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The Emergence of Ethnic Entrepreneurship: a conceptual framework

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1 Introduction

Since the early 1980s, self-employment among ethnic minorities has increased significantly in Europe. For example, the number of start-ups in the Netherlands increased from 25,000 in 1987 to about 55,000 in 2000, and the share of self-employment in the total labour force reached a new record of 10 percent (EIM, 2001). Similar figures are reported in many other European countries.

The booming economy in Europe and the available opportunities in various industries have led to the emergence of a new breed of ethnic minority entrepreneurs. The ethnic populations are expected to continue to grow and thereby go hand in hand with more business ownership among ethnic minorities.

It is generally demonstrated that contemporary ethnic communities have generated entrepreneurs able to contribute more and more to economic growth and the welfare of these countries. However, such a group of entrepreneurs needs to be systematically monitored and studied in order to learn about this unique experience.

The overall objective of this study is to integrate existing insights into the emergence of ethnic entrepreneurship. The study focuses exclusively on theoretical explanations, and ends up with the development of a conceptual framework, which can be used to explain the emergence of ethnic entrepreneurship. The conceptual framework is worked out in terms of variables required for a better understanding of the emergence of ethnic enterprises.

1.1 Problem definition

Rapid post-war economic growth and severe labour shortages induced Western European countries into relatively liberal immigration regimes. Foreigners who do not originate from EU countries and other industrialised countries are usually categorised as ethnic minorities. Ethnic minorities show, in several countries, similar trends regarding population growth, household composition, labour-market participation, and income level. Ethnic minorities consist of two types of migrants.

One is the first-generation group, consisting of traditional migrants who were directly recruited for employment reasons. This group is less educated, with

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1 Britain called in 1945 for the European Voluntary Worker Scheme, by means of which it recruited more than 100,000 workers, merely consisting of refugees. Belgium applied the 'contingentensystem' to recruit workers under bilateral agreements. France established an 'Office National d′Immigration' to recruit, between 1946 and 1970, two million Southern European migrant workers and 690,000 related dependents. Switzerland recruited 90,000 workers in 1950 to record 435,000 in 1960 (Rettab, 1995).
most education being achieved in the country of origin. The group entered the labour market immediately, without necessarily mastering the language spoken in the host country. Their foreign qualifications were generally under-evaluated\(^1\) by employers, with the consequence that they entered low remuneration jobs. Since 1973, labour surpluses and economic stagnation persisted. As a result, many countries took measures to control immigration and substitute foreign workers by technology. Unemployment among ethnic minorities increased steeply and resulted in more unemployment. This group is usually responsible for relatively large-sized households.

The second group is the second generation, consisting of young dependents born in the host countries, where their entire education has been attained. The group masters the language of the host country better than the first generation does, and is relatively qualified and acquainted with the local labour market. Not surprisingly, this group is generally found to be more ambitious and selective in choosing a job.

Generally speaking, ethnic minorities are found to have lower labour force participation rates, lower employment rates, to be less qualified, to accept relatively less skilled jobs, and are particularly specialized in production. The majority of ethnic minorities tend to earn relatively less than the population as a whole.

Many researchers postulate that these background characteristics of minorities and their vulnerable labour market position **pushed** a considerable group to enter self-employment. Others emphasise entrepreneurship advantages for the individual migrant and for his/her relatives **pulling** them to improve their social and economic position in the host countries. In other words, push and pull factors are of significance for ethnic minority entrepreneurs. Nevertheless, entrepreneurship is a complex issue that needs to be explained from different points of view. A selection of such explanations is discussed below.

Max Weber linked religion, a non-economic determinant, to the supply of entrepreneurs. Furthermore, like Alfred Marshall, he believed that large bureaucratic organisations were the model of the future, that these organisations need only few entrepreneurs, that capitalism no longer needed the support of the religious asceticism, and that mature capitalism will rely on market signals to produce entrepreneurs.

While Weber had only foreseen a bureaucratic world, Joseph Schumpeter (1934) drew out the destructive implication of entrepreneurship. He distinguished between entrepreneurship and economic innovation. Entrepreneurs are individual innovators who create change through disequilibrium dynamics and implement market changes. He supposed that large corporations would replace small businesses as the dominant industrial combination. Their profes-

\(^1\) Under-evaluation due to among others, the lack of acquaintance of employers with the education systems and with labour markets of countries of origin of immigrants.
sional managers would replace the entrepreneur’s tasks of planning innovation, evaluating its risks, and executing the plans.

Karl Marx supposed progressive reduction of small capital because large firms have preponderant economies strength arising from market power, economies of scale, and access to capital. When small enterprises disappeared, entrepreneurs would disappear too because small firms provided the vehicle for entrepreneurs.

Indeed, up to the late 1970s the number of small firms declined while the number of large firms increased. Economic power converged around the largest firms, which destroyed small ones. This trend has been demonstrated in the US as well as in Europe. Consequently, research in the field of entrepreneurship generally slowed down in the period. Most studies originating from this period were by historical sociologists and development specialists.

Since the early 1980s, small businesses began to buck this trend by showing more profitability, and the ability to survive. They relied on flexibility, and strong aptitude to technology, and thereby reversed the classical expectation that they would disappear because of their un-profitability. As a result, researchers more recently have concluded that small businesses are too important to ignore. The birth of small businesses requires assessment, and the underlying mechanisms determining their life course requires explanation, while accurate policy measures to enhance small businesses are more than welcome.

At macro level, although it is difficult to empirically assess country characteristics and their related impact on entrepreneurship and business start-ups, many studies have made serious attempts to do this. Economists have inferred that growth in demand, income growth, population growth and the degree of urbanisation have a significant impact on entrepreneurship (Reynolds et al., 1994). Other studies have emphasised general environmental settings, including legislation, taxes, etc. which were argued to strongly disfavour less capital intensive firms, small firms, entry of new firms, and individual family ownership of business (Davis and Henreksson, 1999).

Assessment at macro level could to a certain extent explain the differences in entrepreneurship rates between countries, but this cannot take care of the high variance in entrepreneurship rates within one and the same country, where similar economic and institutional characteristics exist.

At the micro level, van Praag (1996) attempted to explain start-ups among American white youth. In this study, special attention was given to two main conditional factors underlying a start-up, namely willingness to enter entrepreneurship and opportunity to do so. Amongst the explanatory variables used are those relating to human capital such as education and experience, financial variables such as start-up capital and real estate, and situational variables such as unemployment experience and sector. Other studies have implicitly attempted to explain why members of specific groups of society are more likely to enter self-employment (Delmar and Davidsson, 2000). The explana-
tory variables most utilised are education, gender, experience, and ethnicity (Bates, 1996).

**Focus of the study**

This study focuses on supply-side factors determining ethnic start-ups. Consistently, we postulate that the labour market heterogeneity engenders unequal responsiveness\(^1\) of participant groups to market demand for entrepreneurship, whereby background characteristics of these groups are crucial in explaining the emergence of entrepreneurship. Recruitment of entrepreneurs by their ethnic (donor) groups is, therefore, the scope of the present study.

According to this approach, the donor group\(^2\) is viewed as a powerful agent able to select and support potential entrepreneurs to start up a business. The present research report aims at exploring this mechanism through dealing with the next questions.

1. Which theories are found relevant for the explanation of the emergence of ethnic entrepreneurship from entrepreneurship-supply point of view?
2. Which role does the donor group assume in the process of ethnic start-ups?
3. Which conceptual model could be developed to enhance understanding of ethnic start-ups?
4. Could such a model be operationalised and in which way?

The summary of the relevant relationships pertinent to the emergence of ethnic entrepreneurship is presented in the following chart.

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\(^1\) The unequal alertness of ethnic groups and related response to labour market demand depend on unequal distribution of human capital and financial resources, etc. among these groups and result in unequal increments of impulses being transferred to the members to react to market demands and opportunities.

\(^2\) The donor group is the minority group producing entrepreneurs.
Relation 1 describes the relationship between autochthonous donor group and autochthonous entrepreneurs, which falls out of the scope of this study, but will be recalled as a reference. Relation 2 describes the relationship between the ethnic donor group and the ethnic entrepreneurs, and forms the scope of this strategic study.

1.2 Approach and method

There is as yet only limited research and information on market conditions, behaviour and performance of ethnic enterprises. Relevant qualitative and quantitative data in the field is required in order to enhance meaningful explanations of the emergence of ethnic entrepreneurship.

In the United States, but not in Europe, surveys on ethnic entrepreneurship are regularly conducted. The few studies that have been carried out in Europe were mainly based on aggregate data. Previous studies for the Netherlands, for example, are usually found to be limited to case studies and small samples.

This study reviews relevant literature\(^1\) and produces relevant insights on ethnic start-ups, to be incorporated in a broad conceptual framework pertinent to explaining the emergence of ethnic entrepreneurship.

Generally speaking, ethnic enterprises are found to be small in terms of start-up capital, utilised labour, growth capital and turnover. These enterprises are merely operating in markets characterised by easy entry, and strong competition.

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\(^1\) The literature which has been found pertinent to build the conceived conceptual framework along the three explanatory components referred to in chapter 2.
The enterprise could be viewed as a fixed technical relationship between input and output, which generates surplus and profit. The owner/entrepreneur is the actor to handle the market environment through his/her donor group. Actors are viewed as rational agents who are driven by their donor group to maximise utility (profit) under given market opportunities and constraints. Opportunities and constraints are enhanced or weakened by the donor group.

This study focuses on small ethnic enterprises with special reference to the Netherlands. It emphasises the driving forces behind their establishment, particularly those being associated with the donor group. The entrepreneurs running these businesses are owner-entrepreneurs\(^1\). These are viewed to be significantly supported by their donor groups.

In common with Baumol’s (1991) point of view, entrepreneurs possess the alertness to discover market opportunities and act up on them, but donor groups are here the ones that recruit potential successful entrepreneurs and provide them with the requisites, guidance, advice and the support required. Ethnic entrepreneurs act in conformity with donor group’s endowments, commands, norms and values.

A large number of studies have attempted to distinguish between entrepreneurs and the owner/manager on the basis of either innovativeness or risk, but few have done a convincing job. Neither economists (Baumol, 1968: 66) nor sociologists (Wilken, 1979: 60) have been able to work out a distinction whereby ‘entrepreneurs’ are clearly differentiated from ‘owners’ or even the self-employed (Aldrich and Waldinger, 1990: 112). Similarly, donor groups have not been given their deserved recognition as being a significant element in entrepreneurship development.

The next chapter will elaborate on the donor groups, seen as significant factors determining supply of ethnic entrepreneurship. The paper will subsequently endeavour to develop a conceptual framework able to enhance the explanation of ethnic start-ups, and proposes ways for operationalisation purposes.

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\(^1\) Ethnic enterprise, ethnic entrepreneur, and ethnic entrepreneurship will be used as synonyms throughout this study.
2 Determinants of ethnic entrepreneurship

The emergence of ethnic entrepreneurship will be explained through three components:

a. The concept of the donor group, which is viewed as major determinant of this emergence and which is able to interact with

b. labour market circumstances of its members as a second component, as well as

c. market opportunities for ethnic entrepreneurs.

These three components are discussed thoroughly in the next sections. The objective is here to explain the ways in which the donor group influences ethnic entrepreneurship’s emergence through interacting with the environment. It is the donor group which is responsible for entering entrepreneurship or not, depending on the amount of the social and economic endowments available for the group and the individual which will be streamlined along five concepts of capital. These interactions configure for the ethnic entrepreneur the conditions and constraints under which labour market and entrepreneurship decisions are taken.

2.1 Donor group

Many international publications paid attention to the issue of ethnic entrepreneurship, whereby supply factors are shown to produce human capital and financial resources, etc. empowering the individual to enhance productivity through entry to either wage employment or entrepreneurship.

We state that these resources are produced by donor groups but in unequal amounts, resulting in unequal responsiveness by individuals to entrepreneurship. For example, an ethnic group characterized by large-sized households and traditional behavioural patterns, whereby males have more access to economic opportunities, or at the other extreme, an ethnic group characterized by single-parent households, produce quite different human capital and financial resources for their members, through the intensity of social and economic participation, and the open- or closed-door policy at group level. Therefore, the first type of ethnic groups is more liable to create more surpluses for in-

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1 Such supply factors are, for instance, the demographic composition and the socio-economic profile of an ethnic group.

2 These studies are similar in terms of approach whereby the individual is the ultimate decision maker as regards the decision to enter self-employment or not. Usually, the underpinning mechanisms pertinent to these decisions are taken as unobserved variables. Our approach attempts to highlight some of these unobservables.
vestment and produce more family businesses than the second type. Alternative routes to enter entrepreneurship will be identified and discussed thoroughly in chapter 3.

Transfer of relevant resources from the donor group to the potential ethnic entrepreneur will be explained along five approaches. These emphasise donor group characteristics and the ways they configure personal norms and attitudes towards entrepreneurship.

We classify these approaches into five main streams, termed the ‘five capitals’. These are accumulated by the donor group and are transferred to potential ethnic entrepreneurs through parents, relatives, associates and other members of the donor group to determine personal characteristics and the degree of responsiveness to entrepreneurial demand in a significant way.

Easterlin (1969) has elaborated on such group characteristics consisting of religion, norms, values, educational level and income level and their subsequent effects on individual decisions. The theory of social custom of Akerlof (1980) emphasised the interaction between beliefs in social norms and individual behaviour, and Rettab (1995, pp. 148-169) demonstrated the configuration of group norms and the significant effect of these group norms on individual decisions.

One way to organise donor group characteristics is indicated below:

1. Human capital of a donor group consists of the overall average of skills in the group, including schooling, employment experience and entrepreneurship experience.
2. Informational capital consists of knowledge and familiarity of the donor group with market environment and access to the information market.
3. Financial capital consists of accumulated wealth by the donor group and access to the financial market.
4. Social capital consists of social contacts and business networks within the donor group to serve upward mobility of members of the donor group.
5. Cultural capital consists of cultural attitudes, which act to enrich entrepreneurial ability within the donor group.

A thorough literature review, explaining social and economic success of ethnic minorities in the Netherlands along the above hypotheses, is provided in Rettab (1995).

**Ad 1 Human capital**

Human capital consists of endowments such as school and post school education, learning experience, and labour market experience within the donor group. A donor group being characterized by a high level of literacy will create a better learning environment for its members and subsequently better
access to informational channels, higher participation rate and better labour market experience (see also Coleman, 1988).

Human capital is found to affect positively the chances of entering business ownership (Reeves and Ward, 1984). It is found in the Netherlands that chances of survival in business increase for ethnic entrepreneurs in relation to their mastery of the Dutch language (Coopers & Lybrand, 1993). Mastery of the Dutch language at group level is highly associated with mastery at individual level.

Similarly, the occupational status and the labour market experience have also been found to raise the chances for business ownership (Fligstein, Hicks, and Morgan, 1983; Robinson and Kelly, 1979). Furthermore, the time spent in the host country, generally viewed as an assimilation and learning period for the donor group and the individual migrant, has been found to generally affect the economic performance of immigrants positively (Evans and Kelly, 1986; Rettab, 1995).

Economists often analyse individual probabilities for entering self-employment as a human capital outcome employing the same predictors as in earnings equations (Borjas, 1996; Stevens and Chen, 1984; Portes and Zhou, 1998). Generally, predictors such as age, education, language proficiency, time after migration, area of residence indicating membership of a specific group, are found to have significant effects on the probability that migrants will enter self-employment (see also Light and Rosenstein, 1995b).

As well as accumulated human capital, other personal demographic characteristics such as gender, marital status, household composition, were demonstrated to affect the propensity to enter business ownership (Portes and Zhou, 1998). However, the impact of the above characteristics on the propensity to enter entrepreneurship is argued here to depend on the extent to which these endowments are evaluated by the donor group. Consistently, the impact of gender, for example, will vary between donor groups depending on the five capitals characterizing the donor group. A human-capital rich donor group will treat female labour more equally than elsewhere.

Ad 2 Informational capital

Informational capital is highly dependent on the available information within the donor group, existing informational channels and access to these channels. Available information within the group helps when searching for a migration destination, for a house, for a job, for a (business) partner, for a consumable good, and for a business opportunity and manners to finance the business. Information is a scarce good but reduces the risks associated with specific projects. It is generally agreed in economic theory that for an individual, if the marginal cost of search is equated to its expected marginal returns, the optimum amount of search is attained (Stigler, 1961).
Informational capital is highly associated with existing networks, which remain important throughout the entrepreneurial career of a group. Entrepreneurial search behaviour and networking are crucial for the perspectives of businessmen within a group. Driven by opportunities, entrepreneurs may serendipitously invest in coincidental acquaintances, thereby building trust on intuition and a working personal chemistry (Johannisson, 2000, pp. 370-371). Information is crucial for entrepreneurship. Timely information implies higher earnings and profits for the entrepreneur.

It is argued that networks and business societies, and in more general terms the donor group, are serious information search agents, discharging the individual from information search-tasks and thereby saving him or her scarce resources.

For the case of the Netherlands, Boissevain, Choenni and Grotenberg (1984) found that Surinamese entrepreneurs are badly informed about the business environment and relevant institutions and vice versa; a fact which results in additional barriers for the entrepreneurs.

Ad 3 Financial capital

Financial capital consists of available (access to) capital within the donor group. Entering business requires a start-up capital and additional financial resources to cover associated risks. Wealthier groups and families are more likely to establish a business and are more liable to take risks and acquire loans (see also Wakefield, 1997).

Access to the credit market is nowadays a major determinant to establish a business, but those with reliable assets and collateral have more access than others. It is generally agreed that small enterprises have less access to the credit market (Audretsch and Elston, 1996; Rashid Sabri, 1998). But the ‘reliables’ do have access. Reliability and goodwill of a donor group in the business community is of support to the individual entrepreneur belonging to the group. Finding a business partner relies strongly on such endowments.

Usually, ethnic entrepreneurs are seen as unattractive by financial institutions, for the simple reason that the costs of handling a small loan for an ethnic entrepreneur and for a corporate firm are about the same. The only difference is that the transaction size of a corporate firm is much larger and has higher returns (Rettab, 1999b). This fact pushes ethnic entrepreneurs to find out alternative ways to access capital. Bates (1997) emphasised the role of the social environment in determining the finance possibilities of new businesses started by Chinese and Korean immigrants in the US. Additionally, ethnic entrepreneurs mainly use their own savings and loans from family members to finance their businesses and minimise capital costs and repayment risks.

Women entrepreneurs were found to make relatively less use of institutional finance such as bank loans (Carter and Rose, 1998) and to have relatively less
access to the credit market in the Netherlands (Koper, 1993). Why? Are female entrepreneurs less reliable?

Ad 4 Social capital

Social capital hypotheses emphasise contacts and networks. Family, friends, relatives, and social networks among immigrant groups are shown to have played a major role in financing and undertaking migration (Bozorgmehr, 1990; Fawcett, 1989; Portes and Boron, 1989). These factors were also found to determine for migrants their business perspectives (Johannisson, 1988, 1993; Aldrich and Zimmer, 1986). In a social network, solidarity is important. It enhances for entrepreneurs the channelling of information and encourages mutual aid among business owners (Waldinger, 1986). Networking implies reducing transaction costs and has positive spill-over effects and, thereby, a concentration of entrepreneurial activity in specific areas and communities (see also Minniti and Bygrave, 2000).

Emden (1995) found for the Netherlands that ethnic entrepreneurs are badly placed in the institutional set-up of the Dutch business community. Other researchers go even further and advocate more intervention to support ethnic entrepreneurs in the Netherlands.

Ad 5 Cultural capital

Group characteristics determine to a certain extent the business attitudes of ethnic entrepreneurs. These attitudes include the personal desire for economic independence, already demonstrated to be a major motive to initiate migration (Sell, 1983). Once in the host country, this attitude persists and increases the chances of business entry. For example, the distance between ethnic entrepreneurs and financial institutions could have roots in the cultural background and group characteristics of immigrants, as well as their attitudes. This could result in the rejection of outside control over their businesses, and the desire to work for themselves and to be in control of their life.

A specific feature of ethnic businesses is the role of the family. For example, family businesses demonstrate less chance of conflicting interest because ownership and control, in addition to more cost advantages, are unified through similar utility curves (Gallo and Vilaseca, 1998; Mishra and McConaughy, 1999). Cultural researchers claim that individuals learn their group’s values, motivations and skills in the course of their socialisation (Woodrum, 1985). Economists also pay attention to culture and social habits in determining their behaviour.

Minniti and Bygrave (2000) suggest that entrepreneurship, like many other phenomena, creates a ‘memory’ of itself which, becoming a social habit, influences human behaviour. They also argue that the degree of entrepreneurial activity within a social group is the outcome of a dynamic process in which so-
cial habits are as important as legal and economic factors. In other words, entrepreneurship behaviour could be internalised so as to reproduce itself.

2.2 Employment status and labour market circumstances

Monitoring self-employment and entrepreneurship among ethnic minorities has been more or less ignored in the Netherlands. The case is similar for other European countries. European researchers have mainly relied on qualitative fieldwork methods rather than survey research, while the level of government and foundation support for entrepreneurship research is substantially less in Europe than elsewhere (Aldrich, 2000, pp. 6).

Recently, attention has been paid to monitoring the social and economic position of minorities in the Netherlands. The latter has been found to be weak as compared to the native Dutch. Immigrant workers have a lower level of education, and their children exhibit higher dropout rates (Tesser et al., 1999). They often occupy unskilled and simple or very simple jobs (Veenman, 1999). Their unemployment rates are higher and their average incomes are lower than for the native Dutch (see also Kee, 1993; Rettab, 1995). The relatively backward socio-economic position of minorities in the Netherlands is expected to persist for the next decade (Hauw et al., 2000).

Many researchers argue that in order to escape the unemployment situation, many immigrants choose for self-employment as a strategy to escape the poverty trap. Ethnic enterprises are found to require small amounts of start-up capital, low skills and are generally small-sized and are easily accessible as an alternative to unemployment.

Generally speaking, ethnic enterprises could be classified as family enterprises, relying heavily on ethnic markets and products (see also Kloosterman et al., 1996). The latter found that ethnic entrepreneurs in the Netherlands enter mainly sectors with low entry barriers, low productivity and strong competition (See also Dijk et al., 1993). However, one way to enter self-employment is through unemployment as a push factor. It is surprising that van Praag (1996) found no significant relationship between unemployment experience and self-employment.

The performance of entering self-employment through unemployment has been explained by Rekers (1991) to be determined by push factors relating to the situation in urban areas. But pull factors could be also of significance for migrants entering self-employment. He concluded that, for example, Amsterdam offers better opportunities for Turkish entrepreneurs than Rotterdam, where relatively more Turkish immigrants are living. The business environment in Amsterdam may be more suitable for ethnic entrepreneurship.

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1 We attribute this finding to the structure of the sample used for testing, which consists entirely of young white Americans showing no variance in terms of unemployment experience.
Interpretation of the above finding suggests that ethnic entrepreneurship supply is an outcome of interaction between the donor group and supply of and demand for labour. According to human capital theory (Mincer, 1975; Becker, 1975), the donor group background characteristics correlate significantly with personal skills. Personal skills increase the probability of employment, increase the personal labour productivity and subsequent personal returns.

To consolidate, we state that the discussion of push and pull factors resulting from labour supply and demand interaction enables us to distinguish between two alternative routes to enter self-employment. One is classified as a best choice and a second as a second-best choice.

1. **Best choice**

The urge for entrepreneurship by an individual migrant, being motivated by the donor group to respond to pull factors such as market opportunity, profit and the drive to improve personal economic position and that of the household, is enhanced by donor group assets and attitudes towards entrepreneurship. These assets relate to the endowments being accumulated within the donor group.

The urge for self-employment exists because it has many advantages for the immigrant entrepreneur in particular, and for the donor group and the total economy. It is an alternative employment opportunity for the immigrant and his/her household members, and other job seekers within and outside the donor group. When successful, it improves the immigrant’s personal and the group’s social position, and subsequently social integration.

2. **Second-best choice**

Supply and demand mismatches are conceivable due to under- or over-qualification of immigrants in a specific segment of the labour market. Labour market mismatches result in:

- unemployment,
- under-employment, or
- dissatisfaction at employment.

Hence, these specific labour market situations may induce self-employment as a second best choice. Market environment is strongly associated with the particular entrepreneur and his ethnic group. It is a dynamic environment characterised by persistent interaction between the donor group, the person, and the overall settings. Market environment shapes the current and future living and working conditions for the donor group and the individual, as well as restrictions under which the donor group selects individual entrepreneurs who endeavour to optimise personal utility.
For an illustration of such interactions, we refer to Light and Rosenstein (1995: pp. 213-214) who compared ethnic entrepreneurship in the US with lifeboats as a second choice of passengers on the Titanic.

The above alternative routes lead us to distinguish between two categories of entrepreneurs:

1. The best choice entrepreneurs are voluntary entrepreneurs. They choose self-employment because of their preferences (see also Gold, 1992). These entrepreneurs are more likely to be risk takers because of the associated opportunity costs.

2. The second-best choice entrepreneurs are non-voluntary ones, who enter entrepreneurship as a result of their (2a) employment status, consisting of being unemployed, under-employed or disabled and which may result in exclusion, and (2b) wage offer, which may result in dissatisfaction due to over- or under-qualification (see also Jones, 1988; Light and Rosenstein, 1995). These categories are incorporated in the conceptual framework to be discussed in chapter 3.

Alternatively, van Praag (1996) derived her theoretical framework from classical economic literature. She quoted Schumpeter, on page 21, who clearly indicates a trade-off between willingness and opportunity: The dream and will to found a private kingdom in order to achieve social distinction. This dream is the most fascinating, the less opportunity for achieving social distinction is available to an individual.

Van Praag postulates, furthermore, that willingness and opportunity are together sufficient conditions for entering entrepreneurship and that both conditions are unobserved but tangible in the sense that both concepts should surpass a given threshold for somebody to enter entrepreneurship.

Subsequently, searching for determinants of start-ups is in fact searching for the factors determining willingness and opportunity. Van Praag put her research question as follows: what are the observed variables that explain the underlying unobserved combination of the concepts ‘willingness’ and ‘opportunity’ to become self-employed.

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1 Passengers would have preferred to ride the Titanic in style and comfort, but when that great ship went down, they were glad to ride in a lifeboat.

2 On several grounds such as gender, ethnicity, age, disability, etc.

3 In contradiction with Schumpeter, van Praag concluded, on page 56, that the overwhelming majority of young men in the USA are willing to become self-employed. If there were no opportunity constraint, the realized amount of switches, from wage employment to self-employment, would be seven times larger. In our opinion, this statement overlooks the above-mentioned trade-off.

4 The word ‘combination’ is added to accentuate the conditionality of the combination between both factors at a certain level.
However, for the time being let us assume that there is no trade-off between willingness and opportunity, and follow the steps taken by van Praag to break-down the two composites into explanatory variables determining at the end of the day a start-up.

According to van Praag, opportunity is determined by the availability of start-up capital, entrepreneurial ability and the (macro-)economic environment, whereby capital and entrepreneurial ability are substitutes. Willingness is determined by the individual valuation of self-employment versus wage employment. Individual valuation depends on personal preferences and choices between alternatives. These determinants are grouped under three main categories, namely financial variables, psychological variables, human capital variables, and situational variables. The approach being developed in this paper adds a relevant player, which is the donor group. The latter is assumed to be able to visualize what determines ‘willingness’ and ‘opportunities’.

2.3 Entrepreneurship and market opportunities

One way or another, entrepreneurs need to build on their current living and working conditions in their donor group as shaped by market environment. They need to interact so as to manage their endowment. Of course, there are those who succeed and others who fail, depending on the group’s characteristics, personal characteristics, and market opportunities.

The study of Rijkschroeff (1998) illustrated such market opportunities for Chinese restaurants in the Netherlands. He concluded that the arrival of thousands of Asians and the ex-military repatriates from the Dutch East Indies have provided an excellent opportunity for Chinese entrepreneurs to enter business.

The findings of Evans (1989) support the role of the so-called enclave market. He found that members belonging to very large ethnic groups are about one and a half times more likely to enter business ownership than are those belonging to very small groups, and that the size of the ethnic market and the labour pool which could benefit from enclave employment affects the growth of immigrant small business.

Usually, ethnic entrepreneurs find a niche in their immigrant community and start up in an ethnically well-defined market, so as to provide typical services and products. An enclave economy can then positively affect the perspective of ethnic entrepreneurs. Immigrant groups that produce a strong entrepreneurial group, can be of great economic significance for the ethnic business

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1 Van Praag estimated her bivariate probit model for a sample of 3,780 young white male Americans on whom data has been yearly collected for the period 1979-89.
community as well as for the total community, through job and opportunity creation.

At the neighbourhood level where usually migrants are found to be highly concentrated, Aldrich and Reiss (1976) have found that replacement opportunities for immigrant owners selling their businesses to their co-ethnic neighbours emerge as a result of ecological succession.\(^1\)

The size of the ethnic group has been also suggested as providing an initial market space for the entrepreneur to incubate and establish business in the Netherlands (Bovenkerk, 1983).

The results of Evans (1989) show that the greater the percentage of adults in a group who are not fluent in English, the greater the probability that group members enter business ownership. In other words, a homogenous community of immigrants shapes excellent opportunities for ethnic entrepreneurs to start up a business. Evans also found indications that an abundance of small businesses in a specific immigrant group increases the likelihood that some of them will discover effective strategies for selling to the broader market.

Business entry and success of entrepreneurs depend on market opportunities and constraints as well. An enclave market could also result in many restrictions on growth. Concentration of a large number of ethnic entrepreneurs, producing and selling similar products and services, in a limited market, combined with a high unemployment rate and low purchasing power in the neighbourhood, could have severe implications for the degree of competition and survival rates of the enterprises (see also Tillaert and Poutsma, 1998; Rettab, 1999b).

Such conditions usually result in a high exit rate as has been discussed earlier in the case of the Netherlands. Nevertheless, those entrepreneurs who resist the strong competition will tend to survive congruently with the increase of the number of immigrants living within their market area.

Competition requires specific skills and management styles to survive. Self-engagement in running the business, long working hours and support by family members, are needed for immigrant entrepreneurs to achieve the highest levels of efficiency and survive competition and uncertainty. Equally important, however, are the characteristics of ethnic enterprises and the market in which ethnic entrepreneurs operate. Generally speaking, ethnic entrepreneurs end up in easy entry markets, ethnic markets and products, excess supply markets, low return to economy of scale markets, unstable and uncertain markets, low technology and low innovation markets.

Kirchhoff (1994, 1999) analysed the profile of a cohort of 814,190 small firms set up in the U.S. during 1977 and 1978, which were followed for a period of six years. He concluded that the overall survival of newly formed small firms is

\(^1\) Waldinger, R., and H. Aldrich, R. Ward, Ethnic Entrepreneurs, SAGE Publication, Volume I.
not dependent upon innovation rates, but that the chances of achieving high
growth are almost twice as high for innovation firms.

He distinguished between four main categories of firms:

1. Economic core firms are those that enter business with few innovations and
   exhibit low growth. Once they achieve a size that meets the owners’ needs,
   firm growth stops.

2. Ambitious firms achieve high rates of growth with one innovation, or a
   combination of a few initial innovations.

3. Glamorous firms achieve high growth rate only over the long term with
   high rates of innovation.

4. Constrained growth firms are glamorous firms that emerge only after a pe-
   riod of constrained growth. These firms have high rates of innovations but
   do not achieve high growth rates due to lack of proper resources.

These typologies streamline indeed existing insights on the different types of
businesses, and guide theory development. The so-called dynamic capitalism
typology presented below brings the distinguished categories together.

figure 2.1 dynamic capitalism typology


Economic core businesses are usually small and independently owned. They
are mainly retail stores, service firms and repair shops. Seemingly, the majority
of ethnic enterprises in the Netherlands show common characteristics. We pos-
tulate that such businesses belong to this economic core type of enterprises.
Such a typology places ethnic enterprises in their contextual frame, which helps to understand the mechanisms behind the emergence of these enterprises. Accordingly, we may include most ethnic enterprises amongst the economic core firms to the left of the triangle.

Kirchhoff clearly states that such firms are truly ubiquitous and provide a bevy of goods and services that are necessary for the functioning of the economy. The economic contribution of ethnic enterprises to the Dutch economy is expected to increase in the future. Whether the increase will continue at the lower level of the economic core remains a question to be answered elsewhere.
3 Towards a conceptual model

3.1 The conceptual model

The above literature review is meant to derive a consistent conceptual model for the determinants of ethnic entrepreneurship.

The concept of recruitment mechanism

Entrepreneurship and start-up decisions are usually taken at individual or household levels. However, the donor group remains the ultimate agent responsible for the recruitment decision to enter self-employment. How does the recruitment mechanism work?

A migrant usually lacks a long history in the host country. As a result, the individual migrant relies strongly on the experiences and endowments accumulated by his/her (donor) group. In the first instance, the migrant enters his own group living in the host country, usually by means of chain migration, and starts to learn about the preferences and utilities of his own group, as well as about the endowments and available opportunities within the group. Sometimes, the obstacle of the language and the lack of contacts or familiarity with the mainstream culture enforce the dependence on the group, especially for dependent migrants.

Interaction between the donor group and market demand, for example the demand for labour, and the responsiveness to this demand is revealed in terms of participation rate of the donor group, unemployment rate in the group, concentration of group members in a sector, median earned wages and income levels, entrepreneurship participation, etc.

These outcomes being the result of the above mentioned responsiveness is communicated through signals to members of the donor group who are advised on alternative routes for economic success depending on the characteristics and qualifications they have to offer. Based on the donor group’s interactions with the environment, recorded experiences as regards success and failure at group level, existing common knowledge and expectations of the group, and the accumulated comparative advantages in terms of the earlier discussed five capitals, members are guided and mentored towards one of the alternative routes. One of these routes is to contribute economically through entering self-employment. This is what we term the donor group recruitment mechanism. A well-qualified member of the group being recognized at group level as a dedicated, trustful and reliable person will be provided with better access to financial support to start up a business than somebody else.

One way to look at the emergence of ethnic entrepreneurship is to consider the alternative routes towards entrepreneurship, in other words recruitment
channels (figure 3.1). Three main recruitment channels could be distinguished, namely:

(1) a best choice - a direct recruitment mechanism just after graduation or after experience in a family business;

(2a) a second-best choice through employment status; or

(2b) a second-best choice through employment dissatisfaction due to over- or under-qualification.

Ad (1) The best choice to enter entrepreneurship represents (1) a causal relationship between donor group characteristics, personal characteristics and entrepreneurship, as shown in figure 3.1. Without contradicting the neo-classical theory, we assume that start-ups are to a large extent shaped by the donor group. For the individual migrant, the donor group fully controls the resources required to enter self-employment. However, the individual could enter entrepreneurship immediately after graduation or through experience as an unpaid worker in a family business. The individual is assumed to deal with his environment according to the backup and support provided by his/her donor group, which consists of the household, the own group and the community. The donor group creates and maintains for the individual the required endowment for entrepreneurship by means of the earlier described five capitals.

Ad (2a) The second-best choice through employment status, whether it is unemployment, underemployment and disability, relates to the indirect relationship between donor group characteristics, personal characteristics and entrepreneurship. This is expressed in figure 3.1. This is the route of those who enter wage employment and become unemployed, underemployed, or (partially) disabled. These could finally choose to enter self-employment as a second-best choice.

Ad (2b) The second-best choice through wage offer, describes dissatisfaction due to over- or under-qualification. This situation also relates to the indirect relation between the donor group characteristics, personal characteristics and entrepreneurship, this time through work dissatisfaction\(^1\). The latter situation could, for example, lead to a spin-off, but it depends on the extent to which alternative employment is available within the donor group.

Nevertheless, all three channels could lead to the establishment of new ethnic businesses. Of course, market demand for entrepreneurship in terms of recorded profits, market opportunities (in terms of direct environmental factors

\(^1\) Low wage offer due to over- or under-qualification. Over-qualification at a certain functional level could lead to dissatisfaction and finally to self-employment with the expectation to earn more for the same working hours, or to earn an equal income with less working hours. Under-qualification at a certain functional level could lead to job dissatisfaction and finally to self-employment with the expectation to earn an equal income with less qualification requirement (an easy way of living).
such as size of own group), and the recorded success in terms of survival rates, together delineate the migrant’s future prospects.

Although the above discussed conceptual framework focuses on supply side factors determining ethnic start-ups, it does not ignore demand factors. In contrary, the approach is clear and impartial. It focuses on donor groups producing entrepreneurs, being embedded in an environmental setting which enables it to interact with demand for entrepreneurs, while the entrepreneurs are being given the space to process these interactions and the resulted signals to find their ways towards economic success. Furthermore, the role assigned to the donor group responsible for recruiting individual entrepreneurs through alternative routes provides alternative insights about the mechanisms underlying the emergence of ethnic entrepreneurship.

Last but not the least, this conceptual model as being described above and illustrated in the figure below, provides a consistent framework able to accommodate several hypotheses and relevant components as being discussed in earlier sections. These relevant actors are viewed as separate forces influencing the shape of ethnic entrepreneurship. We note that the popularity of the routes to entrepreneurship differs between donor groups depending on the five capitals at group level and the amounts allocated to each of the members.

The donor group is explained and illustrated below, as an intelligent actor being continuously involved in environmental interactions. The donor group is viewed as being equipped with five senses, which are the five capitals. It thinks through the group’s human capital, communicates through informational capital, remembers through cultural capital, and it has a social life/social capital and takes care of its members through being productive and producing financial capital.

The donor group is though alive and alert to react to any environmental changes, whether these changes apply to demand for or supply of labour and the related imbalances at macro level (left-hand side column of chart 3.1), or to demand for entrepreneurship or to any other market opportunities opening new doors for success to its members (right-hand side column of chart). The donor group interacts with both sides and absorbs their impact for processing and translation into concrete signals to its members.

The illustrated conceptual framework below could be viewed as a dynamic model with a group’s members being distributed amongst three situations: (1) graduates and unpaid family workers, (2a) unemployed, underemployed and disabled, (2b) employed but over-qualified or under-qualified for the job maintained. Any new environmental changes being translated into signals from the donor group to its members which might be relevant for entering entrepreneurship will entail movement of relevant members from their initial

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1 The metaphor for the donor group’s role may be that of the wise grandfather communicating to his descendants what to do and what not to do.
situation to a new one. A most relevant one is to move from one of the above three initial situations to enter entrepreneurship and start up a business. The reaction of the group’s members is comparable to the reaction of job seekers to relevant job vacancies, whereby the members’ qualifications are matched with the job’s requirement which is in this case starting up a business. In some countries, like the United Arab Emirates, the recruitment of new entrepreneurs belonging to specific groups and meeting special criteria being determined by the donor group, such as those being nationals, has been assigned to special recruitment agencies.

chart 3.1 conceptual model for determinants of ethnic entrepreneurship

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1 In some countries, like the United Arab Emirates, the recruitment of new entrepreneurs belonging to specific groups and meeting special criteria being determined by the donor group, such as those being nationals, has been assigned to special recruitment agencies.
3.2 Operationalisation of the model

Operationalisation of the conceptual model is nothing else than applying a decision model at group level. The donor group takes decisions on recruiting candidates for business start-ups. A suitable model for operationalising the decision to recruit an individual is the following logit function.

Equation (1), where \( i \) is an index for individuals \((i = 1, ..., n)\), referred to as ‘logistic function’. The function specifies the probability \( P_i \) of an event to occur, in this case the individual being recruited from his initial situation, being indicated in the chart situation \((1), (2a), (2b)\), to move over to the situation of a business start-up. The probability of the event not occurring is \([ 1 - P_i ]\).

\[
P_i = \frac{\exp(Z_i)}{1 + \exp(Z_i)} \tag{1}
\]

or equivalently:

\[
P_i = \frac{1}{1 + \exp(-Z_i)} \tag{2}
\]

The argument of the probability\(^{1}\) that the individual will enter entrepreneurship is denoted by \( Z_i \), which is a linear combination of the donor group’s characteristics \( g_j \), individual characteristics \( x_i \), and opportunity variables \( o_m \):

\[
Z_i = g' d + x' \beta + o' \gamma \tag{3}
\]

\( g_j, x_i, \) and \( o_m \) are the elements of the vectors \( g, x, \) and \( o \) of regressor variables (which include constants), with \( \beta, d \), and \( \gamma \) likewise parameter vectors of unknown coefficients (see also Maddala, 1983). The model assumes a logistic cumulative distribution of the disturbance term \( u^2 \).

The above decision model describes for each member of the group the probability to start a business depending on the donor group’s characteristics, personal characteristics, and available opportunities. To check for inter-group differentials, it requires to apply a pulled logit function which is able to determine parameter differences.

---

\(^1\) This function is an attractive alternative to the linear probability model for dichotomous dependent variables. It is continuous and assumes any value between 0 to 1. It is near 0 when \( Z \) is near negative infinity, it increases monotonically with \( Z \), and it goes to 1 as \( Z \) goes to positive infinity.

The next step is to operationalise the conceptual model, in terms of quantifiable explanatory variables. These variables are selected in accordance with the literature. The variables are divided into categories in consistency with figure 3.1. Of course, further specification of these variables is required but that will depend on future research. It is probably wise to first treat the individual determinants as unobservable and investigate general relationships at the donor group level.

In consistency with the conceptual model (chart 3.1), the relevant levels are brought together below to allow for measurement of relationships between the probability of an individual from a specific donor group to start up a business, and the donor group characteristics (column (2), table 3.1), personal characteristics of potential ethnic entrepreneurs (column (3)), and the opportunities market for ethnic entrepreneurs being classified by relevant sector (column (4)).

The second column (table 3.1) describes the donor group characteristics, which influence the propensity to enter entrepreneurship. Such endowments are classified by each of the five capitals. Measurement of such capitals at group level differs from measurement at individual level. At donor group level, these capitals are rather feasible to be measured in terms of group averages being derived from personal characteristics (column 3). Column (3) lists the characteristics of ethnic entrepreneurs before entering entrepreneurship. Finally, column (4) displays the characteristics of the sectors targeted by the group’s members and measures the set-up of the sector as being perceived by these members. These variables reveal opportunity characteristics.

Some of the explanatory variables are difficult to measure, particularly the variables relating to (column 4) entrepreneurship and opportunities. They could be directly or indirectly approximated. For example, the variable relating to the significance of information in the sector, does not exist as such and could not be derived from secondary data. Such a variable could be constructed through a composite of variables, for example the perception of entrepreneurs in the sector on the significance of information, the ICT adoption in the sector, etc.

With respect to the group characteristics and personal characteristics the case is easier. Through direct questions to individuals many variables could be derived. Some other variables could be derived from secondary data such as school participation rate in the group, share of self-employment in the group, etc.

Generally speaking, collection of the above variables requires at least a cross-section survey covering ethnic entrepreneurs who will be interviewed about their initial labour market situations and related characteristics before entry to self-employment. Secondary data about group characteristics remains necessary to cover the bulk of the relevant group variables. Perhaps a partial analysis is possible.
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<td><strong>Personal characteristics by situation (1), (2a) and (2b)</strong></td>
<td><strong>Entrepreneurship and market opportunities</strong></td>
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<tr>
<td><strong>5 Capitals</strong></td>
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| **Human capital** | 1. average number of schooling years  
2. share by achieved educational level  
3. school participation rate  
4. share of self-employment in the group  
5. labour force participation rate  
6. female labour force participation rate  
7. participation rate  
8. unemployment rate  
9. dependency rate  
10. share self-employment/wage employment | 1. number of schooling years  
2. highest achieved educational level  
3. past work experience in years  
4. past self-employment experience in years  
5. sector experience in years | 1. overall average schooling years in the sector  
2. share by achieved educational level in the sector  
3. sectoral concentration reflecting sectoral experience |
| **Informational capital** | 1. share of information agencies run by the group  
2. popular information centres for the group  
3. popular information support institutions  
4. popular information diffusion channels for the group | 1. number of visits to relevant information centres  
2. use of advice from the group  
3. use of advice outside the group | 1. degree of organisation in sector  
2. significance of information in the sector |
| **Financial capital** | 1. popular credit support institutions  
2. average income per household  
3. average value of real estate per household | 1. share in start-up capital by source  
2. inherited amount of capital  
3. household income level  
4. value of real estate | 1. average start-up capital in the sector  
2. popular financial sources in the sector |
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<td><strong>Social capital</strong></td>
<td>1. popular networks in the group 2. popular support facilities in the group</td>
<td>1. number of memberships in networks 2. degree of cooperation with group members</td>
<td>1. degree of business orientation towards own group in terms of products and services 2. use of labour from own group</td>
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<tr>
<td><strong>Cultural capital</strong></td>
<td>1. share of family businesses in the group 2. popular methods of learning about the business 3. degree of imitation in the group 4. general attitude towards entrepreneurship in the group 5. concentration of own group in the region</td>
<td>1. channel of entering business 2. method of preparation for the business 3. reason for start-up in the specific sector 4. reason for start-up in the region</td>
<td>1. variation in the sector in terms of production method, products and services 2. degree of innovation in the business 3. concentration of group in the sector 4. number of employees in the business 5. average number of employees in comparable businesses 6. life-time of the business 7. share of sales to own group 8. distribution channels</td>
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4 Conclusions

The paper shows clearly that there are differences but also similarities in the applied approaches to the explanation of emerging ethnic entrepreneurship. It is concluded that the availability of data has previously determined the approaches chosen rather than the other way around.

Part of the conceptual model emphasising the role of the donor group in determining individual decisions by ethnic minorities was derived from Rettab (1995). In this paper, an application to the decision to enter entrepreneurship is developed.

The donor group is assumed to be an entity, intelligent and fully involved in environmental interactions relating to market opportunities and the demand for and supply of labour. The donor group’s intelligence is argued to be highly associated with the five capitals being explained to constitute the group’s five senses. In this conceptualisation, the group could think and rationalize, communicate, keep memory, conduct a social life, and take care of its members by being productive.

The developed model focuses on supply side factors determining ethnic start-ups, but it does not ignore the demand factors. The approach emphasises donor groups recruiting entrepreneurs. The individual entrepreneurs are paid the deserved attention and are given responsibility to process donor group signals and find their ways towards economic success.

Furthermore, the assigned role of the donor group as being responsible for recruiting individual entrepreneurs through alternative routes provides new insights into the mechanisms underlying willingness and opportunities and the emergence of ethnic entrepreneurship. The model provides a framework to accommodate and test hypotheses relating to the five capitals as well as entrepreneurship demand-oriented hypotheses.

A start-up is an outcome of a complex decision making process. The conceptual framework and its proposed operationalisation provide essential steps to proceed in applying an appropriate decision making model at the donor group’s level and at inter-group level. This model as being proposed can be applied to explain the surge of ethnic entrepreneurship as being related to specific group characteristics, personal characteristics as well as market opportunities.

The next recommended step is to proceed with developing such a decision model and then to collect the relevant data for testing purposes. The paper also provides insights about the explanatory variables and classifies them by the levels involved and by the five capitals. The model allows for incorporating more demand side variables.
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