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A Conceptual Review of Ethnic and Immigrant Pakistani Entrepreneurship in the United Kingdom

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2nd International Conference in Small Business and Entrepreneurship

Nicosia, Cyprus

A Conceptual Review of Ethnic and Immigrant Pakistani
Entrepreneurship in the United Kingdom

24-27/02/2011
Naveed Yasin
(PhD Researcher)

Aim

To explore the various proactive and reactive factors influencing ethnic and immigrant Pakistani's propensity towards entrepreneurship in Britain.

Content

- Ethnic Minority Enterprises in the UK
- Defining Ethnic Minority Enterprises
- International Self-Employment Trends
- UK Self-Employment by Ethnicity
- History of Pakistan
- Hofstede Cultural Dimensions applied to Pakistan
- Key Themes
- Sojourners and Settlers
- First and Second Generation
- Racism and Enterprise
- Regulations and Enterprise
- Cultural Factors including Religion
- Muslim Businesses
- Social Capital
- Ethnic Enclaves
- Conclusion

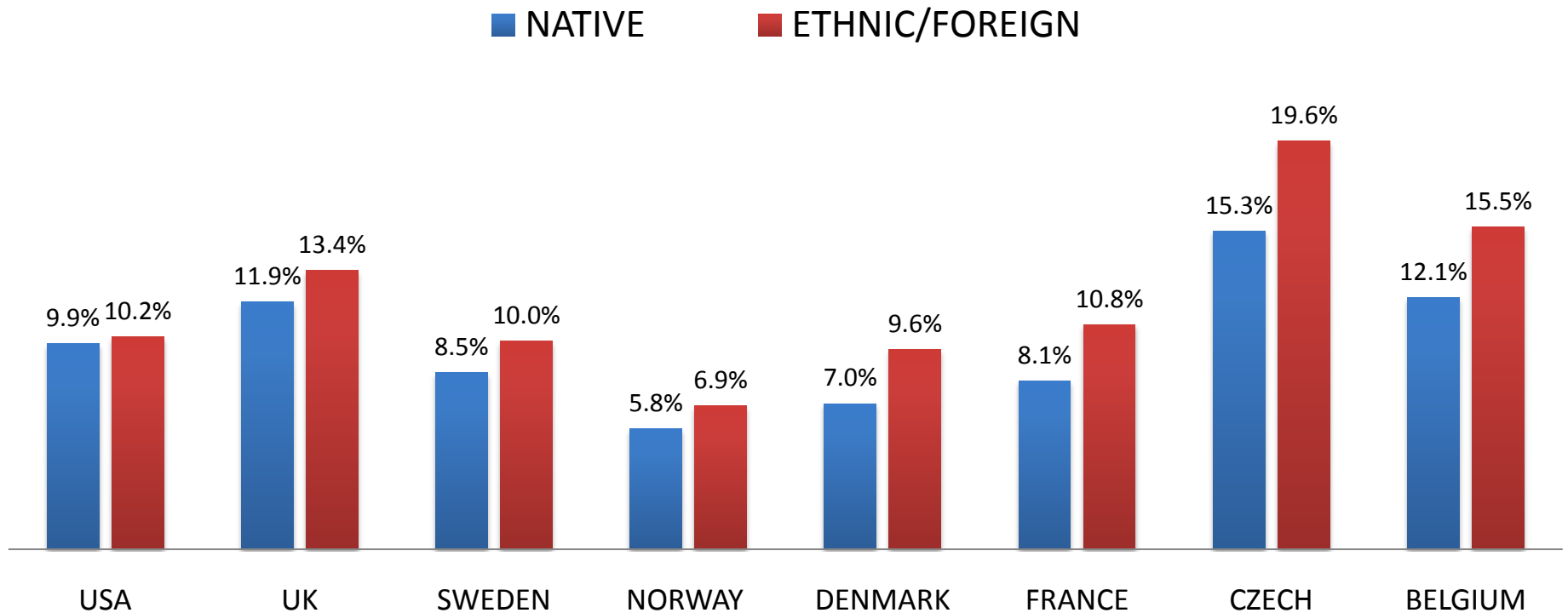
Ethnic Minority Enterprises in UK

- Immigrant entrepreneurs represent 13.4% in the statistics published by the in entrepreneurship compared to 11.9% of entrepreneurs belonging to the indigenous population of Britain (OECD, 2010). In the UK, over 50% of start-up businesses, 7% of SMEs belong to ethnic owners (NatWest 2000).
- Foreign migrants are more likely to be involved and participate in self employment and/or entrepreneurial activities in comparison to the indigenous population (GROS 2004; OECD 2010).
- Ethnic minorities have a positive attitude towards entrepreneurship than the native community. Some communities are more likely to be involved in self-employment (GEM, 1999; ONS 2006).
- Migrants can help provide solutions to demographic pressures, new sources of demand through entrepreneurship and are more likely to hire seasonal workers, part-time and occasional staff (OECD 2010).

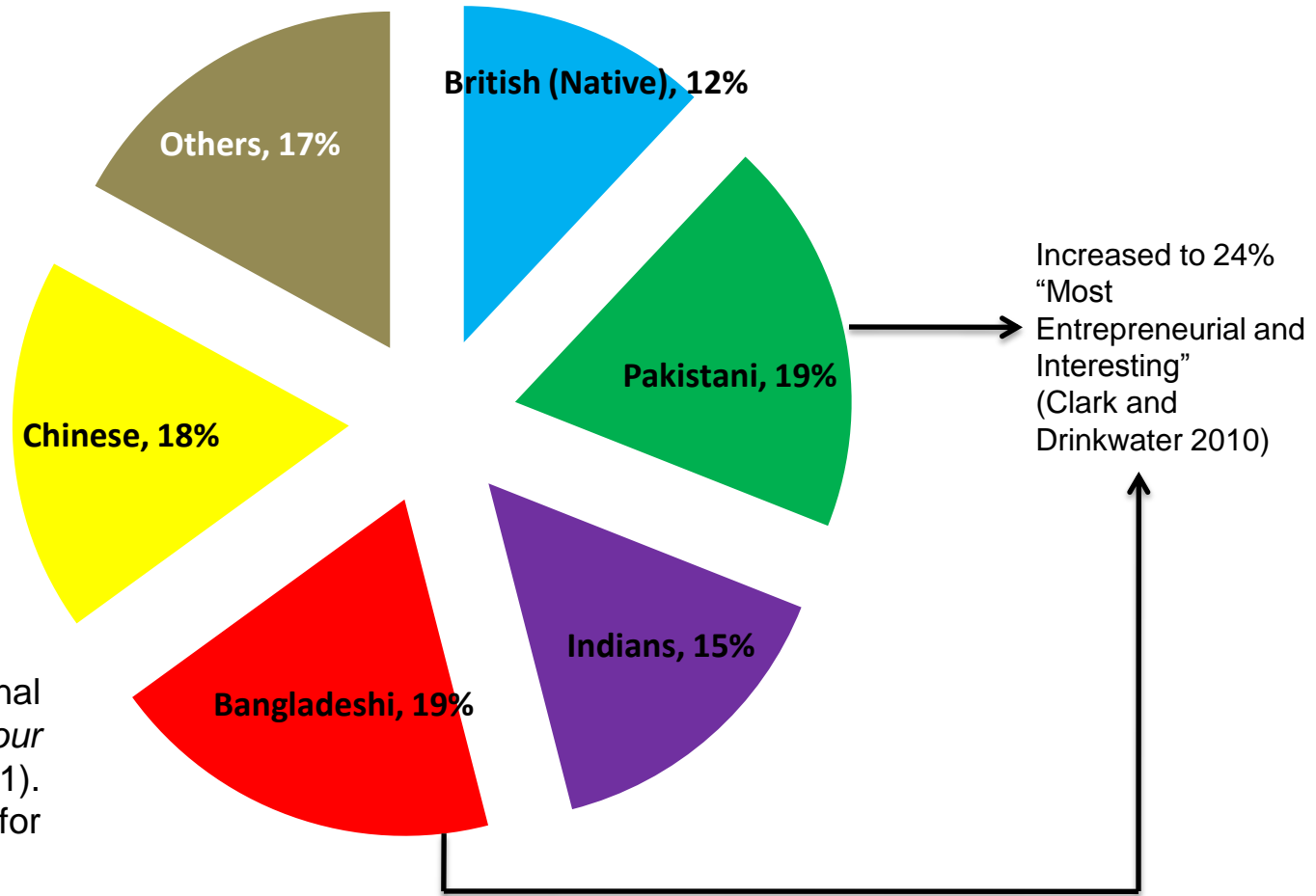
Defining Ethnic Minorities Enterprises

- Ethnic businesses are those which are owned by minority disadvantaged groups (Sonfied 2005).
- An ethnic entrepreneur is defined by skin colour, minority status, religion or cultural background that has ancestral roots in a different nation from the individual's home nation.
- The link between nationality and ethnicity is a complex area to define due to the issues of generational differences within ethnic minorities. (Lassalle 2008).
- Ethnic entrepreneurship cannot be categorised as a homogenous group due to differences in culture, geographical, logistical, and socio-economic backgrounds (Masurel *et al* 2002).

International Self-Employment Trends (2010)



UK: Self-Employment Trends & Ethnicity



Office for National Statistics (2001). *Labour Market Trends*, 109 (1). London: Office for National Statistics.

History of Pakistan

- Pakistan is located in South Asia with a population of 116 million (World Bank 2008).

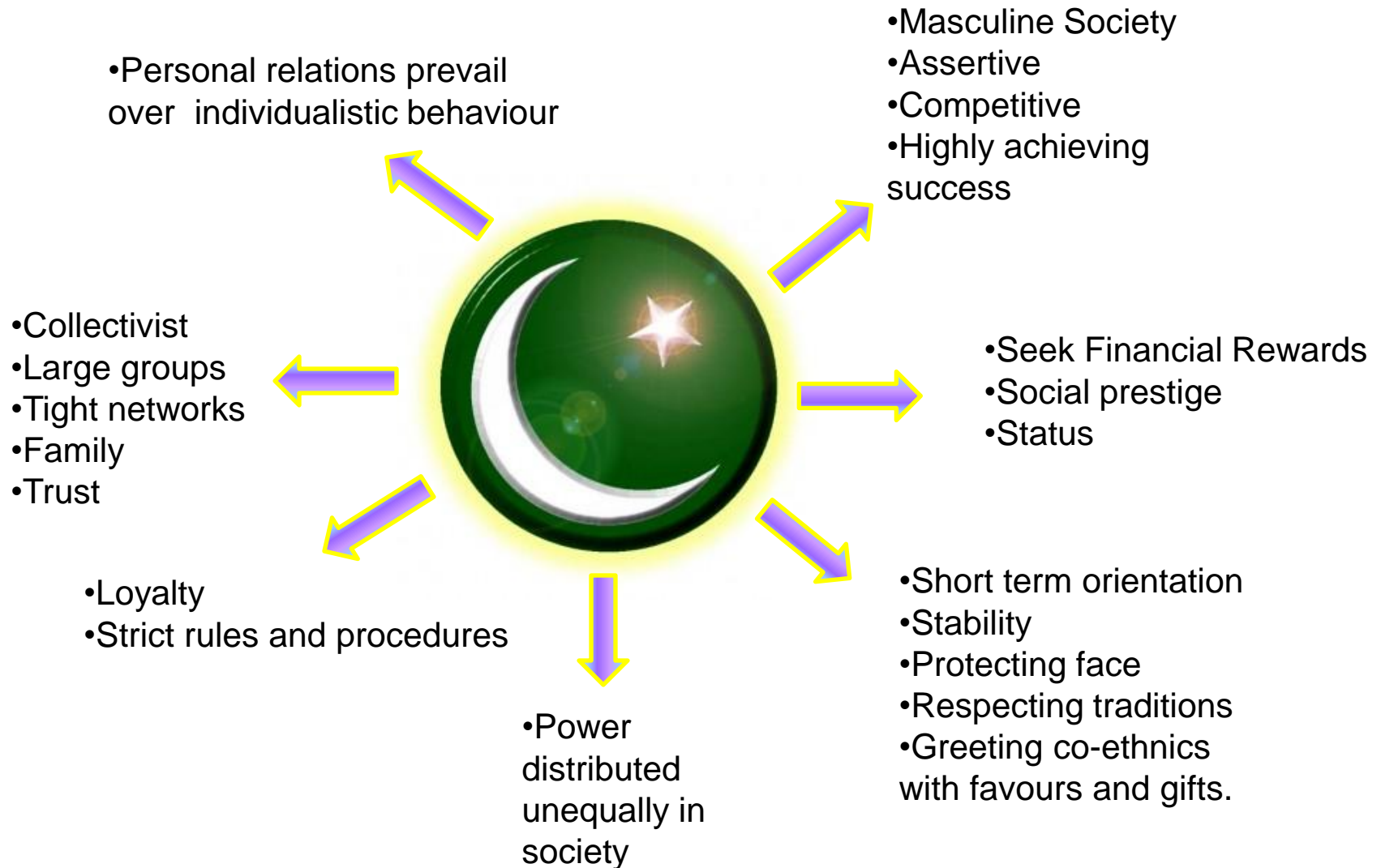
- Pakistan and Bangladesh were previously part of Greater India which was under the rule of the British Empire (Siddiqui 1990).

- In 1947, independence was declared for a Muslim state leading to the formation of Pakistan.

- Economically, the Indian subcontinent was affected by mass poverty (38%-40%) which was created by British colonial policy in which the majority lacked basic essentials (Siddiqui 1990).



Hofstede's Cultural Dimension Theory Applied To Pakistanis (1990)



Key Themes in Ethnic Entrepreneurship

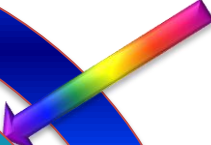
2) External Factors

(Structural Materialist)

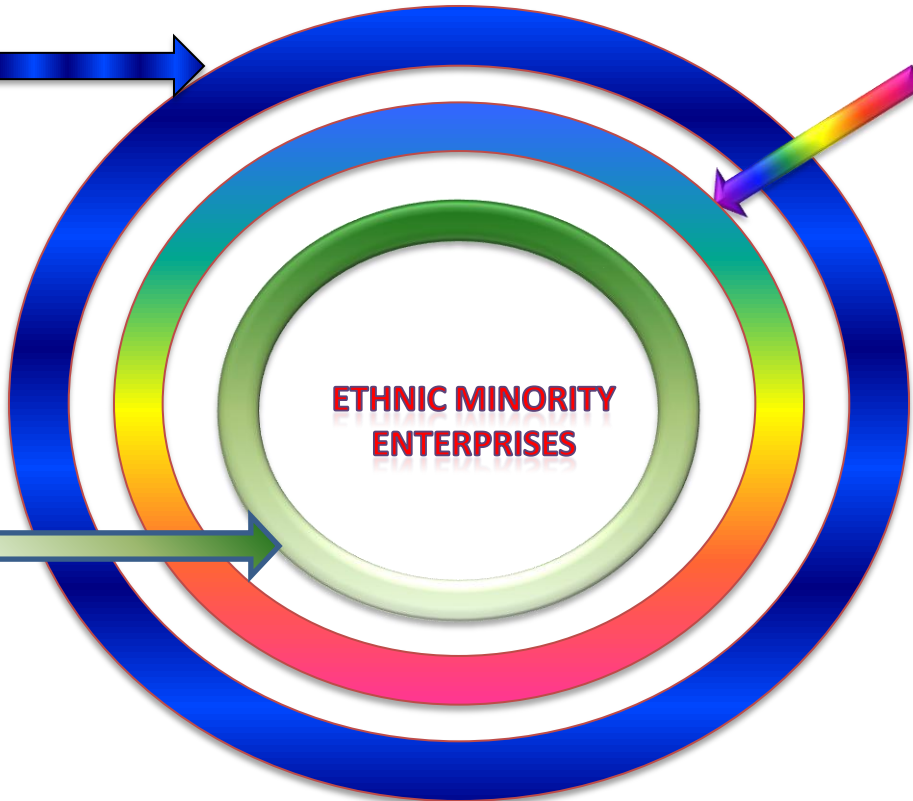


3) Contextual Factors

(Mixed Embeddedness)



1) Cultural Factors



**ETHNIC MINORITY
ENTERPRISES**

Bonachich (1973)

Sojourners

- More likely to be involved in entrepreneurship than settlers.
- Thrift and hard work results in achieving long term goals helping them to return back to their homeland.
- High levels of internal solidarity among fellow sojourners supporting to compete with host society.
- Focus on earning as much money as possible.
- Short term perspective.
- Investment of wealth in their homeland.
- Use the host-nation marketplace to improve their status and respect (Altinay 2008).
- All sojourner ethnic groups are not equally entrepreneurial or in unity.

Settlers

- They develop long-term business strategies and initiatives.
- Host nation nationality eases start up process offering legality to work and employ from the co-ethnic labour pool (Altinay 2008).

First Generation



- 1956-1968, Migrants invited due to labour shortages in engineering and textile industries.
- Colonial relationship.
- Low paid employment.
- Restructuring and deindustrialisation lead to job losses.
- Pushed into self-employment.
- Lacked knowledge of the British Market.
- “Arrived Penniless and established business in such competitive environments shows risk taking and entrepreneurship is deep rooted in their culture.” (Basu and Altinay 2002)

Second Generation



- Self-employment less attractive (Clark & Drinkwater 2010).
- Second generation will be pulled into entrepreneurship and use the advantages of:
- Knowledge of languages.
- Interface of two cultures.
- Ethnic business contacts and community.
- Long working hours and low added value activities.
- Low growth businesses.
- Dependent on family networks and finances
- Culture will have a bearing on entrepreneurship decision and exploit opportunities in host nation.

Past Racism

- Racism became more apparent in the 1960s-1980's, mainly due to job losses, restructuring, deindustrialisation and recession (Storey 1991).
- Lead to downsizing staff especially Asian workers leading them to unemployment.
- Last Resort: Self-Employment and Entrepreneurship.
- Specific cultural factors and racial discrimination in availability of suitable employment in the host society stimulates high rates of ethnic self-employment. (Basu and Altinay 2002; Clark and Drinkwater 2000; Metcalf et al 1996)
- Blocked upward mobility and damage limitation (Aldrich *et al* 1981, 1984; McEvoy *et al* 1982; Jones *et al* 1994).

Present Racism



- Terrorist attacks have triggered verbal, physical abuse and racism even further (Hussain and Miller 2006).
- Research has found ethnic small businesses are more likely to be discriminated than native businesses. (Ishaq *et al* 2010)
- The Iraq and Afghanistan war.
- Western media negative portrayal of Islamic faith stimulating racial discrimination.

Racism to Pakistanis in Britain

- Pakistanis discriminated in paid employment, earnings (labour market) pushing them into self-employment possibly due to cultural factors connected to their residential locations.
- Living with Shariah Islamic values and reluctance to integrate with Western society .
- Racial discrimination from native population to ethnic business owners and in a multicultural workplace.
- A Muslim employee was tied to a railing, forced to eat bacon, clothes set on fire, and then hosed with cold water whilst being filmed on a mobile phone by his native British colleagues.
- Research has found racism in:
 - Health Sector
 - Education
 - Uniformed Services
 - Society
 - British Banks to be intuitionally racist against ethnic owners.

(Clark and Drinkwater 2010)

(Smallbone et al 1999)

BBC (2008),
Birmingham Mail
(2008), Metro (2008),
SAS Daniels (2008)

(Ishaq and Hussain
2001)

(Modood et al 1998)

(Metcalf et al 1998)

(Barrett 1999)

(Deakins et al 1995)

(Jones et al 1994)

(Basu and Altinay 2002)

Regulations of the Host Nation

- National economic regulatory regimes can create or block market space affecting ethnic entrepreneurs. (Collins *et al* 1995; Light and Rosenstein 1995; Razin and Langlois 1996; Ram and Jones 1998; Barrett *et al* 2001)
- Political/legal regimes and economic structural conditions (Barrett *et al* 2001).
- Regulations can encourage or deter entrepreneurship as regulations can impose higher costs in starting a business (Klapper *et al* 2006).
- Cost of such regulations could be higher for migrants due to being unfamiliar with the regulations and laws of the host nation (OECD 2010).
- Regulation determine the level of ease or difficulty to enter a market, contract enforcement and access to capital which can affect entrepreneurial decision and take over the personal characteristics (Ardagna and Lusardi 2008).
- Regulation can affect immigrant entrepreneurship on entry and contract enforcement which can become oppressive and enhance the fear of failure in business ventures (OECD 2010).

Cultural Factors including Religion

- Specific cultural ramifications (Masurel *et al* 2002) and predispositions (OECD, 2010) may influence the attitude and behaviour of the ethnic group as this may influence risk aversion and trust between members of the ethnic community.
- Communities possessing an entrepreneurial culture are more inclined towards entrepreneurship.
- They import their entrepreneurial ambitions for greater economic opportunities.
- Comparatively more independent, ambitious, and less risk averse than natives.
- Werbner (1999) that the culture of entrepreneurship in an ethnic community has been supported by communication, competition, and exchange is formed by the social environment in the host society rather than the homeland origins of the community.

Cultural Factors including Religion

- Cultural attributes such as long working hours and reliance/exploitation of family labour lead to successful Asian entrepreneurship. Such resources act as an internal mechanism providing a competitive edge towards other businesses.
- Asians tend to use their cultural resources, such as hard work, persistence, flexibility and motivation to their advantage enhancing their competitiveness (Patel 1989).
- Such cultural factors may restrict the growth of such enterprises due to their focus on informal finances and co-ethnic communities. (Ram 1994; Metcalf *et al* 1996; Basu and Goswami 1999)
- Ram and Jones (1998) and Dhaliwal (2003) related pull factors for entrepreneurship as the desire for greater degree of independence, to receive maximum rewards for their efforts and to take advantage of cohesive family structures and strategies.

Muslim Vs Non-Muslim Businesses

- Research in Bradford found non-Muslim businesses were more successful than Muslim businesses due to their reluctance in employing female partners hindering capital accumulation and family budget which restricts opportunities (Rafiq 1992).
- Rafiq (1992) failed to recognise the diversity among Muslim enterprises.
- Raises the question of practicing and non-practicing Muslims perceptions towards business and that research being based limited to Bradford, which possesses majority of Kashmiri's.
- Indian businesses are more successful than Pakistani businesses due to following Islam and their cultural values restricting formal education, bank loans and employment of females in business(Metcalf *et al* 1996).
- “Asian business success is really an Indian success story”. (Metcalf et al, 1996)
- Basu and Altinay (2002) contradicted Muslim businesses were more likely to borrow from banks compared to non-Muslim businesses if alternative sources are unavailable.

Muslim Vs Non Muslim Businesses

- Muslims would serve alcohol and use females or their spouses if essential for the business (Basu and Altinay, 2002).
- Muslims competent to raise capital through extended family networks even though they do not employ female spouses (Werbner, 1999).
- Badawi (2000) directly translated from the Quran stating women are allowed to work if it is a necessity.
- Even though religion to some extent influences and shapes culture, it cannot replace national culture and values.
- Such restrictions are traditional rather than religious (Basu and Altinay 2002).
- “The failure of Pakistani and Bangladeshis is due to Muslims being forced by “islamaphobia” to go into business; whereas Indians choose to do so.” PSI survey cited Werbner (1999:571)

Formed due lack of understanding culture and regulations encouraging business relationships and trade in the network.

Ethnic Social Network and Capital

May exclude outsiders

May possess critical ethnic related structures and attributes providing a comparative advantage to start new economic activity.

- Rotating and Extending Credits.
- Guarantor
- Loyalty/Mentoring/Knowledge
- Flexible Co-Ethnic Labour Recruitment/ Managerial Discipline
- Specific Customer Relations and Supply base.
- Exchange Co-Ethnic Advice and Support.
- Mutual Trust and Moral Bonds
- Informal Financial Capital

Labour

Tangible Intangible

- Encouragement
- Solidarity

Family Social Capital

Family and community play a key function in the operation of ethnic social networks in business

- Solid personal ties
- Collective interest

- Social Organisation
- Promoting start-up/ Establishment

Ethnic Enclaves

- The ethnic enclave economy means when ethnic entrepreneurs cluster in industries (networked spaces) which manufacture particular types of goods (Werbner 1999).
- Ethnic enclaves are composed of small business networks providing collective value of achievement as a measurement of success.
- Formed due to discrimination from the host society.
- Consist of family and the co-ethnic community to escape racial discrimination.
- Flexible source of labour and managerial discipline (Ram, 1994)
- No formal training required for positions.
- Manages to gain and build fortunes of success.
- Entrepreneurial chains, social networks, credit, and savings (Werbner, 1990).
- Contradicted by Werbner (1999) no trust nor solidarity but competition and expanded through credit relations, experience, despite co-ethnic competition.

Conclusion

- Requires development of understanding ethnic SMEs as they are influenced by different rewarding characteristics than native enterprises and cannot be treated homogenously.
- Government and policy makers needs to realise that social inclusion is very important as such communities are an important part of the local community and have the right for fair representation in British society especially Pakistanis.
- Academics have also realised that there is a need for more in-depth studies in to various areas of ethnic entrepreneurship as this will help develop support policies appropriate to ethnic groups.



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