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Kloosterman, R.C.; Rath, J.C.

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## Chapter 3

### Shifting landscapes of immigrant entrepreneurship

by

Robert Kloosterman and Jan Rath  
University of Amsterdam

#### Summary

Immigrant entrepreneurship still comprises small stores confined to the lower segment of markets. Nowadays, however, immigrant entrepreneurs are becoming visible also in high-value activities which characterise advanced urban economies. This transformation was partly the result of the increasing level of educational attainment of many immigrants and members of ethnic minorities, but it was also driven by the shifts in the structure from industrial to post-industrial economies, which occurred in the last two decades.

The potential of self-employment to open up avenues of upward social mobility has, thus, further increased. The qualitative shift from low-value to high-value added business occurring among parts of the immigrant population, moreover, has emphasised the potential significance of immigrant entrepreneurs for the national and, in particular, the local economies in the countries of settlement. Given its strategic importance for, on one hand, the integration of immigrants in the countries of settlement, and, on the other, the potentially significant contribution to the economies of these countries, immigrant entrepreneurship scores high on policy makers' agendas across the OECD member states.

The chapter presents a framework to analyse immigrant entrepreneurship and its potential contribution to immigrants' social incorporation based on the *mixed embeddedness approach*, which stresses the interplay between opportunities for business, on the one hand, and immigrant entrepreneurs and their resources on the other. It, then, explores how regulation may affect markets and, therefore, opportunities. Regulation come in different forms, in complex packages that define what is "possible" in a market. It is, thus, not just a matter of repression and constraining but also of enabling. From this perspective, the chapter gives also a brief overview of the main characteristics of the actual policy measures implemented to strengthen immigrant entrepreneurship.

The actual policies implemented in order to promote immigrant entrepreneurship focus mainly on the *agency* of the entrepreneur, rather than the *opportunity structure*. Moreover, they seem to be mostly geared to the nascent entrepreneurs and to a much lesser extent to the already established immigrant and ethnic entrepreneurs. A new set of policies specifically aimed at immigrant entrepreneurs in vacancy-chain markets and, at the same time, a revision of the regulations (national and local; formal and informal) that

still hamper immigrant and other entrepreneurs in post-industrial activities, should be put in place in order to increase the potential that immigrant and ethnic entrepreneurship has, nowadays, both to foster immigrants' integration and contribute to the host countries economies.

### 3.1. Immigrant entrepreneurship

Throughout history, immigrants have set up businesses in the places where they settled. Members of certain Diaspora communities, namely the Chinese, Armenian, Lebanese, Jew, Greek, and Italian have been prominent in many countries as entrepreneurs. Entrepreneurship, then, has been an important avenue of insertion and incorporation into the host society and its economy.

In the closing decades of the 20<sup>th</sup> century, self-employment for immigrants and ethnic minorities has become even more important as, on the one hand, flows of immigration increased, and, on the other, opportunities for small business expanded. There has also been a more qualitative shift. Due to rising levels of educational attainment, immigrants from less-developed countries can now also be seen starting businesses in more highly skilled segments such as, for instance, software services or business consultancy.

The archetypical immigrant entrepreneur running a mom-and-pop store is obviously still there, but nowadays a different type of immigrant entrepreneur is also becoming part of the economic landscape in many advanced urban economies. Much better, on average, educated than their predecessors, these immigrant entrepreneurs are not necessarily confined to the lower segments of markets. Instead they often can get access to attractive, expanding markets and they are, typically, not so much pushed to self-employment as pulled by it. Self-employment for immigrants from less-developed economies, then, is nowadays not just seen as merely a second-best solution after regular employment, but increasingly as an attractive option in itself.

The potential of self-employment to open up avenues of upward social mobility for immigrants has, thus, further increased. The qualitative shift from low-value to high-value added businesses occurring among parts of the immigrant population, moreover, has emphasised the potential significance of immigrant entrepreneurs for the national and, in particular, the local economies in the countries of settlement. With the crucial role of entrepreneurs from China and India based in Silicon Valley in organising global commodity chains in software products in mind, immigrant entrepreneurs are now also seen as actors capable of boosting competitive strength in advanced urban economies (Rath, 2007). A diverse and entrepreneurial population, more generally, has come to be seen as a precondition for economic growth (Florida, 2002). Immigrants can add, in principle, to the entrepreneurial population in terms of numbers but also in terms of new ideas, products, practices, markets, and contacts (Brandellero, 2008).

Given its strategic importance for, on the one hand, the economic (and, arguably, socio-cultural) incorporation in the countries of settlement, and, on the other, the potentially significant contribution to the local (and national) economies of these countries, immigrant entrepreneurship scores high on policy makers' agendas across the OECD member states. Academic researchers have been looking at immigrant entrepreneurship for quite some time now (especially after 1990) and a considerable body of literature on immigrant entrepreneurship has been created. This body comprises mainly studies focusing on particular aspects of immigrant entrepreneurship (specific groups, places, sectors, resources, etc.). More general overviews dealing both with the conceptual

and the empirical aspects of immigrant entrepreneurship in several countries (Waldinger, Aldrich, and Ward, 1990; Gold and Light, 2000; Kloosterman and Rath, 2003; Van Tubergen, 2005; Panayiotopoulos, 2006) are much scarcer. This has partly to do with the fact that much researchers have tended to focus on more unique – notably the apparent “ethnic” – aspects of entrepreneurship.

Definitional difficulties have also hampered international comparisons. First, definitions and practices of statistical registration regarding what can be considered an “ethnic minority” or can be labelled as a member of the immigrant population differ across borders partly because the underlying processes of social construction of “otherness” along ethnic lines are rooted in specific local and national contexts. The use of the term *ethnic entrepreneurship* can also conjure up images of something essentialist ethnic about these entrepreneurs while “ethnicity” is anything but fixed or taken for granted. With this caveat in mind, we nonetheless use the term *ethnic* and *immigrant entrepreneurship* interchangeably and thereby refer to self-employment of persons who have recent roots – either themselves being born or (one of) their parents – abroad and, hence, tend to be seen as non-mainstream. Secondly, but to a lesser extent, this also holds true with respect to what constitutes self-employment and how this is registered (Kloosterman and Rath, 2003). In this latter case, we just pragmatically accept a country’s definition and registration of self-employment.

Given these difficulties, international quantitative comparisons of immigrant entrepreneurship have to be treated with care, but whatever their shortcomings, there is no doubt that significant differences between specific groups, cities, sectors, countries exist. Immigrant entrepreneurship is, hence, anything but self-evident. There might be a whole array of opportunities in today’s post-industrial cities, but perceiving them and, subsequently, grasping these chances is contingent on various factors on the side of the (potential) entrepreneurs themselves, the economic opportunity structure, and the rules regulating access to the different segments of the opportunity structure. Unravelling some of the key relationships between nascent immigrant entrepreneurs, on the one hand, and the broader opportunity structure, on the other, then may enable us to identify policies which – intended or not – thwart the grasping of entrepreneurial opportunities, or devise policies which will enhance the chances of immigrants becoming (successful) entrepreneurs.

Presented below is a framework to analyse immigrant entrepreneurship and its potential contribution to social incorporation based on the *mixed embeddedness approach* which emphasises the interplay between opportunities for businesses, on the one hand, and immigrant entrepreneurs and their resources on the other (Section 3.2). Section 3.3 explores how regulation may affect markets and, therefore, opportunities. A separate discussion is devoted to an analysis of the characteristics of the actual policies aimed at fostering immigrant entrepreneurship in 32 European countries. The fourth and last section is a summary of implications of our findings.

### 3.2. Matching entrepreneurs with the opportunity structure<sup>1</sup>

The kind of business an immigrant starts and its role in the immigrant’s process of incorporation is, evidently, contingent on the resources this aspiring entrepreneur can mobilise. The entrepreneurial spirit that reigned supreme in the last quarter of the 20<sup>th</sup> century emphasised the role of the individual. In line with this individualistic view, much research on entrepreneurship has been devoted to the actors themselves, mapping

their personal characteristics and backgrounds. In some cases, when variations between nations had to be dealt with, attention was also paid to the constraints facing these aspiring and nascent entrepreneurs. The difficulties of getting finance or the liabilities of the tax system were, for instance, also taken into account to explain variations in entrepreneurship (Thornton, 1999; Blanchflower *et al.*, 2001). The supply side of the fictitious entrepreneurial market, however, remained central in these neoclassical inspired approaches (Casson, 1995).

As researchers looking at *immigrant* entrepreneurship were confronted with significant variations between different groups of immigrants, they moved beyond this individualistic approach and started looking for explanations on the level of groups (Light 1972; Waldinger, 1986; Light and Bonacich, 1988; Light and Rosenstein, 1995). Neither personal traits nor differential access to finance could explain the observed inter-group variations. The wider societal context had to be invoked as certain groups of immigrants were pushed towards self-employment due to specific obstacles (*i.e.* discrimination) on the labour market for these groups. In addition, group characteristics, especially cultural traits, were also investigated as potential explanations for differences in entrepreneurship.

Later, the potential set of resources that entrepreneurs may command was crucially widened by adding social capital to human, financial and cultural capital: people's proclivity for entrepreneurship and their entrepreneurial success – or lack of it – were related to the size, density and nature of their social networks and the possibility to mobilise these networks for economic purposes. *Social embeddedness* has become a widespread and very fruitful approach to entrepreneurship, in general and immigrant entrepreneurs in particular (Granovetter, 1983, 1995; Waldinger, 1986; Uzzi, 1996, 1997; Portes and Sensenbrenner, 1993; Light and Gold, 2000; Cahn, 2008).

Granovetter (1995) went beyond that and he has distinguished two types of embeddedness: relational and structural embeddedness. *Relational embeddedness* refers to “economic actors” and involves personal relations with one another. Immigrant entrepreneurs are thus embedded in a (relatively) concrete network of social relations with customers, suppliers, banks, competitors, and, not to be ignored, law enforcers. *Structural embeddedness* relates to the broader network to which these actors belong. This concept seems to transcend direct personal relations. Although Granovetter (1995) specifically makes a distinction between “social relations” and “institutional arrangements or generalised morality”, he does not spell this latter category out in any detail and no notion of opportunities is referred to (see also Zukin and DiMaggio, 1990; and Krippner, 2001).

Enriching the analysis by including cultural traits and other, more elusive, resources as social capital on the supply side has, however, proven to be insufficient for grasping entrepreneurship. The other part of the equation, the demand side – or in other words, the set of opportunities that can be discovered and exploited by individual entrepreneurs – cannot be ignored in explaining entrepreneurship (Thornton and Flynn, 2003; Ibrahim and Galt, 2003). The set of options actors or, in this case, entrepreneurs face is also shaped and conditioned by macro-structures (Power, 2001). Roger Waldinger *et al.* (1990) have pioneered the inclusion of the opportunity structure in analysing immigrant entrepreneurship (see Rath, 2000b for a critical appraisal).

The concept of *mixed embeddedness* has been put forward as another *interactionist approach* to encompass both actors (the immigrant entrepreneurs) and the opportunity structure in a more comprehensive analytical framework (Kloosterman *et al.*, 1999; Kloosterman, 2000; Rath, 2000a, 2002; Engelen, 2001; Kloosterman and Rath, 2001;

Kloosterman and Rath, 2003, 2005 and 2007; Light, 2005; Rusinovic, 2006; Brandellero and Kloosterman, 2009; Kloosterman, 2010a, 2010b). This analytical framework combines the micro-level of the individual entrepreneur and his or her resources, with the meso-level of the local opportunity structure, and links the latter, in more loose way, to the macro-institutional framework. Doing this, the insights on the resources necessary for an (aspiring/nascent) entrepreneur will be combined with the views on opportunity structures. Moreover, as the dynamics of the opportunity structure are explicitly part of the model, we are able to deal with changes in the local economy. With this innovative analytical framework we can address the question how patterns of variation in immigrant entrepreneurship – between groups, sectors, between place and between countries, and between historical periods – can be explained systematically. Although the analytical framework is devised for explaining immigrant entrepreneurship, it can also be applied to business start-ups more generally.

Opportunities for entrepreneurs in capitalist societies are intrinsically linked to markets (Kloosterman and Rath, 2001). Opportunities occur in markets: there has to be a sufficient (perhaps as yet still latent) demand for a certain bundle of products otherwise no entrepreneur can make a living. Markets are, thus, in our perspective, the crucial components of the opportunity structure. Openings for new businesses occur or are created in specific, identifiable product markets. Setting up shop in a particular market, consequently, entails a delineation of a specific set of products, opting for a specific set of possible production processes, and targeting more or less identifiable group(s) of clients delimited in time and space (Swedberg, 1994, p. 255).

To be able to start a particular business in a market where a demand seems to exist, an aspiring entrepreneur has to have the right kind of resources (financial, human, cultural, and social capital, and, arguably, also ethnic capital). Markets, in other words, have to be *accessible* for entrepreneurs. Most aspiring entrepreneurs, and this holds *a fortiori* true for immigrant entrepreneurs, tend to lack financial resources or do not have easy access to significant funds (Wolff and Rath, 2000). This implies that, generally speaking, these aspiring entrepreneurs can only start a business that requires a relatively modest outlay of capital. Forms of highly capital-intensive (mass) production necessitate large *minimum efficient scales* and are, hence, not very accessible for these newcomers (Chandler, 1994). It is therefore hard to find business start-ups by individual entrepreneurs in lines of mass-production or mass-distribution. We do find newcomers in small-scale businesses in manufacturing but as a rule only where economies of scale are hard to achieve.<sup>2</sup>

New businesses that require only small initial outlays can differ considerably in their needs with respect to another crucial resource: human capital. To start, for instance, a hairdresser's shop not much is needed in terms of (formal at least) educational qualifications. This is, of course, very different in the case of many producer services (*e.g.* consultancy) or highly innovative manufacturing such as the famous start-ups in Silicon Valley of the 1990s (Saxenian, 1999, 2002, 2006). Both require highly skilled entrepreneurs. The necessary educational qualifications are, however, not only determined by the intrinsic qualities of the work involved, but also in many cases stipulated as part of state regulations. The success of immigrant entrepreneurs in Silicon Valley is undoubtedly related to United States' favourable immigration regime and certainly the extension of tenth of thousands H1B visa. We will address the impact of the regulatory regime below more in detail.

If we look at the immigrant population, we note a marked polarisation with regard to the skill level. In many advanced economies, we can observe large contingents of highly

skilled professionals from non-OECD countries. Their rise is partly a result of a shift to immigration policies favouring – in various ways – high-skilled immigrants (Docquier and Marfouk, 2004). On the other end of the scale, there are also, still, large numbers of low-skilled immigrants (Held *et al.*, 1999, pp. 324-325; Waddhwa *et al.*, 2007). To understand immigrant entrepreneurship, we have to take both poles into account and realise that immigrants can also start a firm that needs high levels of (formal) human capital. The relevant set of opportunities open to aspiring immigrant entrepreneurs therefore consist of openings for small businesses along a broad continuum of skill qualifications from only primary schooling (or even less) to college and university degrees. The great divide here runs parallel to that on the labour market: between primary schooling and the rest.

The opportunity structure is not just important for the number and the sort of openings with respect to the necessary human capital it offers for new businesses. An essential characteristic of the opportunity structure and its openings also involves the chances present for expansion of the fledgling businesses. Are these markets that are open to (immigrant) entrepreneurs with relatively modest financial means characterised by long-term growth or, on the contrary, by structural decline? Urban economies tend to have sunrise and sunset economic activities and these dynamics create changes in the opportunity structure. With the transition from industrial to post-industrial economies, the profile of the opportunity structure has changed significantly and increased opportunities for small firms in general (Kloosterman and Rath, 2001).

Openings for immigrant entrepreneurs, as Roger Waldinger (1986; 1996) has showed, do not only occur in markets that structurally expand, but also in markets that shrink on a long-term base. As long as the outflow of the indigenous and longer established immigrant entrepreneurs out of these sunset markets is larger than the rate of contraction, openings are being formed. It can be expected that the perspective for eking out a decent living in these so-called vacancy-chain openings is quite different from that in structurally growing markets. In other words, the patterns of socio-economic incorporation of immigrant entrepreneurs may crucially hinge on the *growth potential* of a market. This growth potential can be measured by looking at the structural trends in the total employment and/or turnover in a specific market. As we are interested not just in immigrant entrepreneurship in itself, but also in the relationship between entrepreneurship and upward social mobility, the growth potential has to be included in the model of the opportunity structure.

By focusing only at that part of the opportunity structure where relatively modest outlays of capital are needed, the variable financial capital is, in effect, held constant. Barriers in the form of rules and regulations, both formal (*e.g.* legally excluding immigrants from setting up a business by withholding permits to foreigners) and informal (*e.g.* social closure by business associations by, for instance, blocking aspiring immigrant entrepreneurs from office spaces), are also left out at this stage. They will be treated below. In addition, accessibility of markets is defined in relation to the level of human capital that is needed to start a business. The other resources, social (and ethnic) capital, will be dealt with when analysing the resources needed for starting and maintaining a business in a particular segment of the opportunity structure as the relationship between social capital and accessibility of the opportunity is anything but straightforward. Unpacking the opportunity structure along two dimensions is just the first stage of the mixed embeddedness approach.

The model of the opportunity structure aims at dealing with two significant changes in the supply side (*i.e.* more high-skilled immigrants from non-OECD countries) and the demand side (new opportunities which arise due to the post-industrial transformation of urban economies that has increased opportunities for small firms in general due to the shift to services, outsourcing, market fragmentation and the availability of cheap ICT) in the last two decades. The model has been constructed to be able to deal with new forms of immigrant entrepreneurship as well and it allows us to go beyond the “traditional immigrant entrepreneur” with his business firmly stuck at the lower end of the market in either small-scale retailing or cheap restaurants (Haller, 2004). Its genesis then is partly based on empirical observation of new developments in immigrant entrepreneurship and partly on analyses of post-industrial urban change and their impact on immigrants (Sassen, 1991; Waldinger, 1996; Kloosterman, 1996, 2000, and 2003; Zhou, 2004; Rath, 2000, 2002, 2007). Below, we have captured these two crucial dimensions of the opportunity structure for new firms, access and growth potential, schematically in a matrix that distinguishes four kinds of markets (see Table 3.1).

**Table 3.1. A typology of the opportunity structure:  
markets split according to accessibility and growth potential**

		Growth potential	
		<i>Stagnating markets</i>	<i>Expanding markets</i>
Human capital	<i>High thresholds</i>	Stagnating, high-skilled markets	Post-industrial/ high-skilled markets
	<i>Low thresholds</i>	Vacancy- chain markets	Post-industrial/ low-skilled markets

### ***Stagnating, high-skilled markets***

The upper left-hand quadrant stands for openings that require a relatively high level of human capital, but that are located in markets that are either stagnating or even in decline. Given the fact that the level of human capital that is needed in these markets could also give access to openings in expanding markets or, if one also includes the job market, to jobs that might be much more rewarding. It might be the case, that non-monetary rewards (*e.g.* honour and prestige, independence) compensate for this or that strong discrimination in the labour market has blocked other possibilities for high-skilled immigrants. In both cases, chances for upward mobility are slim. For now, these openings seem, on the whole, not very likely to attract many immigrant entrepreneurs and we will leave it aside below.

### ***Vacancy-chain markets***

At the bottom left-hand of the quadrant, we find markets that are easily accessible and, consequently, attractive for many aspiring immigrant entrepreneurs. Starting a business here does not require much human capital: as we are dealing with small-scale, low-skilled, labour-intensive production.<sup>3</sup> In terms of *growth* potential, they are, however, less promising, as the demand in these markets (at least after products supplied by small firms) is, at best, stagnant and profits are accordingly low. Notwithstanding the stagnating demand in these kinds of markets, openings are created, as already indicated, through the *vacancy-chain process* whereby established entrepreneurs leave the lowest – in terms of prospects and work conditions least attractive – rungs of the ladder and thus create room for newcomers (Waldinger, 1996; Rath, 1999; Kloosterman and Van der Leun, 1999;



2003). Even with a significant number of entrepreneurs moving out, many of these kind of markets still tend to be near or past the point of saturation as (new) immigrants continuously seek fortune there and start businesses. Given the likelihood of cutthroat (price) competition in these stagnating markets, the failure rate will also be relatively high. We find these kind of accessible and stagnant markets in, for instance, small-scale retailing such as groceries and bakeries and in the lower segments of the restaurant business. Snack bars are a good example of the latter. In the Netherlands, this type of very small-scale (mostly take-away) restaurants is declining, partly because of the competition by McDonald's and other hamburger chains, and also partly due to the extension of opening hours for supermarkets. Dutch entrepreneurs are quitting the snack-bar businesses, but immigrants (especially Turks and Egyptians) are on the increase. This intense competition in combination with small-scale, low-value added production with low-skilled labour as the main input will provide a very fertile environment for the deployment of informal economic strategies (Cross, 1995; Kloosterman *et al.*, 1998, 1999; Rath, 2002). Specific forms of light manufacturing thriving on low-skilled labour that has to be located close to large (urban) markets and, hence, cannot be easily relocated to low-wage countries may also fall under this heading. The small-scale manufacture of clothing in sweatshops has typically seen not only a concentration of immigrant businesses but also a succession of different immigrant groups (Waldinger, 1986; Dicken, 1998; Rath, 2002). The markets in this quadrant are, arguably, the traditional and quintessential breeding grounds for immigrant entrepreneurs in advanced urban economies.

Markets that are easy accessible are, in a sense, a mixed blessing. The low threshold, on the one hand, enables entrepreneurs with relatively modest resources to get access. On the other hand, however, many aspiring entrepreneurs may opt for the same markets to start a business. If, as in this case, the markets are stagnating or even shrinking, the number of firms may be continually at or even over the point of saturation resulting in cutthroat competition on a permanent base. Competition in these markets tends to be mainly on price and not on quality. To be able to survive, entrepreneurs have to do nearly everything to reduce labour costs, the main input in these businesses. As their resources in terms of financial and human capital are, by definition, limited, they have to put in long hours against low wages. Employing other people – first and foremost family members – can only be done at very low wages, frequently beneath the legal minimum wage. Resorting to informal methods of production is a structural feature of these kinds of businesses (Kloosterman *et al.*, 1998). Survival may even depend on the deployment of informal strategies. Informal production on a more permanent base requires a specific kind of social embeddedness as trust is essential for economic transactions which are kept outside the books and where, hence, an appeal to the formal judicial system is not very likely (Portes, 1994). In most cases, this will mean a strong embeddedness in the ethnic community and social capital may then largely overlap with ethnic capital. Many businesses that started in vacancy-chain openings are not just dependent on social/ethnic capital for their inputs (mainly labour), but also for their customers. If the customers are predominantly co-ethnics, we are dealing with an ethnic market.

Chances of becoming successful in vacancy-chain business, then, are rather slim. In a regular vacancy-chain opening, it is hard to keep out other competitors. In the special case of an ethnic market, the pool of potential entrants is more limited as they can only come from the same group of immigrants, which may take more time. However, if certain groups, at some stage, are able to close-off particular opportunities by controlling access to information, office spaces of vacancies relating to these openings, other groups may be

kept out and *niches* created (Waldinger, 1996; Rath 2000b). This requires a high level of group cohesion and group identity in combination with a set of opportunities that is sufficiently transparent and limited to be monitored and controlled. If these informal barriers cannot be raised, competition will remain fierce and prospects poor. Ethnic markets form no exception, although entrepreneurs in these markets may have an easier start catering to captive markets and it may take longer to reach the point of saturation. However, as said, captivity works both ways: after a while the immigrant entrepreneurs may become trapped in the confined markets of co-ethnics.

The only way out (and up), then, is by breaking-out (Barrett *et al.*, 2001; Engelen, 2001). Breaking-out would translate into a *movement* of an immigrant firm in our model from the bottom-left quadrant to the right, either the bottom-right (more likely) or the top-right (less likely). Such a move to other more promising (*i.e.* growing) markets would seem rather difficult for many entrepreneurs that have started in vacancy-chain openings, as their profile of resources is hard to change. First, it is hard to accumulate financial capital in markets that are characterised by fierce competition. Secondly, the same could be said for human capital, although more informal skills (notably marketing knowledge) can be acquired through on-the-job training and experience. The breaking-out of Turkish bakeries in Amsterdam from their captive “ethnic” market to more mainstream markets involving changes in products, presentation and marketing is an example of this kind of breaking-out that only could occur after the entrepreneurs perceived the new opportunities and after they acquired the necessary (informal) skills to implement these changes. Thirdly, social capital and especially ethnic capital, in these businesses is, we postulate, mostly deployed to reduce labour costs than used to move to new markets. “Strong” ties that enable informal production are less needed in the case of breaking-out, instead “weak” ties that make the transfer of strategic information about other markets possible are required (Granovetter, 1983). The “other side of embeddedness” comes into play here: specific forms of strong embeddedness may even hamper successful incorporation at a certain stage (Waldinger, 1995; Rath, 2003).

The likelihood of becoming part of an ethnic Lumpen-bourgeoisie does not offer a very attractive prospect. Only those aspiring entrepreneurs that do not have many other options will chose for this. They have to be pushed to these vacancy-chain openings by sheer discrimination (excluded from the job market or being offered lower wages) or, more generally, by high rates of unemployment (Hayter, 1997; Clarke and Drinkwater, 2000; Esping-Andersen, 1998).

### ***Post-industrial/low-skilled***

The bottom right-hand side corner contains low-threshold markets with a high growth potential. This is not, as one may tend to think, an oxymoron. Post-industrial societies are evidently capable of generating these kinds of markets, especially in personal services (Piore and Sabel, 1984; Reich, 1991; Kloosterman, 1996; Odaka and Sawai, 1999; OECD, 2000). Highly accessible markets are not necessarily confined to those with a lack of growth potential. They may also be found in markets that are in earlier phases of the product-lifecycle. These dynamic markets offer openings for newcomers who are open to more innovative approaches. These markets do not require special skills or large outlays of capital and may, therefore, also be open for newcomers from less-developed countries. In addition, the regulatory regime usually lags behind the actual developments, and, hence, the rules on the educational qualifications that are needed to start a business may (still) be rather meagre or even almost non-existent. This holds true, for instance, in

rapidly developing markets in the sphere of personal services where two-earner couples are fuelling demand for a whole array of services, from housecleaning to pet-care activities. Rapidly growing markets may also be found in the case of markets where previous activities were monopolised by the state, but are now turned to market as a part of the drive towards privatisation. The market for postal services and parcel delivery (gradually liberalised in many European countries) may fall under this heading. One can also refer to the immigrant firms that build stage sets for the movie industry in Hollywood (Scott, 2005) and to the South-Asian immigrants in Birmingham producing bhangra music (McEwan *et al.*, 2005). These markets are, surely, very attractive for aspiring entrepreneurs – immigrants and indigenous alike. Being appealing to indigenous entrepreneurs, they may attempt to construct barriers for immigrants by, for instance, demanding minimum educational qualifications to try to close-off this market and create protected *niches* (Waldinger, 1996).

These openings resemble vacancy-chain openings by being highly accessible. They do, however, differ in one crucial respect, namely growth potential. These markets are structurally expanding as demand is increasing on a long-term base. Competition, accordingly, is of a different nature and entrepreneurs opt, we hypothesise, for different strategies, which in their turn involve another set of resources. Moreover, being in the vanguard of economic transformations, many of these markets (notably personal services) are catering for more affluent customers than vacancy-chain businesses. As markets grow, there is much less pressure on entrepreneurs to cut corners and drive down prices by reducing labour costs in informal ways. The need to be firmly embedded in an ethnic community is, we postulate, much less. In addition, given the different composition of the consumer constituency, entrepreneurs exploiting these openings can benefit from extensive social contacts with other groups, especially the (more affluent) indigenous population. Being embedded in heterogeneous social networks may even constitute a prerequisite for starting a business there, as information of new consumption habits is essential.<sup>4</sup>

The different make-up of the social capital involved and the greater prospects of capital formation due to higher margins make chances of upward mobility considerably greater than in vacancy-chain openings. We can expect then that aspiring entrepreneurs, if they are able to access heterogeneous social networks, will be *pulled* towards these openings. Even if discrimination is not significant and unemployment among immigrants is low, people may still opt for this kind of self-employment that may open up avenues of upward mobility. The post-industrial transformation of urban economies may offer even low-skilled immigrants, therefore, a new perspective.

### ***Post-industrial/high-skilled***

The fourth and last type of market is the one characterised by, on the one hand, a high threshold in terms of human capital, and, on the other, a large growth potential being in the early phase of the product life-cycle. This type of market, top right-hand corner, is usually associated with the brave new, dynamic world of high-tech capitalism where innovative Schumpeterian entrepreneurs can make fortunes within short span of time. As Anna Saxenian (1999, 2002, 2006), Min Zhou (2004) and Katja Rusinovic (2006) have shown, more and more immigrants from non-OECD countries – albeit with an educational system that in some segments can compete with those in OECD countries (such as Turkey, China and India) – are starting businesses in these markets. In addition, to high-tech firms, we also find small firms that combine high demands in terms of

human capital with a significant growth potential in producer services (e.g. consultancy, law and advertising firms). Both highly educated first-generation and notably second-generation immigrants can be expected to start a business in this attractive and expanding segment of post-industrial urban economies.

To a large extent, the same kind of reasoning with respect to strategies, resources and trajectory of incorporation applies to opportunities that are characterised by a considerable growth potential but, in contrast, to the openings just mentioned, come with much stricter demands regarding human capital. Competition tends to be on the unique qualities of a product and this can be either based on high-tech (ICT) or high-concept (e.g. producer services and cultural industries) activities (Kloosterman, 2004). Almost only immigrants with high educational qualifications can start a business here.

A significant number of highly educated immigrants now come from non-OECD countries (Docquiera and Marfouk, 2004). The increasing possibilities to get a good education at home or abroad have helped to create a large pool of mobile entrepreneurial immigrants. If they are able to secure a residence permit and their educational qualifications are acknowledged, they are in much the same position as highly qualified indigenous entrepreneurs. The difference, however, may lie in the composition of their social networks. If they are only embedded in homogeneous ethnic networks, they may run into the same difficulties as their lesser skilled counterparts and not be able to connect with the growing markets in their place of settlement. This obstacle may be however less of a problem if they have established inter-ethnic relationships or if they are well connected transnationally as the Chinese entrepreneurs in Silicon Valley (Saxenian, 1999, 2002, 2006; Taylor and Leonard, 2002). Theoretically, these kind of immigrant entrepreneurs may be strongly embedded in their in region of origin and rely on strategic suppliers over there, while being located close to important consumers markets without local strong ties. This may be the case in some high-tech branches selling directly to consumer markets, but not in producer services where strong ties with customers are essential. Again, heterogeneous social capital is a decisive resource that helps to discover and exploit the post-industrial/high-skilled opportunities.

Much literature on immigrant entrepreneurship has focused on a specific kind of category of opportunities: the so-called *ethnic markets* (Waldinger *et al.*, 1990; Rusinovic, 2006; Light, 2004; Light, 2005; Panayiotopoulos, 2006). Demand in these markets is for specific “ethnic” products that are in one way or another linked to the region of origin (foodstuffs, perfumes, but also DVDs and CDs with images and music from that area). These markets mostly arise from the articulation of “ethnic demand” as a consequence of the immigration of sufficiently large numbers of specific groups of immigrants. The formation of spatially concentrated settlement of (mainly first-generation) immigrants in urban areas strongly contributes to the articulation of this demand. Immigrant entrepreneurs are usually much better positioned to benefit from these opportunities as they tend to have the required knowledge of products, suppliers, and consumers. They have, moreover, the necessary credibility to cater for these niche markets of co-ethnics. Ethnic markets are, in most cases, rather limited. These markets tend to be *captive* markets, but captivity here is a double-edged sword. It attaches customers to the firms of their co-ethnics and helps in the first difficult phase. However, at a later stage, these same entrepreneurs may run against the constraints of these specific markets (Ram *et al.*, 2000). Expanding the business, then, comes down to broadening the consumer base and stepping out of the ethnic market.

Given the variety of ethnic markets (and more specifically the range in the barriers of entry), they are not considered as constituting specific openings. They can be found, in principle, in each of the four sets of openings that we have identified above. When a shop is taken over by an immigrant, a vacancy-chain opening, it can orientate itself mainly to co-ethnics as, for instance, has happened with many bakeries and groceries in former working-class neighbourhoods. We can also find services such as consultancies or travel agencies that are primarily catering to ethnic markets. Given the fact that they are subject to the same general conditions of accessibility and growth potential as immigrant businesses that from the onset are oriented towards broader markets, we consider ethnic markets, in principle, special cases of the four types of openings of the opportunity structure model. They are special in the sense that they may offer a – at least temporarily – protected niche for immigrants. In many cases, however, either the entrepreneur will try to escape the limits of the ethnic market (breaking-out) or the ethnic market itself will be eroded by the dynamics of the specific ethnic group (*e.g.* spatial dispersal, shifts in taste towards mainstream) or by mainstream businesses breaking into ethnic markets and selling “ethnic” products (Engelen, 2001). The tourism and leisure industry may be a case in point, especially where immigrant entrepreneurs carve out a niche by marketing ethnic diversity and by selling (real or perceived) “ethnic products” (Pang and Rath, 2007; Rath, 2005, 2007). Lastly, whereas the four types can be determined in advance on the basis of the two dimensions that refer to structural characteristic of markets (meso-level), ethnic markets can only be identified by looking at the individual firm and analysing the composition of the consumer population (micro-level).

### 3.3. The role of regulation<sup>5</sup>

Markets are not just places where demand and supply meet. They are first and foremost social constructs embedded in specific socio-cultural and institutional contexts with different sets of regulations that differ across time and place. Markets can be regulated along several dimensions. There are regulations pertaining to products, suppliers, customers, contracts, and expected behaviour (Engelen, 2001). Regulations may thus outlaw, effectively ban, or – on the contrary – promote certain products, suppliers, customers, or ways of dealing with each other. Markets are always regulated in one way or another, even if the form and level of regulation might vary. Regulation is not an isolated phenomenon; it is contingent on prevailing models of allocating economic citizenship rights to economic actors and on the division of labour between market, state, and family. These models, contradictory and incomplete as they might be, stipulate which goods and services and which actors have legitimacy when it comes to market exchange, and under which conditions market exchange and price fixing take place. This way, regulations may make it more difficult or easier for newcomers such as immigrant entrepreneurs to explore certain opportunities for businesses. To get a better handle on immigrant entrepreneurship, we thus have to take a closer look at how markets can be regulated.

Regulation comes in different forms. There are “sticks”, which Ewald Engelen refers to as “legislation *per se*”, “carrots” (financial incentives and disincentives), and “sermons” (persuasion), all different forms in complex packages that define what is “possible” in a market. Nor should regulation be confused with state regulation. A multitude of agents play a role in regulation processes, such as local, national or international governmental agents, unions, quangos, non-profit organisations, voluntary

associations, and individual and their social networks. Regulation can be manifested in thick or thin ways or, in other words, it can either be imposed or enforced or be more a matter of voluntary action sanctioned by particular social groups. Even in cases where legislation *per se* seems non-existent or is conveniently put aside, as might be the case in the informal economy (see Kloosterman *et al.* 1999; Portes, 1994; Rath, 2000b, 2002), economic transactions by individuals are still regulated in one way or another. However, rules themselves only go so far, they also have to be enforced. This holds true for formal as well as informal forms of regulations.

Regulation is, moreover, not just a matter of repression and constraining, but also of enabling. Suppressing illicit practices such as dodging taxes and labour and immigration laws by prosecuting the perpetrators are important manifestations of regulation (repression), but so are decisions to tolerate these practices and not prosecute them. The plethora of business support programmes also constitutes forms of regulation. Oc and Tiesdell (1999) and Ram (1998) describe how governmentally sponsored Training and Enterprise Councils and Ethnic Minority Business Initiatives target particular social groups and try to support their market position. Light and Pham (1998) describe the success and failure of efforts by the government and private financial institutions to give micro-credit to micro entrepreneurs in the United States. Successful or not, these are efforts to change the market landscape and as such they are forms of regulation. Van Niekerk and Rath (2008) and others made an inventory of the various ways in which 32 European countries have tried to strengthen immigrant entrepreneurship. An overview of the results of this study can be found in the dedicated box at the end of this section.

Regulation is not just a matter of local or national actors. Some forms of regulation have a global sweep. The international garment production and trade are governed by the supranational Multi-Fiber Arrangements and the World Trade Organisation (Appelbaum and Gereffi, 1994; Mitter, 1986; Raes, 2000a and 2000b). Other forms of regulation govern the national economy, as in welfare state regulation (Esping-Andersen, 1990), or govern particular locations as in cases of redlining particular neighbourhoods or establishing economic enterprise zones (Green, 1991; Hall, 1996; Kloosterman *et al.*, 1997). Again other forms of regulation target specific sectors (construction, ice cream parlors, prostitution, the garment industry (Rath 2002), or particular social groups (unqualified jobseekers, undocumented immigrants, high-tech professionals; see Engbersen *et al.*, 1999; Saxenian, 1999).

Regulations also affect immigrant entrepreneurship and the opportunity structure in a more indirect way (Kloosterman, 2000; 2010a). Different types of capitalist economies generate different kinds of opportunity structures and different sets of incentives for immigrants to become an entrepreneur. Broadly speaking, the liberal market economies (such as the United States) and the Coordinated Market Economies (*e.g.* Germany) differ in the level of commodification or, in other words, in the scope for certain (post-industrial) markets (*e.g.* childcare, outsourcing of social reproduction) which might be, in principle, accessible for nascent entrepreneurs lacking educational qualifications and financial capital. They also differ in how insiders (workers and often also self-employed) are shielded from the competition of newcomers by creating barriers in the form of rules, laws, and measures aimed at protecting existing enterprises. In Germany, for instance, insiders are (still) considerably better protected against job loss than in the United States. But, the other side of the coin, it is (still) much easier for outsiders to get a foothold in the labour market in the United States than in Germany (see also Esping-Andersen, 1990; Unger, 2010). Given the level and the duration of welfare benefits, outsiders are also more pushed towards active labour market participation in the United States than in

Germany. So, both the set of opportunities and the set of incentives among immigrants or members of ethnic groups may differ across borders and thereby generate diverging profiles of immigrant entrepreneurship in terms of rates, sectoral distributions and chances for upward mobility. These complex and extensive institutional frameworks tend to be multifaceted and interlocked. This makes them prone to path-dependency (Mahoney, 2000). In addition, best practices that serve one country well, may not be suitable for another one.

### **Box 3.1. An inventory of policy measures implemented in 32 European countries to promote ethnic entrepreneurship**

A recent study carried out under the aegis of DG Enterprise provided an inventory of policy measures or support schemes to promote ethnic entrepreneurship in no less than 32 European countries (Van Niekerk and Rath, 2008). The study showed a marked distributional pattern, revealing wide national and local variations. Most measures or schemes were to be found in the north-western European countries, to a lesser degree in southern Europe and least in the central and eastern European countries.

The reasons that may account for these cross-national differences are, first of all, the particular immigration history of the countries involved. Most north-western European countries have experienced massive immigration in the period immediately after World War II, and have developed legal frameworks of welfare arrangements earlier than elsewhere in Europe. Southern European countries were countries of emigration in the early post-war period, and many of these emigrants moved as “guest workers” to north-western Europe. These countries have only recently experienced large-scale immigration themselves. In addition, the size of the immigrant population influences the existence or absence of special policies promoting immigrant entrepreneurship. Few or no measures were found in countries with relatively small immigrant populations, like Malta, Norway, Iceland or Liechtenstein. These countries tend not to develop specific policies for immigrants in general, let alone immigrant entrepreneurs. In other instances, countries may be more concerned with national or historical minorities than with more recent immigrants. This is the case in some of the central and eastern European countries, where many recent immigrants are refugees (from countries like Iraq, Iran or Afghanistan). A special case is the Russians in the Baltic States. Although not immigrants in the strict sense (they only “became” immigrants after the collapse of the Soviet Union) integration policies do focus on the Russians and their native-born offspring.

A second condition that contributes to explaining cross-national variation regarding the policy measures implemented to promote immigrant entrepreneurship relates to the different national policies on immigrant integration and the different conceptions of who is a national and who is seen as a “foreigner” or “immigrant”. Countries like France, where assimilationist policies prevail, generally do not develop specific immigrant policies and define the native-born offspring of immigrants as nationals. Likewise, some southern European countries do not distinguish between nationals and immigrants in their legal frameworks, like for example in Greece and Slovenia. Obviously, this influences the existence of special policy measures and, hence, the smaller number of policy measures and support schemes in these countries found in this study. A third condition pertains to the make-up of the welfare state and the concomitant employment and entrepreneurial trajectories in general and the economic citizenship regimes in particular. Whether or not self-employment is a “natural” way to enjoy economic citizenship rights and whether or not the state is to play a leading role is contingent on the type of welfare regime – liberal, corporatist, socio-democratic, familial, etc.

While the European Commission, notably DG Enterprise, promotes ethnic entrepreneurship, the actual design and implementation of policies in the European Union has been left to the member states. Some measures originate from public policy initiatives and are developed in accordance with public policies, but other measures are the result of interaction between social partners, notably business associations and unions. The latter are more likely to pertain to immigrant (self-) employment, labour relations or the quality of labour in ethnic enterprises.

### **Box 3.1. An inventory of policy measures implemented in 32 European countries to promote ethnic entrepreneurship (*cont'd*)**

The study showed that most policy measures were initiated at the national, regional or local level, with the majority of local initiatives occurring in the United Kingdom, Germany, the Netherlands and Belgium. The level of policy initiation does not necessarily correspond to the funding level: most policy measures were financed by European and/or national funding and most local policy initiatives were (co-)financed by higher-level sources of funding. Particularly, European funding was found to be the first source of funding, as sole source of funding or combined with other sources of funding at the national or local level. National public sources of funding (*i.e.* the central government), as sole sources of funding, followed while the importance of local funding as sole source of funding resulted to be very limited, as local funds are quite often combined with (supra-)national funds. The same applies to private funding.

The measures and schemes were implemented by a wide variety of organisations, ranging from public and semi-public institutions such as Chambers of Commerce, to NGOs and other private organisations such as commercial support organisations and private consultancy firms. In approximately one third of the cases services were provided free of charge. In some cases, participants were expected to pay a fixed fee or registration fee, or they had to pay a fee depending upon the services delivered.

By far most measures or programmes identified in this research were found to focus on the entrepreneurs rather than the opportunity structure and to aim, mainly, at raising awareness on self-employed among immigrants and increasing the human and social capital of immigrant entrepreneurs by providing – often through intermediary organisations – various services, such as advice and information, training, networking and mentoring. The research also revealed that fewer measures are aimed at increasing the financial capital of immigrant entrepreneurs, by facilitating their access to capital. Other services, however, may indirectly improve their chances of getting access to finance – for example assistance in writing business plans.

As to the target population, more than a half of the policy measures found focused exclusively on immigrants, the rest targeting both native and ethnic entrepreneurs. The measures that focus on a mixed target group often form part of a generic policy aimed at assisting vulnerable or socially disadvantaged groups, like the unemployed or women. Since immigrants tend to be overrepresented among these groups, they may be reached by these generic policy measures. Among the measures directed at immigrants only, some targeted specific ethnic or nationality groups, or “newcomers” or refugees. The measures focusing on the Roma in some central and eastern European countries, like Bulgaria, Hungary, Poland and Romania are cases in point. As to the type of enterprise phase targeted, most policy measures or support schemes did not focus on a specific group of enterprises. Rather, they were focused on entrepreneurs in various stages of the enterprise development: most of the measures or programmes involved focused entirely on start-ups, while existing enterprises were targeted only occasionally.

Only a small number of measures or schemes aimed at creating or enhancing opportunities for ethnic entrepreneurs, by fostering the environment that is conducive to immigrant businesses. This included, for example, the empowering of certain depressed city districts or the structural embedding of immigrant ethnic minorities and their organisations into mainstream organisations. Measures aimed at improving market conditions were thin on the ground. It should be noted, however, that the different policy measures are not mutually exclusive and a policy measure or programme may operate at more than one level at the same time.

### **3.4. Options for policy makers**

Immigrant entrepreneurship still comprises small, often somewhat decrepit stores run by recent or not so recent arrivals from former colonies or by former guest workers. More recently, however, a new layer was added when immigrants became visible in high-value activities from the design of software to running advertising agencies. This transformation was partly the result of the increasing level of educational attainment of many immigrants



and members of ethnic minorities, but it was also driven by the shifts in the structure of advanced urban economies which created openings for small businesses that were (nearly) absent a few decades ago. We now find immigrant entrepreneurs in a much wider array of markets and they are, arguably, contributing more to the economies of the places of settlement. Above we have distinguished different types of opportunities and markets and we have indicated which trajectories of incorporation are associated with each of these types. We have also shown that the distribution of these types of opportunities and how they are regulated are partly contingent on the larger institutional framework.

Governmental rules, regulations and practices help shape ethnic minorities' self-employment trajectories. Policy debates and interventions influence the emergence of entrepreneurial opportunities and further development of ethnic business. Policies with respect to immigrant entrepreneurs have been very much part of the broader neoliberal paradigm that dominated much of the policies in developed countries between 1980 and 2008. The policies, then, were directed to create more room for (small) entrepreneurship in general by enlarging markets (privatisation) and by removing barriers to set up businesses (deregulation). The extent and the way in which these policies were actually implemented differed from country to country (Prasad, 2006).

Regarding policies directed partly or wholly at immigrant or ethnic entrepreneurs we also find significant variation between countries. This variation can partly be explained by the country's attitude towards neoliberal policies more in general and small business more in particular. The relatively high number of such policies in the United Kingdom shows the importance attached to entrepreneurship in that country. A second reason for variation can be found in the immigration history of a country. Countries with a more recent experience of immigration seem to lag behind countries with a much longer history of newcomers. Countries such as Spain and Italy only have a few of these policies compared to, for instance, Germany with a much longer post-war tradition of immigration. A third explanation is the way immigrants or ethnic minorities are perceived and defined by the state: France, with its strong emphasis on citizenship, in principle, makes no distinctions on the basis of origin of its citizens and there are, therefore, not many specific policies aimed at immigrants or ethnic entrepreneurs.

Seen from the perspective outlined above, there are, in principle, three options for policy makers to foster immigrant entrepreneurship. The first option is to boost the resources of immigrants in terms of human capital (notably entrepreneurial skills), (access to) financial capital, and social capital. The second option is to increase the opportunities through creating or expanding accessible markets either through change in regulatory regimes or through direct involvement with markets (Kloosterman, 2003). The third option is to make the processes of matching between the (nascent) entrepreneurs and opportunities more efficient.

The actual policies implemented in order to promote immigrant entrepreneurship focus mainly on the *agency* of the entrepreneur, rather than to the *structural* societal conditions of entrepreneurship. The policies seem to be mostly geared towards the nascent entrepreneurs and to a much lesser extent to the already established immigrant and ethnic entrepreneurs. They aim primarily at raising awareness among immigrants to become more entrepreneurial; improving their human and social capital and their access to financial capital. These are all sensible policy goals, but given our analysis of how the opportunities are structured the more or less exclusive focus on start-ups seems to ignore the importance of expanding the resources of already active entrepreneurs. The mixed embeddedness approach shows that to escape the low-wage drudgery of vacancy-chain

markets, entrepreneurs need to expand their resources in terms of human, financial, and social capital.

Most policies tend to take the opportunity structure for granted and aim mainly at the supply side. One could say that privatisation and more autonomous processes of outsourcing by firms and households create more markets while overall schemes of deregulation will lower barriers of entry for entrepreneurs across the board including immigrant or ethnic entrepreneurs. Some policies, however, are more exclusively aimed at increasing access to opportunities for immigrant entrepreneurs by introducing more favourable regulation, and by strengthening intermediary organisations (training bureaus, consultancies, business associations).

Apart from this “soft institutionalism”, there seems to be on the whole an overall lack of understanding of the transformation of immigrant entrepreneurship and the kind of markets (migrant) entrepreneurs are now operating in and how this is related to trajectories of incorporation. We propose, hence, the implementation of a new set of policies specifically aimed at entrepreneurs immigrant in vacancy-chain markets to augment their resources, and at the same time a revision of the regulations (national and local; formal and informal) that still hamper immigrant and other entrepreneurs in post-industrial activities.

## *Notes*

1. This section is mainly based on Kloosterman (2010).
2. Quite recently though, a new phenomenon has emerged as successful entrepreneurs from countries as Brazil, India and China are buying up large firms in the develop economies. The Indian entrepreneur Lakshmi Mittal who bought the steel firm Arcelor is a case in point.
3. Given the labour intensity of production in these markets, we should perhaps also refer to the physical capital needed to sustain long hours of hard work.
4. An example of this are the musicians with a migrant background in Paris who want to make it in the music scene. Lack of heterogeneous social capital, which comprises employees of the music industry who serve as gatekeepers regarding record deals and performances, might even block the very entry to markets (Brandellero and Kloosterman, 2009).
5. This part is mainly based on Van Niekerk and Rath (2008).

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