrepreneurs’ host-country language competence and by entrepreneurs’ motivation by individual goals rather than community goals. This research advances our knowledge about immigrant entrepreneurship by focusing on firm-level dimensions such as the diversity of entrepreneurial teams and employees, which are increasingly relevant in our multicultural societies.

Keywords: immigrant entrepreneurship; break-out strategies; organizational diversity

1. Introduction

The number of firms established in OECD countries by immigrant entrepreneurs has steadily grown in the last few decades and it has grown both in absolute terms and as a proportion of the overall self-employed population (SOPEMI, 2005; OECD, 2011). This phenomenon has increasingly been attracting attention from policy-makers, the media and researchers (United Nations, 2006; Economist, 2008; Ilhan-Nas, Sahin, and Cilingir, 2011). Because immigrant entrepreneurship can fundamentally contribute to the economic growth and social renewal of contemporary host countries (Echikson et al., 2000), there is growing interest in understanding not only its antecedents, but (especially) its outcomes.

The traditional literature on immigrant entrepreneurship has focused on the choice of self-employment as an alternative to poorly paid, segregated jobs in the waged labor market (Aldrich and Waldinger, 1990). As well emphasized by Zhou (2004: p. 1041), “in the layman’s eye ethnic entrepreneurs often carry images of petty traders, merchants, dealers, shopkeepers (...), who engage in such industries or businesses as restaurants, sweatshops, laundries, greengrocers, liquor stores, nail salons, (...) and so on”. However, following changes in immigrants’ business activities, more recent developments in the literature have highlighted the engagement in entrepreneurship by highly skilled and professional immigrants in non-traditional sectors and in markets catering to mainstream consumers with non-ethnic products and services (e.g., Chaganti et al., 2008; Saxenian, 2002; Wadhwa et al., 2008).

This tension between the representation of the immigrant entrepreneur as active in the traditional “enclave economy”, serving primarily co-ethnics and employing largely co-ethnics (Chaganti and Greene, 2002) and the image of the immigrant entrepreneur as a new modern economic actor competing in mainstream markets is

particularly intriguing. In the last few decades, several authors have provided evidence about the increasing variety of immigrant enterprises and their evolution towards boundary-crossing activities outside of enclave economies (e.g., Waldinger, Aldrich, and Ward, 1990; Ram and Hillin, 1994; Engelen, 2001). However, few contributions have focused on how the adoption of break-out strategies is made possible by more complex business organizational models adopted within these firms. Immigrant entrepreneurs crossing the boundaries of the enclave market and entering into mainstream markets need the capacity to attract assets and resources to their firms, such as management skills, market information and technological knowledge (Basu and Goswami, 1999; Levent, Masurel, and Nijkamp, 2003); in this respect, such firms are different from those stemming from within the co-ethnic group of origin. The increasing managerial competences needed by these immigrant entrepreneurs, their human capital, their work experience and their levels of entrepreneurial commitment sustain the exploration and exploitation of commercial relationships with firms and customers located in different territories and industries (Kloosterman and Rath, 2010). In particular, we observe the emergence of immigrant businesses that significantly depart from the traditional image and are able to utilize the host country's professional resources, which are embodied by non-coethnic founding partners and employees (Mushaben, 2006; Altinay and Altinay, 2006; Altinay, 2008). We will define these innovative organizational configurations as “multicultural hybridism” within the firm. In multiculturally hybrid firms, the evaluation of opportunities, the decision making and the carrying out of tasks partly continue to depend on ethnic and community resources, but increasingly rely on social and economic ties developed within the native community. Ethnic and native features are blended into the firm, which permits a better understanding of new markets’ dynamics and enhances their internal efficiency. To this

extent, hybridism is a key antecedent to the adoption of break-out strategies. Therefore, it is of primary interest to understand the factors that influence the recourse to organizational solutions characterized by multicultural hybridism. The objective of this paper will be to identify the variables that affect the level of multicultural hybridism in immigrant enterprises.

Our empirical work is based on data collected from 130 small immigrant firms in Italy using both a rich questionnaire and face-to-face interviews. Our sample is composed of a heterogeneous group of firms that carry out diverse activities to target both the corresponding ethnic enclave and the mainstream market. Our results provide insights on the factors driving the level of multicultural hybridism in immigrant-owned firms and, in particular, on the size of founding entrepreneurial teams, the businesses' maturity, entrepreneurs' host-country language competence and entrepreneurs' motivation by individual goals rather than community goals.

This paper will proceed as follows: Section 2 examines the relevant literature and discusses the evolution of the debate on the relationship between ethnic firms and ethnic communities. Furthermore, that section illuminates the concept of hybridism and its relevance to this debate. Section 3 provides a description of the research design (the data, methodology and definitions) and Section 4 illustrates the variables used in the econometric model and gives our results. In Section 5, we discuss these results. Finally, Section 6 concludes.

2. Theoretical background

The literature about immigrant entrepreneurship dates almost back to the 1960s (Zhou, 2004), as it was mostly developed in the fields of sociology, anthropology and

economic geography and then gradually extended to other fields, such as economics and management (Greene, 1997; Rath and Kloosterman, 2000). A large amount of knowledge has been produced so far and it mainly draws a distinction between immigrant and native entrepreneurs regarding the antecedents and, to a lesser extent, its outcomes. A number of contributions have noted the factors that influence the emergence of immigrant entrepreneurship, the types of businesses and their success; in particular, the patterns of immigration levels, the types of human and social resources and the availability of opportunities in the broader economy have been considered (Chaganti et al., 2008). The assumption behind those studies is that the entrepreneurial activities carried out by immigrants substantially differ from those corresponding activities of natives (Rath, 2000). According to the mainstream literature, immigrant entrepreneurs enter into self-employment either because of “cultural” factors, i.e., common cultural elements that increase the entrepreneurial attitudes and propensities in immigrants, or because of “structural” forces, i.e., forces variables related to the socio-economic conditions faced by immigrants in the host country (Volery, 2007). In both cases, firms are founded to meet the needs of a specific ethnic community and use specific assets coming from the community (enclave economy). However, even if it shows limited profit potential, the ethnic market provides high barriers to entry that are associated with the knowledge of the minority language, interpersonal trust relationships and ethnic preferences and tastes that protect ethnic businesses from the competition of non-ethnic ones. Therefore, the enclave creates opportunities, but it also marks the boundaries of an economic space that ethnic firms cannot easily overcome (Ward, 1987; Portes and Shafer, 2006). Frequently the nature of the products and services that are supplied, the lack of articulation of the organizational model and the limited managerial experience of the owners make the ethnic firm non-competitive in

mainstream markets and radically different from indigenous firms.

Ethnic businesses are different from those managed by native entrepreneurs not only because of the nature of the products and services supplied but also because of the characteristics of the resources that entrepreneurs utilize (Brenner et al., 2010; Portes and Zhou, 1992). Often, the survival or success of an ethnic firm is related to its ability to access the resources made available exclusively by the community of origin (Bonacich, 1993; Rath, 2000; Rueda-Armengot and Peris-Ortiz, 2012). The possibility of resorting to economic relations nested into robust and ramified social networks creates a competitive advantage at least in the start-up phase for businesses that require informality in transactions, are based on flexibility in the management of economic exchanges and widely use incomplete contracts (Ram and Smallbone, 2002; Kloosterman and Rath, 2010). In these contexts, the sharing of the same group identity and the presence of collective sanction mechanisms generate trust and reduce behavioral uncertainty (Watson, Keasey, and Baker, 2000). Moreover, these factors make it possible to exploit the resources of the group and develop forms of economic cooperation that are not feasible in other contexts. Thus, ethnicity is a competitive advantage, as it allows access to the collective information and credit resources that members of other ethnic groups without collaterals could not obtain in a formal market. In addition, ethnicity allows the hiring of an adaptable and low-cost labor force (Portes and Sensenbrenner, 1993; Masurel et al., 2002). Even in some of the relatively recent models of immigrant entrepreneurship, such as those in which the influence of the cultural component is reduced and the role of the economic and institutional environment in which the enterprise operates is emphasized (see, for example, the mixed embeddedness hypothesis Kloosterman and Rath, 2001), the mobilization of resources and ethnic relations remains the key component of firms led by immigrants.

2.2 Entering mainstream markets

Several hints indicate substantial changes in some immigrant businesses and an increase in the variety of business models and strategies they have developed. The most important aspect of the changes taking place is the adoption of diffused strategies of break-out and entry into mainstream markets (Waldinger, Aldrich, and Ward, 1990; Ram and Hillin, 1994; Engelen, 2001; Barrett et al., 2002) by both low-skilled and high-skilled ethnic firms (Kloosterman and Rath, 2010). The strategy of the former group finds its origin in the growing demand for services and activities, which are often characterized by a low value added and little demand outside the ethnic enclave (Hettlage, 2008; Sassen, 2001). The second type of “post-industrial” ethnic business, namely, the high-skilled ones, are associated with the massive entry of immigrants from non-OECD countries who have high academic or professional qualifications and they react, in fact, to the growing demand for technical, financial, legal and administrative advisory services originating from local firms.

Many contributions confirm the widening of the presence of migrant entrepreneurship even in medium-high tech industries. Smallbone, Bertotti, and Ekanem (2005), for example, relate the help supplied by Asian migrants to the consolidation of the cultural industry in the United Kingdom. In addition, Ram (2003) and Wang and Altinay (2012) note the gradual growth of new businesses of ethnic origin in the fields of advanced services and accounting. Saxenian (2002) and Hart and Acs (2011) discuss the presence of immigrant entrepreneurs in the high-tech high growth sectors in the United States. Furthermore, some authors have identified how the degree of ethnicity in the product/service offered and the degree of co-ethnicity with the final clients and

market differentiate types of firms, such as enclave firms, middleman firms, niche firms and mainstream firms (Rusinovic, 2007; Ambrosini, 2011).

The most obvious consequence of these changes is the increasing variety of organizational forms and the fragmentation of the initial “uniformity” of migrant entrepreneurship in different business models. This process results in an increasing heterogeneity of both strategic and organizational firms’ profiles and reinforces what Deakins (1999) defines as the pluriformity of ethnic entrepreneurship.

For immigrant entrepreneurs, the entry into new markets outside of the enclave economy represents an entrepreneurial choice to exploit economic opportunities that are potentially available to native entrepreneurs as well. As a result of entering into non-enclave markets, these entrepreneurs can rely less on exclusive co-ethnic resources and need to reconsider the role of community assets. For immigrant entrepreneurs catering to mainstream markets, the co-ethnic community no longer plays a vital role in providing information, reporting opportunities and ensuring a minimum level of demand for products or services. Although the family and the community continue to transfer resources of labor and capital, they lose the previous characterization of unique support of the ethnic business (Barrett, Jones, and McEvoy, 1996). This role is at least partly replaced by increasing investments in building relationships with other non-co-ethnic or native business owners, with the formal institutions representing economic interests and with professional counselors (Amin, 1995).

2.3 Explaining multicultural hybridism

Immigrant entrepreneurs bursting into mainstream markets require information, management and professional skills that need to be sought outside the ethnic community. One of the possible means to find the needed competences is to involve non

co-ethnic employees and business partners. In fact, Light, Bernard, and Kim (1999) note how immigrant-owned firms can also hire ethnic workers who do not belong to the same ethnic group. The evidence collected by Mushaben (2006) shows that almost 17% of the Turkish firms in Germany hire from the German labor force and that 8.7% have non-co-ethnic employees. Leung (2001) found that while Chinese entrepreneurs in France maintain strong ties with their community, they also develop cooperation agreements with non-Chinese entrepreneurs. As noted by Altinay (2008), recruiting a nationally diverse workforce enlarges the horizon of opportunities, increases the wealth of accumulated experience and enhances the likelihood of acquiring more highly skilled employees.

Therefore, research about immigrant entrepreneurship must take into account that whereas some firms retain the characteristics of the traditional ethnic patterns and insist on enclave markets, others undertake strategically divergent actions that push them to exploit opportunities outside of their communities of origin. For immigrant entrepreneurs, the first steps on these paths of sustainable differentiation are often rooted in changes to the internal organization of the firm and changes in the composition of the embodied resources (Chandler, 1962; Miller 1986). According to this line of reasoning, immigrant entrepreneurs who intend to operate their businesses in non-traditional, non-ethnic markets may require a multiculturally hybrid organizational structure in their firm. Multicultural hybridism implies an increasing “diversity” in organizations, with members of the native (majority) society employed as personnel or incorporated as partners of firms owned and managed by immigrant (minority) entrepreneurs. Different theories on teams or organizational diversity have been proposed (Kilduff, Angelmar, and Mehra, 2000; Horwitz and Horwitz, 2007). The common assumption made by researchers is that demographic and task-related

variations are signals of variation in underlying, invisible cognitive processes (Kilduff, Angelmar, and Mehra, 2000), i.e., that demographic diversity is a proxy measure of cognitive diversity. When organizations are characterized by internal diversity (e.g., in their staff, management, or entrepreneurial team), positive outcomes such as creativity, innovation and obtaining problem-solving skills have been achieved; therefore, better organizational performances have been recorded (Horwitz and Horwitz, 2007).

Given these premises, it seems particularly relevant to identify the variables that affect recourse to solutions of multicultural hybridism within immigrant businesses. In the following paragraphs, we will propose our hypotheses concerning a plurality of variables that impact the level of multicultural hybridism.

First, the composition and size of managerial resources is of particular relevance. In the most recent literature, the image of the entrepreneur as a solo hero has been replaced by the notion that both the growth and the overall firm performance are strongly associated with the amount and variety of the available entrepreneurial resources. Several studies have shown that firms founded by entrepreneurial teams are more likely to achieve better performances than firms founded by solo entrepreneurs (Cooney, 2005). The heterogeneity of resources achieved by an entrepreneurial team is beneficial in terms of access to information and the ability to cope with changing and uncertain environments (Ensley and Amason, 1999; Vyakarman and Handelberg, 2005). Therefore, the decision to set up a business by an entrepreneurial team is indicative of the will to grow and the commitment of the management to more complex processes than anything an individual entrepreneur could deal with alone.

As observed above, immigrant firms increasingly enter new sectors, abandon traditional markets and geographically diversify their activities. These break-out strategies require expertise and information in addition to those resources that are

owned by the ethnic entrepreneur. In addition, in the case of a start-up, these break-out strategies stress the managerial functions of the firm and represent challenges that can be successfully accomplished only with an adequate quality and extent of entrepreneurial resources. In these cases, the individual entrepreneur is often replaced by a management team. In some circumstances, additional managerial resources cannot be recruited within the community network and must be sought in contexts other than the business's place of origin. It follows that the additional managerial resources necessary to deal with particularly complex strategies can have a marked non-co-ethnic connotation and thus, influence the degree of hybridism of the business. Based on these arguments, we can advance our hypotheses:

Hp1a. The presence of a founding entrepreneurial team is positively associated with the level of multicultural hybridism of the firm.

Hp1b. The size of the entrepreneurial team positively impacts the level of multicultural hybridism of the firm.

The emergence of new opportunities and the broadening of the strategic options pursued by entrepreneurs alter the reasons why immigrants decide to start a new venture. The purpose of survival and reactions to disadvantages in the labor market, which are often experienced by immigrants, are replaced with status, profit, independence and growth motives (Barrett, Jones, and McEvoy, 1996; Morris and Schindehutte, 2005; Baycan-Levent and Kundak 2009). In addition, Chaganti and Greene (2002) and Menzies et al. (2007) note that entrepreneurs' personal involvement in the ethnic community differentiates their business characteristics. Being strongly rooted in the community of origin is often correlated to the adoption of community

values and the assumption of collective motivations among entrepreneurship objectives. Analogously, overcoming the borders of the enclave economy and breaking out into the mainstream market may be associated with a weakening of community values and relations and the strengthening of individual aims. As a result, it is expected that increased trade with non-ethnic markets does result in the weakening of interactions with the ethnic community. Consequently, entrepreneurial motives tend to resemble those of the native population, such as the quest for independence, the desire to move away from a condition of hierarchical subordination and the willingness of entrepreneurs to pursue their own projects (Masurel et al., 2002; Carter et al. 2003). Given the importance of these components, it is likely that individual and community goals have a significant impact on the level of multicultural hybridism of the firm. Entrepreneurs involved in more intense relationships within their co-ethnic communities will hold stronger community goals, have a marked orientation towards enclave markets and prefer an organizational structure characterized by the prevalent and direct involvement of members of the co-ethnic community in the firm. In contrast, entrepreneurs characterized by weaker ties with the co-ethnic community pursue stronger individual values and goals, operate in mainstream markets and will increase the demand for human resources of non-co-ethnic origin. Following this line of reasoning, we formulate the following hypotheses:

Hp2a. The higher the community goals pursued by immigrant entrepreneurs, the lower the level of multicultural hybridism of the firm.

Hp2b. The higher the individual goals pursued by immigrant entrepreneurs, the higher the level of multicultural hybridism of the firm.

Immigrant entrepreneurs willing to enter new mainstream markets need to accumulate skills in understanding market opportunities and achieving sufficient levels of internal efficiency (Shinnar, Aguilera, and Lyons, 2011). Because learning processes are conditioned by time, the age of the firm is an important indicator of its ability to incorporate the advantages of experience and knowledge of activities and markets. As highlighted by Waldinger (1986), the presence of immigrant entrepreneurs in broader markets with respect to the enclave depends on their capacity to assemble a skilled labor force and gain efficiency and expertise. In addition, as noted by Menzies et al. (2007), with increasing age of the business immigrant owners show less ethnic involvement and greater openness to non-co-ethnic networks. These premises lead us to hypothesize that the level of multicultural hybridism and the connected ability to fully exploit management and personnel skills will depend on the age of the firm, which is the rationale for the following hypothesis:

Hp3. The greater the business maturity, the higher the level of multicultural hybridism of the firm.

A highly relevant asset in supporting the growth and development of break-out strategies is represented by the human capital of the migrant entrepreneur, as both the education received and the experience accumulated influence entrepreneurial attitudes (Lundström and Stevenson, 2005; Reynolds, 1997; Carbonell, Pedraz Hernandez, Lara García, 2011). Basu (1998) shows that the business success of ethnic firms is related to the amount of financial assets invested at the start up and to the entrepreneur's educational qualifications. Menzies et al. (2007) argue that educational qualifications enhance both the likelihood of being an entrepreneur and the chances of success of the ethnic firm. In addition, a higher level of education among the firm's owners increases its efficiency (Sahin, Nijkamp, and Suzuki, 2013) and impacts (along with other proxies

of human capital) the likelihood of developing transnational activities (Zhou, 2004). In fact, when leaving an economic enclave, entrepreneurs' education requirements and cultural backgrounds are expected to be particularly high (Altany, 2008). Basu and Goswami (1999) note that an entrepreneur's educational qualifications and communication skills facilitate relationships with financial investors and banks, lighten the external financial resource constraints and facilitate the firm's growth. Levent, Masurel, and Nijkamp (2003) argue that those entrepreneurs who break out into the mainstream market need higher levels of education than the entrepreneurs who remain in co-ethnic markets. Hence, a higher education both sustains the unfolding of break-out strategies and facilitates the adoption of a hybrid configuration of the entrepreneurial team; moreover, it allows for formal interactions between partners, facilitates the division of labor and permits the mutual adjustment of behavioral patterns. This pattern leads to the following hypothesis:

H_{p4}. The higher the entrepreneur's education attainment, the higher the level of multicultural hybridism in the firm.

Similarly to entrepreneurial human capital, access to markets and the development of trade relations with native economic agents is conditioned by the level of language abilities. Generally, the lack of competency in the host country's language represents a significant obstacle for immigrants who seek to access resources and move within the labor market, which significantly affects their personal and familial income (Light, 1984; Grenier, 1984). Heath (2001) stressed that language skills are an important tool for integration into the host community. The relationship between language competency and entrepreneurship has been studied by, among others, Evans (1989), Davila and Mora (2005) and Wescott and Griffith (2010). The ability to speak the local language is even more critical with reference to the management of a firm (Levent,

Masurel, and Nijkamp, 2003). In fact, the ability to communicate affects a firm's interactions with its customers and suppliers and impacts its productivity and success (Evans 1989). In addition, Altinay (2008) argues that ethnic-minority entrepreneurs need to possess good local-language communication skills to successfully exploit opportunities in the mainstream market. Furthermore, "firm owners who possess strong language skills, will have a higher level of confidence in themselves to seek capital from banks and other financial institutions and rely less on co-ethnic capital" (Altinay, 2008, p.115). In this sense, Altinay and Altinay (2006) show that among the entrepreneur's personal characteristics, fluency in the local language has a significant impact on business growth. The native language fluency of the entrepreneur plays an even more crucial role in the management of relationships within his or her organization. With the exception of strictly co-ethnic communications between the employer and employees and among the members of an entrepreneurial team, the required level of the language requirements is even higher than in commercial exchanges: the interactions are continuous and the information that is exchanged has strategic relevance. It follows that solutions of multicultural hybridism are viably conditioned on the possession of a high degree of competence with the host country's language, which suggests the following hypothesis:

Hp5. The greater the local language competence of the migrant entrepreneur, the higher is the likelihood of multicultural hybridism of the firm.

Access to the formal and informal mechanisms created and used by minority groups to provide support and financing to economic-minority organizations are significant tools for start-ups and also impact the subsequent stages of a firm's life (Lee, 1999; Pécoud, 2002; Masurel, 2008; Rusinovic, 2007). The membership in ethnic and non-ethnic (professional, lending, business, cultural, recreational, etc.) associations

signals the interest of the entrepreneur in being part of these social and economic networks (Menzies et al., 2000; Masurel, 2008). In particular, the membership and participation of the entrepreneur in trade associations shows the importance given to the development of formal practices and indicates the existence of a demand for consulting and supporting services (Altinay, 2008; see also Cordero-Guzman, 2005). Indeed, belonging to associations also highlights the entrepreneurs' capacity for building and maintaining local connections and maintaining relations with not only the members of their own community but also with individuals who do not belong to the same ethnic group (Rath, 2011). Finally, membership in associations extends the opportunities for relationships with native and other non-co-ethnic immigrants, which eventually facilitates the adoption of multiculturally hybrid solutions within the firm. The last hypothesis that we propose for empirical testing is the following:

H_{p6}. Entrepreneurs' association memberships increase the level of multicultural hybridism of their firms.

3. Research design: data, methodology and definitions

3.1 Data and methodology

The data source for this study is a specifically constructed dataset that provides a detailed profile of a sample of ethnic firms located in Parma and Bologna, which are two medium-sized towns in the region of Emilia-Romagna in the North of Italy. These two cities were chosen because they present significant and representative immigration patterns within the region and are characterized by high rates of business start-ups by immigrant entrepreneurs. As in other studies regarding immigrant entrepreneurs (e.g., Saxenian, 2002; Ndofor and Priem, 2011), different strategies were used to identify and

contact potential respondents. First, we identified the population of ethnic firms by accessing official business register lists. The potential universe is based on all of the firms in Parma and Bologna that have a foreign owner¹. To obtain our final list, we performed an additional cleaning procedure: we excluded those firms that have an advanced economy as the country of origin of the owner². In this way, our research universe is limited to entrepreneurs whose ethnic background is from a non-Western country. A random sampling technique was applied to obtain the provisional sample of respondents. If after three attempts interviews could not be completed with the entrepreneur we initially selected, additional candidates were randomly chosen. As expected, we encountered several obstacles when we tried to contact firms' owners. Most respondents often considered the interviews to be an inconvenience, or at times an intrusion. Therefore, the second strategy we used was the so-called "snowball method": once the interviews were completed, the actual respondents were asked for the names of other immigrant entrepreneurs with whom they were familiar. This methodology is commonly used to enlarge the sample size in immigration studies.

A total of 130 immigrant entrepreneurs were interviewed during the survey, which was conducted from January to June 2012. All of the respondents were asked to personally meet our interviewers to reduce some biases due to Italian language comprehension. The questionnaire was organized in three blocks of questions. The first block included questions on the foundation of the firm, the motivations for being an

¹ The actual information available is the country of birth of the entrepreneurs.

² In particular, we exclude foreign entrepreneurs if they are from the following countries:

Andorra, Austria, Belgium, Denmark, Finland, France, Germany, the United Kingdom, Greece, Ireland, Island, Liechtenstein, Luxemburg, Malta, Monaco, Norway, the Netherlands, Portugal, Spain, Sweden, Switzerland, Canada and the United States of America.

entrepreneur, the strengths and weaknesses of the firm, the corporate structure and the degree of ethnicity for products, suppliers and the clientele. Questions on the owners' personal backgrounds, migration modes, periods and durations of residence in Italy, settlement intentions, citizenship and nationalities were included in the second block. The third and final block contains other questions on cultural and managerial attitudes and the degree of embeddedness of the entrepreneur in both Italian society and in her own ethnic group.

3.2 Description of the sample

This section is devoted to illustrating some descriptive statistics on the personal profiles of our immigrant entrepreneurs (see Table 1). Approximately two-thirds (67.7%) of the sample were males and the breakdown in terms of areas of origin is essentially consistent with the distribution of immigrant entrepreneurs at the national level. In particular, there is a very large group of immigrant entrepreneurs who have an African background because in Italy, a very large number of immigrant entrepreneurs are from Morocco or Senegal. Indeed, as a consequence of the recent growth of immigration from Albania and Rumania, the second largest group consists of Eastern European entrepreneurs.

[Table 1 here]

As far as educational attainments are concerned, more than 50% of all respondents were highly educated (i.e., they had five-year college or university degrees). Furthermore, about one-third of the respondents (27.6%) had been resident in Italy for more than 20 years. Finally, a large percentage of respondents were employed when the firm was founded. In summation, the profile of the migrant entrepreneurs in our data is largely consistent with the picture discussed in other, previous studies in Italy (Chiesi, De Luca, and Mutti, 2011).

3.3 The characteristics of the studied firms

Some features of immigrant firms are reported in Table 2. The data reveal that most ethnic firms are relatively young businesses: 54% of respondents declared that the age of their firm was less than five years. However, we can observe that the percentage of immigrant entrepreneurs with significant experience is not marginal: approximately 7% of the firms in our sample have been operating for more than 20 years. In addition, the data in Table 2 show that ethnic firms in our sample are characterized by a high level of heterogeneity. First, there is a significant presence of firms in various class sizes. Second, a large share of our respondents consists of solo entrepreneurs (60%), but in our data we also have both small entrepreneurial team enterprises (32%) and firms with more than three partners (7%). Finally, we have a sample that is fairly representative in terms of business sectors.

[Table 2 here]

Additional information on the business activities carried out by our sample firms may be found in Table 3. A large proportion of their customers is Italian (more than 72%) and the major part of the suppliers is Italian as well. Therefore, ethnic firms in our sample are at present doing business in the mainstream markets. Further confirmation is given by the fact that the percentage of products and services classified as “non-ethnic” is very high (more than 82%). With respect to the role of migrant networks, we can see that the presence of local suppliers is important: on average, 66% of purchases are located in the same city where the firm is situated. Moreover, the presence of co-ethnic suppliers is not negligible (they are 7.8% of the total suppliers). At the same time, the

ethnic firms in our sample are significantly oriented to operate in mainstream markets. Indeed, more than 70% of our respondents declared that they are dealing with local customers and furthermore, the average share of non-ethnic products and services is higher than 80%. Finally, Table 3 shows that more than 70% of our ethnic firms are basically selling on local markets. Overall, we can affirm that we are analyzing a sample of immigrant-owned firms that are doing business both inside and outside of their owners' ethnic enclaves.

[Table 3 here]

3.4 Multicultural hybridism: a measure

We adopt an index of multicultural hybridism that is able to measure both its intensity and its diffusion by looking inside the firm. By applying a twofold approach, we analyze both the corporate ownership structure and the ethnic composition of the workforce. With regard to the former factor, we focus on the presence or absence of an entrepreneurial team. In the literature, the most commonly used definition is provided in Kamm et al. (1990): “an entrepreneurial team is two or more individuals who jointly establish a business in which they have equal financial interest”. Following Cooney (2005), in this paper we use a more restrictive definition: we interpret an entrepreneurial team as “two or more individuals who have a significant financial interest and participate actively in the development of the enterprise”. According to this second definition, it is important to take into account the activities of all partners not only during the start-up phase but also during the firm's life. The second feature of multicultural hybridism is linked to the ethnic composition of the workforce. In this case, we consider the percentage of the non-co-ethnic employees over the total

employment.

On the basis of the information collected in our survey, we can construct a proxy of multicultural hybridism (MH) as

$$\text{MH} \left\{ \begin{array}{l} \text{equal to 1 if the number of non-co-ethnic partners and} \\ \text{employees is equal to zero} \\ \\ \text{equal to the following formula for all other firms:} \\ \quad 1 + (\text{non-co-ethnic partners}/\text{total nr.partners}) + \\ \quad (\text{nr. non-co-ethnic employees}/ \text{total nr. Employees}) \end{array} \right.$$

The distribution of the variable MH is shown in Figure 1. It is clear that there is a relatively long tail when the values of MH are greater than 1.5 (the median).

[Fig. 1 here]

To obtain a more precise view of the relevance of multicultural hybridism, we can observe that the majority of firms are “not hybrid” (the value of their MH is greater than 1); the percentage is approximately 60%. At the same time, we can identify two groups in our data: the first group is composed of firms that are “hybrids at an intermediate level” (their MH is greater than 1 and less than 1.5) and it contains 20% of the total; the second group is composed of firms that can be considered “hybrids at a high level” (their MH is greater than 1.5) and it corresponds to 18% of the total observations. Summarizing, our data show that multicultural hybridism is a widespread phenomenon among the population of firms analyzed in our survey.

3.5 Operationalization of our concepts and hypotheses

To illustrate the framework for operationalizing our hypotheses, we firstly examine the size and characteristics of the entrepreneurial team (Hp1a and Hp1b). We use the

respondents' answers to construct two different variables. In the case of Hp1a, we define *Founding Entrepreneurial Team* as a new dummy variable that assumes the value of 1 if the respondent has founded or acquired the firm together with others and 0 if he declared that it was a solo startup founder. Our computations reported in Table 4 seem to show that most respondents (63%) declared that the decision to set up the business was made by only one individual (the firm was founded or acquired without other partners). In the case of Hp1b, our alternative approach to examining the features of the entrepreneurial team is to use the variable *Size of the Entrepreneurial Team*, which is the number of partners (in logarithms). In our data, most firms are actually owned by solo entrepreneurs (see Table 4).

[Table 4 here]

Regarding the assumptions on the community goals and motives pursued by immigrant entrepreneurs (Hp2a and Hp2b), we make use of two scaled variables that summarize several items, such as the motivation ratings³ indicated by the respondents. Whereas the variable *Community goals* summarizes the variance of three items, which are motivations related to the role of the enclave⁴, *Individual goals* summarizes the variance of four other items, which are motivations for the individual's attitude as an entrepreneur⁵.

³ Respondents were asked to use a three-point Likert scale: 1= Not important, 2=Fairly important, and 3=Most important.

⁴ The confirmatory factor analysis indicated a good model fit with a percent of variance explained equal to about 68%, and the Cronbach Alpha is 0.75.

⁵ The confirmatory factor analysis indicated a satisfactory model fit with a percent of variance explained equal to about 44%, and the Cronbach Alpha is 0.56.

The measurement of business maturity (Hp3) is straightforward: we refer to the age of the firm (*Business Maturity*). The firms in the sample are fairly well established: more than 40% of our firms have been operating for more than five years. Furthermore, for the role of the entrepreneur's human capital (Hp4), we employ a dummy variable *Education Attainment* that assumes the value of 1 if the firm owner has indicated possession of a university degree and 0 otherwise. As shown in Table 4, for firms managed by entrepreneurs who are graduates there is a relatively high presence of employee graduates (36.2%).

Moreover, for the variable used to operationalize Hp5 (*Local Language Competence*), we use a self-evaluated rating on a five-point scale (from "1" that was labeled as "Don't speak Italian at all" to "4" that was labeled as "Fluent in Italian") to assess the language skills of immigrant entrepreneurs. As reported in Table 4, most respondents (approximately 80%) rate themselves in the top two classes.

Finally, we need to introduce the variable that operationalizes the effect of association membership on multicultural hybridism. We choose to use the dummy variable *Entrepreneurs' Association Membership*, which is equal to 1 when the respondent has declared that she currently has a voluntary membership in at least one association and 0 if there is no presence of this membership in the current activity of the migrant entrepreneur. From Table 4, it emerges that ethnic firms with an association membership are more than 60% of the total.

4. Econometric model and results

4.1 Assessing multicultural hybridism: an econometric model

To provide empirical evidence on the determinants of multicultural hybridism in

immigrant-owned businesses, we define the following econometric model:

$$MH_i = a_i + b_1 \textit{Founding Entrepreneurial Team}_i + b_2 X1_i + b_3 X2_i + u_i \quad (\textit{Model 1})$$

$$i = 1 \dots 130 \textit{ firms}$$

where *MH* indicates the level of Multicultural Hybridism, a_i is a constant and u_i is the error term. In this specification, we assess the empirical support for Hp1a by including the measure of *Founding Entrepreneurial Team*. As explained above, this term is a dummy variable that assumes the value of 1 if the respondent has founded or acquired the firm together with others and 0 if he declared that it was founded or acquired without others. In addition, $X1_i$ indicates a vector of variables included in the model to appraise the empirical relevance of other hypotheses (from Hp2 to Hp6). To begin with, $X1_i$ includes the two variables used to test Hp. 2: *Community Goals* and *Individual Goals*. Another variable included in group $X1_i$ is *Business Maturity*, which is the age of the business. Furthermore, in the group $X1_i$ we also include the variable *Education Attainment*, which measures the number of years of education received by the entrepreneur and which is expected to capture a possible effect related to Hp4. Moreover, the variable *Local Language Competence*, which is measured as entrepreneurs' self-assessment of Italian fluency and meant to test Hp. 5, is part of the group $X1_i$. Additionally, the group $X1_i$ includes the dummy variable *Entrepreneurs' Association Membership*, which is equal to 1 when the respondent holds a voluntary membership in at least one association and 0 otherwise; this variable is expected to identify the relevance of Hp. 6. Finally, two additional $X2_i$ variables have been included in the empirical equation of Model 1. These supplementary factors have been selected from the set of questions addressing the perceived dynamics of a firm's life and the

corporate ownership structure⁶. We use these variables to capture any possible dynamic effect related to the respondent's orientation to leveraging the entrepreneurial team's resources. The first X2 variable is *Attitude to Enlarging the Entrepreneurial Team 01* and it is codified on the basis of the respondents' attitudes towards the following statement: "A large entrepreneurial team is essential to the firm's growth". The first X2 variable is *Attitude to Enlarging the Entrepreneurial Team 02* and it is codified on the basis of respondents' attitudes towards the following statement: "A large entrepreneurial team is essential to overcoming business difficulties".

As explained above, we also estimated a second equation that is very similar to Model 1:

$$MH_i = a_i + b_1 \text{Size of Entrepreneurial Team}_i + b_2 X1_i + b_3 X2_i + u_i \quad (\text{Model 2})$$

$$i = 1 \dots 130 \text{ firms}$$

This equation is the same equation employed in Model 1 except that the variable used to explore the empirical evidence for Hp1b (the size of the entrepreneurial team) is replaced by the measure *Size of the Entrepreneurial Team*, which is the number of partners in the entrepreneurial team.

We estimate the coefficients of both Model 1 and Model 2 with OLS regression techniques.

4.2 Results

The final results for Models 1 and 2 are reported in Tables 5 and 6, respectively. Three

⁶ In this case, for each item the coded variable is measured on a scale: 0 means "I disagree", 1 means "I partially agree", and 2 means "I agree".

different specifications of these models have been estimated: the first specification (Model A.1 and Model A.2) contains all of the main explanatory variables and does not include any variable of the group X_{2i} . In the second specification (Model B.1 and Model B.2), we add the first variable of group X_{2i} , namely, *Attitude to Enlarging the Entrepreneurial Team 01* and in the third specification (Model C.1 and Model C.2) we include only the other X_{2i} group's variable: *Attitude to Enlarging the Entrepreneurial Team 02*.

From the analysis of the tables of results, it is important to note that we find empirical support for Hypotheses 1a and 1b. In both Model 1 and Model 2, the coefficient of the proxy variables (*Founding Entrepreneurial Team* and *Size of the Entrepreneurial Team*) are highly significant and have the expected positive sign.

[Table 5 here]

For Hypothesis 2a, the results reported in Table 5 are consistent with our expectations: the level of multicultural hybridism is negatively and significantly associated with the entrepreneurs' pursuit of community goals and therefore, with their involvement in the co-ethnic community. Similarly, the regression results support the empirical evidence of Hypothesis 2b: the level of multicultural hybridism within the firm is enhanced by the presence of individual motivations and strong self-reliance attitudes. Our findings also provide some supporting evidence for Hypothesis 3 and the significance of the coefficient for *Business Maturity* is confirmed across all specifications. On the contrary, we do not find any significant relationship between educational attainments and multicultural hybridism; therefore, Hypothesis 5 is not

supported. The results of Models 1 and 2 largely support Hypothesis 5: all of the coefficients for *Local Language Competence* are significant and have a positive sign.

[Table 6 here]

It is necessary to discuss our results for Hypothesis 6 in a different way and we employ the extension provided with the variables included in the $X2_i$ group. In fact, for both the dummy *Entrepreneurs' Association Membership* and the two variables *Attitude to Enlarging the Entrepreneurial Team 01* and *Attitude to Enlarging the Entrepreneurial Team 02*, the results of the regressions in Model 1 are different from those in Model 2. Specifically, there is some support both for Hypothesis 6 and for the positive relationship between the propensity to operate with more partners (for targeting growth or overcoming obstacles) and multicultural hybridism, but only when we estimate Model 1. In the case of Model 2, we do not find any significant effect with these explanatory variables. We suppose that this difference in the results might be associated with some confounding effects due to the degree of correlation between the variable *Size of the Entrepreneurial Team* and the variable *Entrepreneurs' Association Membership*.

5. Discussion

In this study, we take an innovative approach to immigrant entrepreneurship by examining those organizations that present some peculiar traits in the ownership and workforce structure and, in particular, “multiculturally hybrid” firms, i.e., immigrant-owned businesses where the management teams or personnel are characterized by

ethnic diversity. While the research on immigrant entrepreneurship has developed a large and growing body of literature, few studies have focused on multicultural hybridism in immigrant business. Therefore, in this section we examine the contribution of this paper to the academic debate by connecting and integrating our empirical findings to the existing knowledge base.

First, our work highlights that immigrant-owned firms in Italy are increasingly characterized by heterogeneity in terms of both strategic and organizational patterns. Thus, we found some supportive evidence for the presence of *pluriformity* in immigrant-owned business communities (Deakins, 1999). In addition, when one inspects some specific features of our results, it is possible to argue that some ethnic businesses have been experiencing deep internal changes leading to the reduction of most of the differences between Italian and immigrant firms. These choices are consistent with the increasing importance of status, profit and independence motives for immigrant entrepreneurs (Barrett, Jones, and McEvoy, 1996; Masurel *et al.*, 2002) and with the growing relevance of mainstream markets and non-ethnic consumers.

Entering mainstream markets means integrating within the firm additional and different organizational, economic and cultural skills and competences. As a consequence, strictly ethnic networks within and outside the firm are at least partly replaced with non-ethnic business partners and employees, which leads to what we define as a “multiculturally hybrid” firm. Within immigrant-owned firms, multicultural hybridism consists of the presence of diverse entrepreneurial teams or employees in terms of their ethnic origins and cultural affiliations. To this extent, this paper connects the recent developments in the management literature pertaining to diversity in organizational teams (e.g., Earley and Mosakowski, 2000; Hinds *et al.*, 2000; Martins *et al.*, 2003; Richard *et al.*, 2003).

Our study allows to highlight some significant insights on the determinants of multicultural hybridism in immigrant-owned firms. Firstly, the importance of the composition and size of the entrepreneurial team is largely confirmed by our econometric results: hybrid firms have a higher likelihood of being founded and managed by a team rather than by a solo entrepreneur. Therefore, it seems that hybridism is mediated by a choice made in the start-up phase and that it is functional in the adjustment of the structure of the internal competences; such adjustments are made for the sake of the strategy that is expected to be implemented in the later stages of the firm's growth. Secondly, our analysis demonstrates that whereas the level of multicultural hybridism is positively related to individual goals, it is negatively associated with community values. A third important result is that a business's maturity has a significant and positive effect on its multicultural hybridism. This result suggests that strengthening formal inter-ethnic relations and adopting hybrid solutions requires time to be fully implemented. Fourthly, we do not find a significant difference in terms of educational attainments between hybrid and other immigrant-owned firms. This result is at odds with the literature, which shows how education impacts the characteristics of the entrepreneurial choices. We believe that a valid reason for this result can be found in the almost homogeneous high level of education of our respondents. The fifth factor that is related to multicultural hybridism is immigrant entrepreneurs' local language competence, which highlights the importance of having the skills for appropriate communications with other organizational members. Finally, our results do not find conclusive evidence that entrepreneurs' membership in associations is a driving factor for the adoption of multiculturally hybrid organizational solutions for immigrant firms, which may be due to some confounding effects with the other independent variables.

This paper has some limitations. First, our data analysis is based on a sample collected both with random sampling techniques and with a snowball method that allowed us to increase the size of the sample. This method, although it has been used in many studies concerning immigrant entrepreneurship, does not offer the assurance of external validity of our results. Indeed, because the sample was taken from a geographically constrained area in the North of Italy, caution must be taken in generalizing the results of our study and we invite further replications in other populations of firms. Second, the results of this study are based on cross-sectional data emerging from an ad-hoc survey carried out in 2012. Although we acknowledge that we cannot rule out reverse causality issues, we believe that our results are quite solid and consistent with the reports and business descriptions by the interviewed entrepreneurs. Therefore, despite these limitations, our study offers interesting and novel insights on a relevant topic.

6. Summary and suggestions for future research

The increasing number of firms established in OECD countries by immigrant entrepreneurs and their contribution to the economic growth and societal renewal of their host countries (Echikson *et al.*, 2000) is generating growing interest in understanding the characteristics of immigrant-owned firms as a socio-economic phenomenon. A large amount of knowledge has been produced by the literature on ethnic entrepreneurs and it mainly draws a distinction between immigrant and native businesses regarding the antecedents of these business ventures and, to a lesser extent, their outcomes. In this line of research, the ethnic firm is closely related to ethnic resources stemming from the community (the enclave economy).

More recently, several studies have focused on the spreading of strategies of break-out and entry into mainstream markets by both low-skilled and high-skilled immigrant entrepreneurs. According to this point of view, the entry into new markets outside the enclave economy is a specific entrepreneurial choice that puts in a different light the importance of networks within the ethnic community. In particular, some immigrant-owned firms are increasingly characterized by the recourse to external networks and organizational solutions, based on multicultural hybridism, i.e., the employment of ethnically diverse human resources at the management and personnel levels. Our research question was particularly focused on understanding the antecedents of multicultural hybridism in immigrant-owned firms.

To tackle this issue, we collected data through structured face-to-face interviews with 130 immigrant-owned firms in Italy. The firms in our sample are quite heterogeneous under several points of view, such as their activities, sizes, market strategies and organizational patterns. In particular, we found that approximately 40% of these firms are characterized by the traits in their ownership and workforce structures with which we define the characteristics of “multiculturally hybrid” firms, i.e., immigrant-owned businesses present relevant diversity in terms of racial/ethnic human resources and relationships.

Our empirical analyses reveal the individual-level and firm-level determinants of multicultural hybridism and in particular, the size and characteristics of the founding entrepreneurial team, business maturity, entrepreneurs’ individual orientation and entrepreneurial goals (rather than a community orientation), entrepreneurs’ local language competence and their membership in associations.

With this study, we contribute to the literature on immigrant entrepreneurship by taking into account the increasing diversity that characterizes immigrant-owned firms in

our growingly multicultural societies. First, we add evidence from those studies that there is increasing diversity in the employment patterns of immigrant-owned firms (e.g., Mushaben, 2006; Altinay, 2008). Second, we highlight the determinants of multicultural hybridism in these firms.

Although our study cannot offer conclusive evidence on the matter, it sets the stage for future research on immigrant entrepreneurship. We can suggest several possible avenues for future research. The main take-home point is as follows: researchers interested in immigrant entrepreneurship should not concentrate on the traditional distinction between immigrant and native businesses. On the contrary, we think that scholars should transition to exploring the existing, potentially “multiculturally hybrid” firms to increase our understanding of their antecedents and outcomes. Regarding the antecedents of multicultural hybridism, this study provided the first evidence on the matter, although our results can be developed further. For instance, our evidence suggests that multiculturally hybrid organizational models are actual strategies for ethnic firms located in a geographically constrained and homogeneous area in Northern Italy.

Future research could be devoted to analyzing the relevance of different institutional and social factors in supporting the diffusion of such models and to replicating our study. Regarding the outcomes of multicultural hybridism, additional research is needed to verify the link between multicultural hybridism and the strategies and performances of immigrant-owned firms. For example, it should be investigated whether the level of multicultural hybridism of immigrant firms evolves over time. Furthermore, future studies could examine whether immigrant firms characterized by higher levels of multicultural hybridism perform better than ethnically homogeneous immigrant firms, for instance, in terms of turnover, employment generation or growth.

In conclusion, we have seen that immigrant-owned businesses can produce significant contributions to the economy and generate employment, competition, innovation and wealth. As a new and growing phenomenon, these firms are becoming places where immigrant entrepreneurs' social ties extend outside their ethnic enclaves and strengthen the relationships with the native, majority group of entrepreneurs and institutions in the host country. Therefore, a reliance on multiculturally hybrid organizational solutions might influence the future evolution of immigrant-owned businesses and have an impact on their strategies, performances and growth. Even more important, these businesses might become a tool for leveraging the benefits of diversity and increasing social integration not only within the business domain, but within the more general socio-economic environment in the host countries.

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