

# **Ethnic entrepreneurs in Australia: a story of relationships and networks**

Work-in-progress Paper

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## **Abstract**

The internationalisation of small and medium enterprises (SMEs) is a key challenge and of interest to policy makers, individual firms and researchers in Australia. SMEs significantly drive growth and economic development of countries due to their effects on both micro and macro economic indicators. A key trend in Australian SME characteristics is the rise of ethnic businesses, (i.e., operators born overseas). There were an estimated 1,646,000 small businesses operating in Australia, with 30% of small business operators born overseas. Understanding ethnic firms is important as they have distinct methods of operations (Iyer and Shapiro 1999) and there is a nexus between immigration and trade due to the stronger links migrants have with business communities in their countries of origin.

Whilst these SMEs have become critical players in national economies and world trade, little is known about how such firms operate and prosper under globalization (Knight 2000). In the specific context of the ethnic small business sector, it is a crucial yet relatively unexplored dimension of the Australian economy and there has been lack of rigorous studies examining this in Australia, both at the domestic-operating level and at the international operating level (Agrawal and Chavan 1997).

Ethnic businesses are an important group to study as previous research has shown that ethnic entrepreneurs retain distinct systems of business operations and pursue different strategies than the majority of the population in a given country (Iyer and Shapiro 1999). An ethnic group is defined as a “segment of larger society whose members are thought, by themselves and/or others, to have a common origin and share important segments of a common culture and who, in addition participate in shared activities in which the common origin and culture are significant ingredients” (Yinger 1985, p. 159).

Iyer and Shapiro (1999) argue that historically, international trade emphasises a pattern of exchanges between specific communities, castes and clans, primarily as the motivation and propensity to trade was higher in groups that share similar ethnic identifies (Kotkin 1992). More recently, although the increasing professional conduct of international business is dominated by the “modern contractual business firm”, a considerable amount of international business is conducted by firms along kinship dimensions. For example, global ethnic economic networks of Japanese, Chinese, Jews, and Indians account for a large percentage of foreign direct investment (FDI) and exchanges in many goods and services (Kotkin 1992; Weidenbaum and Hughes 1996). Therefore this study investigates the role of relationships and networks in ethnic international entrepreneurship.

An exploratory, qualitative approach is adopted. This broad exploratory approach is necessary due to the lack of prior studies specifically addressing EIE (ethnic international entrepreneurship). The initial aim of the study is to understand more clearly the nature of EIE and the role of relationships and networks in the process. This qualitative study focuses on 10 ethnic small businesses. In-depth interviews were carried out with key personnel in the

organisation. The key personnel are the owners and/or executives, i.e. senior managers in the organisation since we expect them to be more knowledgeable about the organisation's capabilities, and actions than others in the firm (Srinivasan, Lilien and Rangaswamy 2002). This paper presents the findings from these interviews

By focusing on SMEs this study contributes to the SMEs literature in the specific context of internationalisation in Australia. In the context of ethnic entrepreneurship, Iyer and Shapiro (1999) suggest that additional research must go beyond a mere identification of the phenomenon and specify meaningful research questions and research studies. This study by concentrating on ethnic entrepreneurship significantly contributes to the ethnic entrepreneurship literature. This project's significance from an industry perspective lies in gaining an understanding of ethnic SMEs motivations to internationalise, which will provide an indicator of future success or failure. It reveals how ethnic entrepreneurs define their international markets and utilise existing relationships and network position to achieve internationalisation.

**Keywords:** Ethnic Entrepreneurs, SMEs, Relationships, Networks, Internationalisation

## **Introduction**

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## **The Australian Context**

It has long been recognised by researchers in Australia that ethnic groups are important in responding to international opportunities and it is often stressed that multicultural Australia can contribute to competitiveness in international markets, however there is acknowledgement that there is a need for much greater research in this area (Wilkinson and Cheng 1999). For a number of years the Australian government has developed various policies to facilitate and promote the growth of small business activity and has to some extent concentrated on facilitating the internationalisation of small business, particularly with trade assistance programmes. Research in other countries has shown that to offer to offer generic

programmes to all SME's appears to be inappropriate and if export growth in ethnic minority-owned businesses is to be a major consideration, certain culturally specific characteristics of firms must be appreciated otherwise the limited resources for assistance may be wasted (Crick and Chaudhry, 1995). Given the multicultural nature of the Australian population and the number of existing ethnic small businesses, it is critical in this age of globalisation that the Australian government provides clear-targeted programmes that facilitate ethnic small business internationalisation. The benefits of targeted programmes would be two-fold, firstly to help improve the balance of payments by increasing exports and secondly decreasing unemployment by creating more jobs among ethnic communities, who are often the most neglected groups in our society.

### **Relationships and social networks**

Interfirm alliances are formal or informal agreements in which two or more independent and separate firms cooperate to carry out and perform a business activity. The profitability and the success of the alliances is often determined by the behaviour of all firms making up the network, and their capability in successful network positioning of each member firm (BarNir and Smith 2002).

The network-based internationalisation approach, describes how firms internationalise by taking into account the immediate business environment in the form of their business network and market. By their reckoning a firm is embedded in a network and its internationalisation process is linked to that of its domestic and foreign networks. (Johanson and Mattsson 1988)

The advantage of being a member of a network is particularly significant for small firms which have restricted resources and constrained market presence. There are many factors that may result in relationships being initiated. One of these is the social networks of the firm's senior executive whose personal connections are often employed and exploited to aid and support business activities (BarNir & Smith 2002). Consequently, the efficacy, propensity, importance and as a whole the value of the social network influence the opportunities, costs, sales volume, revenues, profits, and all other activities of the firm, and is a probable cause of competitive advantage. This is supported by the theory of social embeddedness which emphasizes the importance of the social context within an economic activity occurs. (Granovetter 1985). Likewise Hakansson and Snehota (1995) tell us that no business is an island and the context of the exchange a focal part of the relationship and the business.

Social networks are relations, connections and contacts with others. Such contacts of the people in the firms are extremely important to firms because they provide opportunities, resources, and even emotional support. The significance of one's social network to the firm is determined by information, support, credibility, and governance (Birley, Cromie and Myers 1990).

However in the context of entrepreneurial small businesses, this very broad definition of social networks is diminished to an ego-centered network approach (BarNir and Smith 2002), that is the group of people with whom the owner or the executive of the firm has network of contacts.

The social network encompasses four major properties. By investigating these properties of social network we conclude that all these attributes are strongly associated with the executive's character and disposition. Therefore, we argue that all the properties in the literature have their roots in personality traits. The first property of social network is the

'propensity to network' which stands for the executive's willingness in creating and maintaining contacts. The extent to which one wants to create and maintain contacts is highly related with one's personality tendencies, and motivations to establish relationships, which then is a reflection of personality traits such as extraversion, locus of control, or need for affiliation. The second one is the 'scope of the network' which represents the size of the network, that is, the number of people in the social network, frequency and duration (time) of interactions. This behavior and tendency may also very typically be explained by personality traits. The third one is the 'strength of the ties' with network members that symbolizes the nature of the contacts between executives. Strong ties represent intense, emotion-laden, and reciprocal relationships; another close link to personality traits. And finally, the fourth one points to the 'prestige' of network members which denotes the status of the people in the executive's network for the instrumentality of social capital, as well as informational and access utility (BarNir and Smith 2002). These relationships, again, may be a private preference of the executive and result of his positions and circumstances which may be an outcome of his personality traits. We believe that social network attributes and their relation to businesses is much more applicable in the case of small businesses than larger firms, and even more for ethnic small businesses since relationships and ties play a major role in such firms.

## **Research Aims**

In light of this literature, this exploratory research attempts to get an initial understanding of the role of relationships and networks in the internationalisation process of ethnic entrepreneurs. Essentially we are investigating whether they use existing contacts in their countries of origin to kick-start their internationalisation. We are also interested in determining whether they are drawn towards their country of origin as their first point of internationalisation.

## **Methodology**

The authors conducted 14 long open-ended interviews that emphasized the perception of participants in a large, industrialised city. Participants were identified through a network of colleagues, peers, and friends from various industries. The participants were deliberately picked to offer a cross-section of clients (firms). Out of 14 interviews only 10 has been selected for further analysis. Although 10 interviews may appear to be a small sample, this number is more than the minimum recommended by McCracken (1988) and prior research successfully interpreted fewer interviews (Fournier 1998; Schouten, 1991, Thompson, 1996). Moreover, after reviewing the audio transcripts of the last interview, the repetition and recycling of ideas of earlier interviews was observed, pointing to an anticipation that no new information would be revealed in further interviews.

The authors conducted all the interviews through a professional interviewer who was informed on the method thoroughly. Eight interviews took place at the offices of the participants and two at a nearby café. The main criterion of selection (of the remaining 10 interviews) for further analysis was the participant's declaration of i) possessing an ethnic background and identification, and ii) performing international business during the last two years. Specifically, the selection process followed four rationales. First, all participants have declared that they have pursued international activities at least during the last two years. Second, all participants identified themselves as coming from an ethnic origin, consistent with our definition of ethnicity at the beginning of the manuscript. Third, none of the

selected participants had previous theoretical understanding of ethnic international entrepreneurial activities. Finally, participants were all willing to share their personal views with the interviewer during a face-to-face interview. The aim of the interviews was to acquire descriptive details of their journey on their international entrepreneurship.

Interviews started first with determining participants' international activities during the last two years and continued with general questions around participants' knowledge and perceptions regarding entrepreneurial activities as prior research suggests (McCracken 1988). Participants were then asked to describe their opinion and thoughts regarding being ethnic and performing internationally. Throughout data gathering process, tapes were reviewed systematically to facilitate the focus of imminent interviews (Schouten, 1991). Common themes across participants were searched for in examining interview data for further categorization. The researchers based this approach on the assumption that some themes of conceptions of ethnic international entrepreneurship may emerge from the perceptions of participants (Thomson, 1997). After gathering the whole data, the transcripts were read multiple times in order to distinguish the various, most significant and frequent themes which have surfaced. This approach assisted classification of themes within the data (Giorgi, 1997). Analysis was conducted by a close reading of verbatim transcripts (Dilthey, 1977).

## **Findings**

The findings are presented based on the themes that emerged from the interviews. In all four major themes emerged; Same cultural background, Cultural knowledge and respect for dissimilarities, Knowing what being from a different culture means and religious similarities.

### **“Same culture”:** Same cultural background

Most of the participants believe that coming from the similar cultural background is very important. This is illustrated by Cem's, Tamer's, Dev's and Chris', along others, views and comments on the ease and significance of sharing the same cultural background in doing international business. Cem's company export livestock, such as cattle, sheep, goats, from Australia to Turkey and a couple of Asian countries, Malaysia in particular. He also provides agricultural consultancy by designing dairies and consulting on sustainable farming methods as well as efficient and effective animal and plant production systems, mainly in Turkey. His previous job was agricultural and environment education and training as he has a university and masters degree on agricultural engineering. Cem says, for example, *“I'd put down to my Turkish background, knowing the culture very well, going into a whole new niche with a fair bit of empathy for what the client needs,”* which is supported by Dev *“ We didn't really need the market research bit which is a painful process, market research was done preliminarily with my existing knowledge on the country and industry”*. Tamer stated that his competitors' were fairly oblivious to the needs of Turkish clientele which helped him to succeed in that market. Hence, having firsthand knowledge on the culture is a merit for success in international markets.

### **“No side-effects of SRC”** - Cultural awareness: Cultural knowledge and respect for dissimilarities

Almost all participants mentioned the importance of understanding the difference in culture which may reflect itself in doing business in different manners. Tamer says *“It is very important to understand the different cultures and work with that and don’t expect everybody to act like an Australian. Especially in China or Thailand, they are very traditional in their own way and you need to learn and work with that...you learn and in time... of course you make mistakes and things.... but in time you understand the cultures. Well to be successful you have to understand the cultures. If you don’t, you won’t be able to do business in their country”*. The importance of cultural awareness is emphasized as crucial by other participants as well especially when they refer to Far Eastern cultures. Chris says, *“When I first went to China I did a training session... after about a day or so ...I realised that nobody actually asks questions. So then you sort of understand that in China people will not ask you a question because it’s a loss of face, they think others would think that they are dumb or they don’t learn. So they don’t ask questions. So ... basically you have to adopt your training to that and work with that to basically make sure that they understand. Because they are not going to ask you a question ... so you just don’t know whether they learned or not. So there are all these challenges. Every country is different... in Thailand especially...it is different. In Thailand... you know they are very polite people but you know you have to be as polite talking to them and otherwise they can get offended with you and you don’t even know that they are. So it is hard you know to be so culturally aware.”*

**”Being similar by being different”** - Being different makes us similar: Knowing what being from a different culture means.

Many of the participants stated that coming from a different culture, working and succeeding in a foreign environment for several years, provide them with confidence and sensitivity in giving respect and deeper understanding to different cultures and in working various environments. Tamer, an Australian with Turkish ethnicity, who is based in Sydney Australia and has clientele from Turkey, England, France, Switzerland, Italy, Dubai, Thailand, China-Hong Kong, Indonesia, Fiji, Korea, and the USA, says, for example, *“Although my Turkish background, I mean ... that I originate from Turkey..., yyeah ...Turkish culture is not a culture that is similar to Thailand at all, but still plays an important role in my understanding of the Thai culture... although it is completely different... I guess because although these two cultures are dissimilar they are also unlike the Australian culture. This divergence then makes us somehow similar; that is, in our own unique and unrelated ways, we share a commonness: we both are foreign to Australian culture.”* He then further emphasizes *“ Well, I think me... being Turkish helps not understanding them because of the culture... but me being Turkish helps ....because when I go to a country I sympathise and try to learn about that .... Whereas... some ... [ people with] Anglo-Saxon background may have a much less clear idea about how to relate or...what they should be doing. A lot of people expect or think that everything is like at home and they can insult people without knowing they are insulting people which is a very common thing to do... I mean especially ... in China or Thailand. You can easily insult people without even knowing it”*. Another comment, *“Acknowledging that both you and your customer are coming from a different country helps understand and appreciate them. ...because maybe you were in the same shoes one time... I mean...Turkey is probably a very different culture to Asia, well it is, but at least you are aware of that. That’s the important thing. Then again, Anglos would think Turkish people may share Middle Eastern cultures I guess due to Turkey’s Eastern geographic boundaries ... but then Turkey is very multicultural in itself as the western boundaries include Europe and Northern Russia and these geographic boundaries are much longer and the cultural influences are much stronger*

*than the Eastern ones. However, both Turkish people and easterners know they are in fact very different... but Anglos don't."*

**"The same prayer"** - "We have the same god so we must be similar" approach

Some participants emphasised the significance of sharing same or similar religious background, especially with Muslim cultures. One of our participants continued, for example, *"...we entered the Turkish market and then the Malaysian market ... In this industry, we had some stiff competition, but that was mainly not so much in quantity, ... I mean there are, say, six major exporters from Australia, between six and eight. It's not something everybody does [exporting live stock], so even though it's strong competition, it's competition from a small number, but a very powerful small number of exporters, ... therefore, it's a small industry, word gets out fairly quickly. So when they [Malaysian importers] saw the quality of our animals that we prepared to go to Turkey... I mean...it became quite evident in the quarantine station here that other countries, that were also importing animals from Australia at the time, wanted to find out who those animals belonged to, so they contacted us, we facilitated some selection for them, we provided some consultancy for them and then they said whether we would provide export services for them as well from Australia and we agreed upon. I guess... the fact that they are an Islamic country probably had some bearing on it as well because they saw that we have Turkish origins, that we weren't Australians per se, they felt some type of brotherly connection and asked if we'd consider exporting to Malaysia, so the fact is that when all aspects are equal they'd rather deal with someone, I guess, with Islamic origins such as myself than with Australians. I assume that's the case, that's the feeling I got from them. They did enjoy the services we have provide and we still have a fruitful relationship."*

### **Discussion and conclusion**

This article presents the analysis of an international business discourse on ethnic international entrepreneurship. The study explores how participants with ethnic backgrounds involved in international business explain their business conduct, how they position their identity and international activity in a cultural behaviour context. Thereby this study adds to the research knowledge within the ethnic international entrepreneurship literature. The paper presents exploratory research based on open-ended yet structured in-depth interviews. The study details the start-up and success phenomenon within the international business frame of ethnic entrepreneurs.

Several themes arise as an outcome of the hermeneutic analysis. The participants of this study used several rationales which all belong to the broad theme of culture yet may be classified within four sub-themes: "same culture", "no side-effects of SRC", "being similar by being different", and "same prayer".

The first sub-theme "same culture" is about sharing the same cultural background and refers to people who are doing business with people from their own country or ethnic origin. The second sub-theme "no side-effects of SRC" emphasizes the importance of possessing cultural awareness, having knowledge and respect for dissimilarities in conducting international business. That is to say, being able to get rid of the side effects of the self reference criterion (SRC). The third sub-theme "being similar by being different" literally means that people think that being different makes them look similar in their sharing divergence from the main culture they represent or work in. Hence, they both assume to

know all aspects of what being from a different culture involves and means. Finally, the fourth sub-theme “same prayer” attempts to explain people’s perceptions on sharing the same or similar religions which provides them with a confidence of “We have the same god so we must be similar” understanding.

The selected methodology makes these results alone restricted for generalising to a larger population. Quantitative studies are needed for further testing and assessing the outcomes of this exploratory study. Contributions of this study in a managerial context are the provision of various views and rationales participants use in their decision of foreign market entry selection.

Interesting while we believed existing networks and relationships would have a considerable impact on their decision to internationalise in specific countries, our findings do not support this belief. Rather we find that it is their ethnic background, which enhances the relationships and networks they formed through internationalisation. The fact that they are ethnic entrepreneurs is clearly important but not in the way that we had expected. This leads us to the realisation that further research is required to investigate this finding and to see if it holds true in other contexts.

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