

Entrepreneurship in Ethnic Enclaves

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Abstract

Ethnic enclave economies have been defined for the first time in the literature by Portes in 1981 as “immigrant groups which concentrate in a distinct spatial location and organize a variety of enterprises serving their own ethnic market and/or the general population”. According to that, migrants in the host country can choose either to join the local labour market or start their own new ventures. This paper aims to create an overview of previous research contributions to these topics and to examine the recent evolution of the researches in this field of study. We conducted a well-defined literature-based content analysis, screening articles from the last decade on Google scholar by keywords, titles and abstracts. After the process, a net sample of 16 academic journal articles are selected. By examining the sample, we were able to provide, first, a framework of the determinants affecting the likelihood to be self-employed, and, second, a model regarding factors affecting the performance of ethnic enterprise. As a result, we concluded that the traditional definition proposed by Portes, seemed to be not anymore compelling. It has emerged that, nowadays, ethnic enclave can be considered more as a social factor that tie co-ethnics even though they are not geographical concentrated. In the final section, current research gaps are identified to suggest the further research on ethnic enclave economy.

Keywords: *entrepreneurship; ethnic enclave; entrepreneur; self-employment; new ventures; business; performance; minorities; migrant; discrimination; network*

1. Introduction

The ethnic enclave’s concept was introduced for the first time in the sociologic field referring to a geographic area with high ethnic concentration, characteristic cultural identity and economic activity (Toussaint-Comeau, 2012). In 1981, Portes had developed this concept in the economic field, defining the enclave economy as “immigrant groups which concentrate in a distinct spatial location and organize a variety of enterprises serving their own ethnic market and/or the general population” (Portes, 1981). This was considered the starting point for a new branch of studies regarding the economic implications of ethnic enclaves.

It has been shown that migrants in the host country can choose whether join the local labour market or start a new venture (Yang et al., 2010). The literature demonstrates that immigrants are more likely to become self-employer comparing to natives for several reasons. Firstly, it has been argued that immigrants face discriminatory barriers from employers in the labour market, and thus, are more likely to become a self-employer as a career option. Secondly, immigrants often come from countries with a higher proportion of self-employed workers and a strong entrepreneurial tradition, this experience provides them a form of human capital that increases the likelihood to start a new business (Fairchild, in press). In addition Fairchild (2008) states that the increasing of the

migration flows offers some advantages to immigrants to open a new activity in an ethnic enclave in order to exploit on the one hand the clustered tastes and needs of the co-ethnics and on the other hand to benefit from networks and relationships established in a segregated area. Basu (1998) also been argued that enclaves facilitate immigrant self-employment because there is less competition from firms run by natives consequently lowering start-up and operating costs. Moreover immigrants often rely on cultural factors that make entry into self-employment more attractive including risk preferences, savings and willingness to work long hours. Finally, immigrants can take advantage from the creation of their own businesses as they can avoid higher marginal tax rates and they can use unpaid co-ethnic workers (Fairchild, 2010).

Research on ethnic entrepreneurship generally demonstrates that ethnic entrepreneurs benefit from higher earnings than their worker counterparts, even though some studies showed mixed findings regarding the economic success of migrant ventures performance. For example, Sanders and Nee (1987) observed that, within the Chinese ethnic enclave economy, the earnings of Chinese employers are higher than those of their co-ethnic employees. Similarly, Portes and Bach (1985) argued that entrepreneurial activity partially explains the relative economic progress of

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entrepreneurial Cubans comparing to their Cuban and Mexican worker counterparts. On the contrary Borjas (1990) concluded that the earnings of self-employed workers were not markedly higher than those of workers.

In order to create an overview of the existing research contributions on the entrepreneurship in ethnic enclave and analyse factors may be affect the performance of immigrant ventures, our study is going to investigate following research questions:

1. Which countries have dominated the empirical studies on international ethnic enterprises?
2. Which are the personal motivations and the environmental determinants affecting the likelihood of migrants to start a new business in an ethnic enclave? How do they influence it?
3. Which are the factors affecting the performance of ethnic ventures? Which is the impact of them on earnings?

The structure of this paper is as follow: firstly, we present the methodological approach to the review. Then, based on the findings and results of the literature analysis, the research shows a framework model regarding the focused aspect. The final section considers research gap and provide possible perspectives for future studies.

2. Methodology

Since Ethnic Entrepreneurship has been investigated by many researches in the last decades, we decided to look for the so-called “pearl article” in which the author already analysed related articles.

By using Google Scholar research tool, a pearl paper has been selected: “*A literature review on the benefits of Ethnic and Minority Entrepreneurship*” written by Dr. Duraipandi Mavoothu in Journal of Asia Entrepreneurship and Sustainability volume 5, issue 2 published in 2009. This paper deals with the term “Ethnic Entrepreneurship” as “Minority Entrepreneurs”. According to U.S. Department of Commerce, minority entrepreneurship is defined as following: “Minority Entrepreneurs are not just ethnic; they are any group of entrepreneurs who are considered to be outside mainstream society. Minorities not only include ethnic groups but also the travelling community, the gay community, socio-economically disadvantaged, and the disabled. In entrepreneurship terms, minorities also include females, greys (over 50s), and home-based

entrepreneurs”. Previous studies identified some reasons to explain the high migrant self-employment rate. First of all, many sociologists say that disadvantages in the general labour market lead minorities to turn to self-employment (Bates and Timothy, 1987). Wage and employment discrimination are also considered as disadvantages in the labour market causing some groups to favour self-employment (Moore and Robert, 1983). Additionally, entrepreneurship is not only an alternative to salaried employment, but also a better option for providing them with a better living and wealth Brown et al., 1990. Furthermore by establishing entrepreneurship ethnic minorities try to achieve a higher social mobility (Levy-Tadjine, 2004).

Reading the pearl literature helps us to identify some relevant keywords that are useful to seek papers on Google Scholar. Keywords have been categorized into two main groups: Entrepreneurship and Ethnic enclave. The first group includes words like entrepreneur, self-employment, new ventures, business and performance. The second one is, instead, composed by words like minorities, migrant, discrimination and network. As a result of searching, nearly 134 articles were found written by many institutions. After that, these 134 papers were investigated through the reading of titles and the analysis of abstracts. Of the 134 articles found, 16 were used for this research (Fig.1).

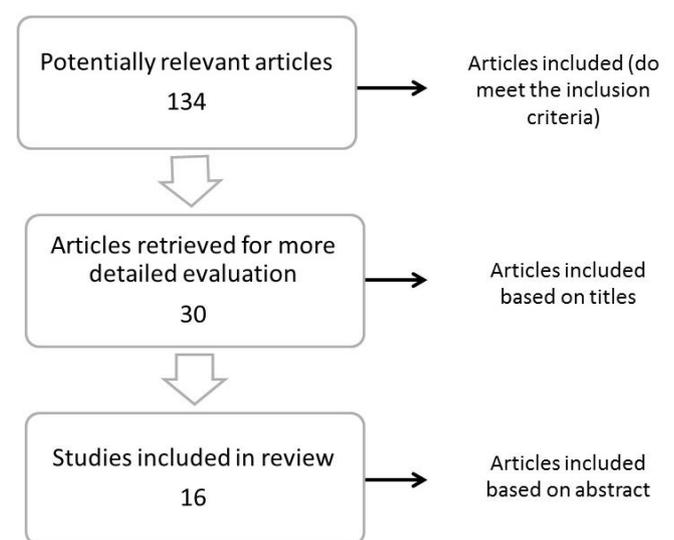


Figure 1: PRISMA Flow Diagram

104 were not analysed because they were not specifically related to ethnic entrepreneurship in ethnic enclave and because they were not coherent with the inclusion and exclusion criteria. As for the time it has been chosen to include only papers that

were written from 2006 until 2016 given that the purpose of the study was to observe how the changes in the migration flow affects the ethnic enclave environment and development. Furthermore, the research was restricted to papers written only in English and published in sociological and business journals because they can be seen as reliable references for a research paper.

3. Results

Ethnic entrepreneurship covers entrepreneurship, labour, management and other disciplines. This paper focuses only on the entrepreneurship section on the field of study and, in particular, on determinants influencing the feasibility for migrants to set up their own business in the host country and the factors affecting the performance of this type of ventures.

Table 1 shows, in the first column, the determinants of self-employment and, in the second one, how many times these items are cited in the papers analysed.

Self-Employment Determinants	Frequency
Ethnic network	6
Education	5
Language barriers	5
Sense of independence	5
Marital status	5
COO entrepreneurial tradition	4
Role model	4
Age	4
Previous work experience	4
Risk aversion	3
Discrimination	3
Financial success	3
Upward mobility	3
Geographical factors	3
Sojourning period orientation	2
Gender	2
Self-realization	2
Incompatible skills	2
Chronic unemployment	2
Public self-employment support	1
Flexible schedule	1
Block promotional path	1
Promises of higher earnings	1
Low wages	1
Low future prospective returns in salary work	1
Religion	1

Table 1: Self-Employment Determinants

As shown in the table, the ethnic network is the most mentioned factor, followed by education, language

barriers, sense of independence and marital status. The representation of these factors in many researches demonstrates the importance to investigate why immigrants are prefer to be self-employer rather than join to labour market. Other factors such as home country's entrepreneurial tradition, role model, or financial success are also mentioned but in a lower frequency.

Table 2 presents results relating to elements affecting the performance of businesses run by migrants. According to the table we can see clearly that ethnic network, educational level and previous work experience are named the highest number of times among the analysed articles. The number of other factors are taken into consideration as they affect the economic performance but in a lesser extent.

Factors affecting the performance	Frequency
Ethnic network	5
Education level	4
Previous work experience	4
Personal savings	3
Intra-family loans	3
Government support	3
Long working hours	3
Borrowing capital from banks	2
Language proficiency	2
Marital status	2
Detailed business plan	1
Reinvest profits	1

Table 2: Factors affecting the performance

As a result from Table 3, 6 of 16 articles containing empirical methods used both qualitative and quantitative methods. Qualitative methods are based more on surveys and in-depth interviews, while quantitative methods consists mainly in regression analyses. Even though quantitative methods are the most used procedure to test authors' hypothesis, the databases analysed in the papers were mainly based on qualitative data. These data derives mostly from existing surveys or questionnaires while the operationalization of the model a conducted principally with quantitative methods.

Table 4 shows the percentages of the migrants' home country analysed in studies. European Migrants accounted for the biggest proportion of the data, followed by Asians, North-Americans, Africans and Latinos. Within the origin continent, the most studied immigrant groups came mostly from Turkey, China, India and Mexico. Fig. 2 has been shown which countries have dominated the

empirical studies about entrepreneurship in ethnic enclave. According to the figure, half of the analysed articles are conducted in the United States of America (USA) while the second half is fragmented among several countries like United Kingdom (UK), Germany, New Zealand, Denmark, China and Italy.

Quantitative	Frequency
Square regression	2
Logit regression	2
Equation modelling	2
OLS regression	1
Discrete Marcov chain model	1
Linear	1
Means and standard deviation	1
Bivariate correlations	1
Cross validation	1
Multivariate analysis	1
Spatially autoregressive approach	1
Total	14
Qualitative	Frequency
Survey	5
Interviews	3
Total	8

Table 3: Analytical methods used in the 16 empirical articles

This data is that the migration flow essentially goes from emerging economies to developed ones.

COO	
Europe	36%
	Turkey
	U.K.
	Ukraine
	Italy
	Romania
	Poland
	Spain
	Ireland
Asia	31%
	China
	Korea
	Pakistan
	India
	Kazakhstan
North America	14%
	Alaska
	Carribeans
	Mexico
	Others
Africa	12%
	Nigeria
	Others
South America	7%

Table 4: Country of Origin

Furthermore, migrants tend to move and establish their own business in countries that traditionally accept them.

Empirical Data

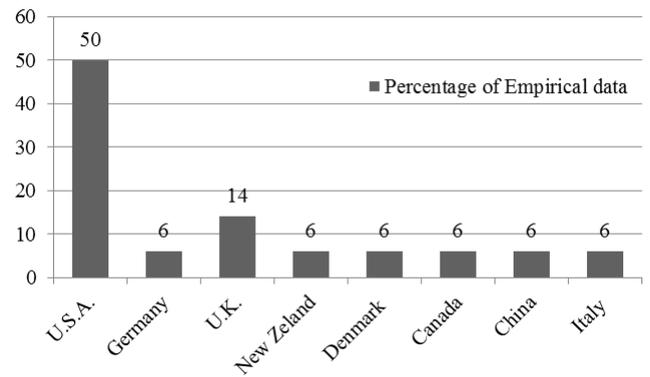


Figure 2: Percentage of empirical Data

4. Conclusion

From above results, it is possible to claim that the concept of ethnic enclave has evolved over the years. From the conducted analysis, it seems the traditional definition proposed by Portes in 1981 which considered ethnic enclave as a distinct spatial location, needs to be update. It can be argue that, now, ethnic enclave can be considered more as a social factor that tie co-ethnics even though they are not geographical concentrated.

The aim of this analysis is to create an overview of previous research contributions and to examine entrepreneurship in ethnic enclaves considering different contexts. The study, first, provides a framework of the determinants affecting the likelihood to be self-employed (Fig.3) and, after that, develops a model regarding factors affecting the performance of ethnic enterprise (Fig.4).

As for the determinants affecting self-employment the analysis shows two relevant categories: personal and environmental factors. Each of them has been later subdivided into push and pull factors. On one hand, leading to the direct identification of entrepreneurs who evaluate the possibility to become entrepreneurs as a last option and as a response to dissatisfaction with their working conditions, caused by one's exclusion from the primary job market (Verheul et. al., 2010). In brief, push factors are unfavourable, overwhelming motivations that can bring immigrants closer to entrepreneurship in a negative context. On the other hand, pull factors lead to the straight identification of entrepreneurial opportunity that make an intentional choice become entrepreneurs in reality because they are aware of their entrepreneurial capabilities and they seek to exploit opportunities provided by the entry into this type of

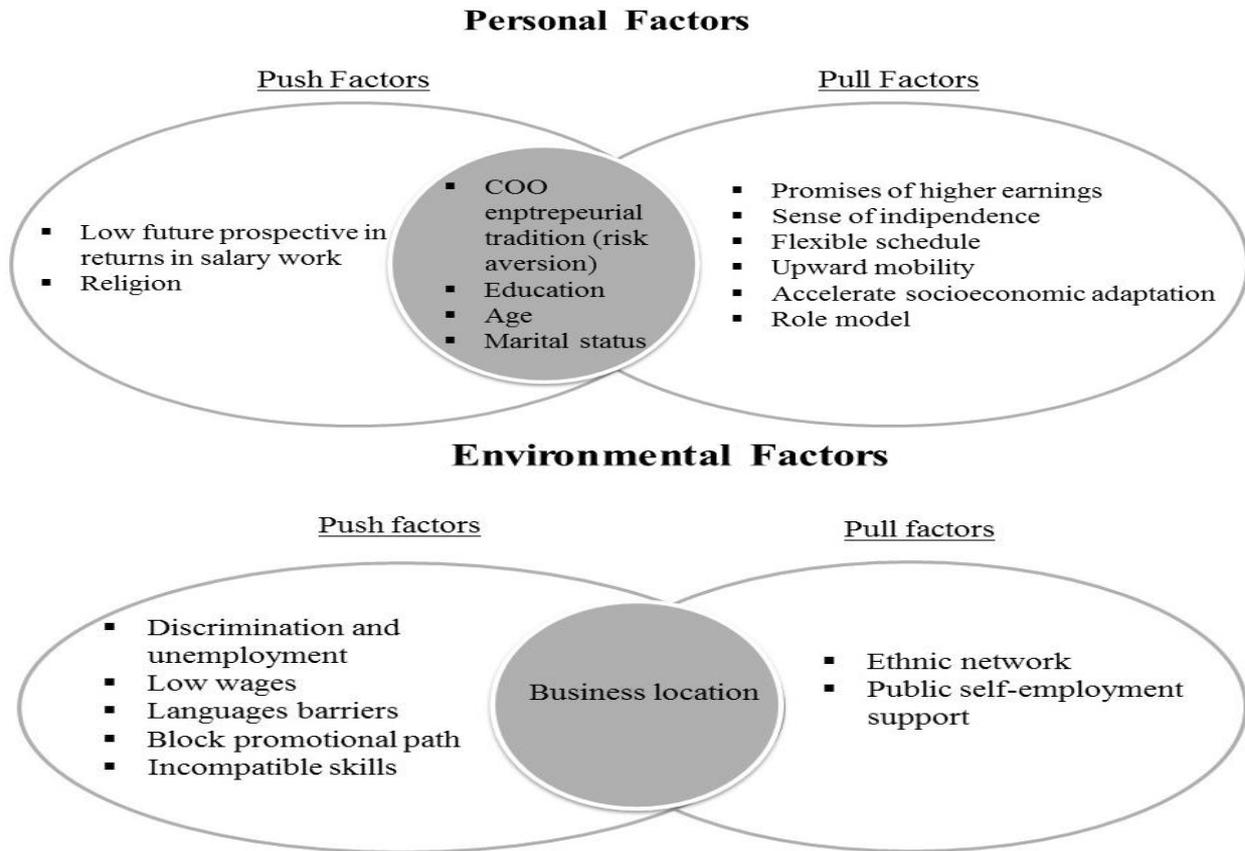


Figure 3: Determinants of Self-employment framework model

works (Uhlener and Thurjk, 2007). In short, the pull factors are all the favourable, encouraging motivations that can bring immigrants closer to entrepreneurship in a positive context. However, it is difficult to classify some factors as push or pull because they can be identified in both categories depending on the cases.

After considering determinants that could lead to ethnic self-employment, this study analyses factors affecting the performance of these ventures. These components have been summarised into 4 main

groups: human capital, social capital, financial capital and business practices.

The model also illustrates which of these factors impact positively or negatively the outcomes of these ethnic enterprises.

4.1 Self-employment determinants

4.1.1 Personal Factors

In this context, motivations leading to ethnic entrepreneurship are gathered into two main categories: Personal and Environmental factors. Personal factors refers to motivations that are internal to the migrants themselves and motivate them to establish their own business in the Country of Residence. As Fig.3 shows, within the Personal factors category it has been possible to identify three main subgroups: push factors, pull factors and factors that can act as either pull or push.

4.1.1.1 Personal Push Factors

Low future prospective in return as a salaried employee in the salary work is one of the main determinants. As well as the perspective to enter into the labour market, as an employee, with low wages entail may drive migrants to set up their own ventures, where earning could be higher.

Another push factor can be found in the religion. In many cases, such as in Muslim religion, the vast presence of entrepreneurial personalities, can force

HUMAN CAPITAL > Educational level > Previous work experience > Language proficiency	+	SOCIAL CAPITAL > Ethnic network > Marital status	+/- +
FINANCIAL CAPITAL > Personal savings > Intra-family loans > Borrowing capital from banks > Government supports	+ + - -	BUSINESS PRACTICES > Reinvest profits > Long working hours > Detailed business plan	+ +/- +

Figure 4: Factors affecting the performance framework model

migrants to enter into self-employment in order to emulate the model provided by their religion. On the contrary, Turkish migrants establishing new businesses in the U.K., are not considered religion as a relevant factor which influence their decisions to become self-employed (Altinay and Altinay, 2007).

4.1.1.2 Personal Pull Factors

One of the most important pull factor found is the sense of independence. It has been defined as the inclination to feel free and not constraint to the chief orders, thus leading migrants to set up new ventures. Moreover, a flexible schedule, in order to accommodate family needs, provides another relevant incentive to become self-employed. Self-employment is often seen as a way that enables migrants to accelerate socio-economic adaptation and to promote upward mobility, so that it can be a path to advance in their own carriers. Furthermore, a family member or close relative who has a business, or did so in the past, can serve a role model and increase the likelihood of self-employment. Finally, the promises of higher earnings, is another important push factor in the choice to open a business. It has been shown that this variable is more relevant for Whites than for Blacks (Edelman et al., 2010).

4.1.1.3 Personal Push and Pull Factors

According the figure 3, some factor can act as push and pull factors at the same time. For example, migrants who come from countries with different entrepreneurial cultural backgrounds, as among the others, risk preferences, can influence their likelihood to open a new business in the Country of Residence. In particular, it has been stated that in the case of countries from Central and Eastern Europe, the communist heritage left a mark on the national cultures, resulting in a relatively high uncertainty avoidance levels, thus leading to decrease the likelihood for them to start a business (Szarucki et al., 2015). Self-employment can be used as a step-ping-stone to wage employment, or it may be a tradition from the COO and ethnic enclave. In addition, education level can be a potential competence to become a self-employer. Furthermore, the choice to set up a venture could be influenced by the age. In fact, young immigrants often have no previous working experience and it is therefore more difficult to find co-ethnic members offering trust based support. The scarce support they receive and the possible discrimination they undergo can be the main drivers pushing young immigrants towards

entrepreneurship. In addition, older immigrants are assumed to be better known than their younger counterparts. In this cases, the trust based support offered can be recognized as an opportunity. Another relevant trigger is marital status, given that entrepreneurs could deploy the family labour force and obtain higher profits deriving from un-paid workers. Moreover, having a family could force the migrant to establish a new activity to take care and support their family.

4.1.2 Environmental Factors

Environmental factors concern motivations that are external to the migrants' own personal motivation, are tied to the environment, and lead to set up new businesses. Within this category, it is possible to pinpoint three main subgroups: push factors, pull factors and a factor that can act as either push or pull.

4.1.2.1 Environmental Push Factors

An important environmental driver can be found in the marginalization in the labour market. In fact, migrants, in comparison to natives, tend to be marginalized and to experience a block in their promotional path. For these reasons they tend to use self-employment to avoid marginalization and thus the unemployed status (Matricano and Sorrentino, 2014). Moreover, low wages in the labour market can lead some groups to favour entrepreneurial activities. The possible communication difficulties caused by immigrant different language could constitute binds to enter the labour market and can push to become entrepreneur. It has been shown that this is particularly true for example, in the case of Indians people in New Zealand (Wang and Maani, 2014). Finally, some skills could be not recognised by the Country of Residence and this entail that migrants are constraint to set up an own new business. For example, the non-Hispanic White and Korean business owner reported skills that were more valued in a market economy so that their businesses are more stable than those of Mexican and Black business owners (Valdez, 2008).

4.1.2.2 Environmental Pull Factors

Social networks, such as family and friends, appear to open entrepreneurial opportunities for ethnic business owner (Toussaint-Comeau, 2012). These networks supply local experience before investing financial capital in a business and can be also used as a source of low cost supplier (Valdez, 2008). Furthermore, the presence of public self-

employment support policies, incentivize migrants to establish new ventures (Matricano and Sorrentino, 2014; Blume, et al., 2008).

4.1.2.3 Environmental Push and Pull Factors

The higher or lower level of co-ethnic concentration, could be seen as a push or a pull factors. For example, the high level of concentration of Hispanic in Las Vegas, is considered as a factor that attracts Hispanic entrepreneur to set up a business there (Shinner and Young, 2008). On the contrary, a lower concentration of co-ethnic in the COR and the discrimination in the labour market could act as a push factor forcing migrants to establish entrepreneurial activities.

4.2 Factors affecting the performance

Fig. 4 shows the framework model regarding factors affecting the performance of ethnic entrepreneurship and it illustrates whether they impact positively or negatively on the business outcomes. As the first factor, Performances are here measured in terms of earnings and factors are classified into four different categories. The second component, Human capital, which is embodied within the individual and includes individual-level characteristics. The next factor, Social capital, represents the ability to access information or generate resources deriving from the network of relationships possessed by an individual or social unit. The third one, Financial capital, which capture access to economic resources to start and support the migrants' business activities. The last but not least, Business practices, consists in methods, procedures, processes, or rules adopted or followed by a company in the pursuit of its objectives.

4.2.1 Human Capital

Findings reveal that, generally, human capital factors increase earnings for all group of migrants' entrepreneur. This category includes mainly factors like the educational level, previous work experience and language proficiency. On one hand, the educational level plays an important role in the businesses' performance of Polish and Romanians starting a new venture in Germany (Szarucki, et al., 2016). On the other hand, results from the research on Turkish entrepreneurs located in London indicate that the educational level is not relevant in every business sector (Altinay and Altinay, 2007). When talking about previous work experience, findings state that business owners who experienced blocked mobility in the labour market earn more than those who do not (Valdez, 2008).

Additionally, Language proficiency can also affect the influence of enclaves on immigrant entrepreneurs. Many studies claim immigrants who speak the host country language perform better with respect to those who do not (see Mora and Davila, 2005; Altinay and Altinay, 2007).

4.2.2 Social Capital

Social capital can influence outcomes of ethnic enterprises in various ways. From the result of our analysis, being married is the only social capital resource that increases earnings for all groups. By using kinship ties as an economic resource, for example unpaid family labour, ethnic entrepreneurs can increase their profit. Ethnic network refers to serve a minority clientele, employ a predominantly minority labour force and utilize resources of the enclave. Studies showed mixed findings about the impact of ethnic network on the economic performance when considering different groups of migrants. In particular, while Valdez (2008) stated that the extensive entrepreneurial activity among Koreans is largely attributed to social capital and to the exploitation of their ethnic network. Robb and Fairlie (2008) in research on Indians ethnic network insisted Indian who rely less on the ethnic network features perform better than the one who do not.

4.2.3 Financial Capital

Financial capital constitutes of resources that are generated primarily by one's class position or background, such as personal savings, or the ability to borrow start-up capital from a market institution such as banks. Institutional supports and intra-family loans are also factors affecting the performance of ethnic businesses. It has been argued that borrowing start-up capital from a bank decreases earnings for non-Hispanic Whites and Koreans when compared to not borrowing at all (Valdez, 2008). Furthermore, government capital is also associated with diminished earnings for all groups (Valdez, 2008). Moreover, for migrants facing difficulties in borrowing financial capital from market institutions, personal savings and intra-family loans are associated with higher earnings for all groups of migrants. This argument has been referred, in particular, to Asian business owners. It has been shown that they are more likely than Whites to use proceeds from the sale of owners' assets to finance a business venture or to rely on family resources to borrow start-up capital for their business (Robb and Fairlie, 2008).

4.2.4 Business Practices

From the analysis, it has emerged that some business practices can impact the performance of ethnic ventures. For example, it has been argued that the creation of a well-detailed business plan prior to entry into business ownership can lead to higher revenues. It has been demonstrated that economic success also depends on the working hours of the small business owners. According to (L. and E. Altinay, 2007) long working hours for Turkish in London are associated with better performance while (Robb and Fairlie, 2008) argue that Asian firms success is not only due to the high amount of hour worked per day. The authors showed that, examining sales by hours worked, Asian and other minority firms have better sales outcomes than White-owned firms for each level of hours worked in the business. This implies that long hours are not the driving force behind the better outcome of Asian-owned businesses. In addition, the practice of reinvesting profits to finance the activity has also considered a relevant factor increasing the outcomes of ethnic firms (Robb and Fairlie, 2008).

4.3 Research Gap and Future Studies

The present papers' findings can be compared to the pearl literatures' one. From this analysis it can be identified that determinants of self-employment can be classified, not only as push and pull factors, but also into personal and environmental factors. It can be also argued that research into this field still present scarcity of studies into countries with high migration rate and countries which show a recent increase in the migration phenomenon such as Germany or Italy.

At this point, some lacks of the research need to be addressed. First of all, a cross-sector analysis of performance and earning is missing among the papers analysed. Then, current research shows a lack of analysis about customers' ethnicity and how it could affect the enclave ventures performance. Finally, in these studies success is often measured in terms of financial outcomes and earnings. However, obtaining profitability data can be problematic because business owners may be reluctant to disclose such information, possibly because of fear of the government, taxation, or competition. Furthermore, lack of standardization in record keeping may make comparative analyses difficult (Zuiker, 1998). In the absence of profitability data it would be more suitable to analyse performance of ethnic ventures in terms of survival rate. The findings of this study strongly suggest that future research should focus more on

conflicts within ethnic enclaves deriving from differences in languages, national origin and religion. In doing so, researchers should analyse the consequences of the evolving structure from ethnic enclaves to multi-ethnic neighbourhoods.

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