

Part Seven

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# Strategy and multiunit issues

# Factors influencing entrepreneurial orientation of ethnic minority small- and medium-sized hospitality enterprises

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## Introduction

Small and medium-sized enterprises (SMEs) account for over 95% of businesses in Organisation for Economic Co-operation and Development (OECD) countries and 60–70% of employment and generate a large percentage of new jobs in most countries (OECD, 2000). For example, there were an estimated 4.3 million small business enterprises in the United Kingdom at the start of 2005 employing approximately 22 million people (more than half of the employment—58.7%). They had an estimated annual turnover of £2400 billion (National Statistics, 2006). However, SMEs continue to face major problems including lack of financing, difficulties in exploiting technology, rapid changes in the business environment, lack of management skills, and poor HR management skills (OECD, 2000). Perhaps because of such challenges, it is claimed that a small percentage of new SMEs survive for more than 5 years (OECD, 2000).

In many developed countries, ethnic minority-owned SMEs are responsible for a considerable percentage of new business start-ups. This ratio is around 9% in the United Kingdom. These SMEs represent almost 7% of the total business stock (Bank of England, 1999). According to Osborne (2005), in 2004 ethnic minority entrepreneurs set up 50,000 new businesses—up a third from the figure in 2000 of 32,000—and they now account for 11% of all new firms. In a speech made in November 2002, Nigel Griffiths, the former Minister of Small Firms in Britain, claimed “Ethnic minority businesses are amongst the most entrepreneurial in society. There are 250,000 ethnic minority enterprises in the UK, contributing £13 billion a year to the British economy” (Griffiths, 2002). It is estimated that there are 100,000 ethnic minority-owned businesses in London, employing around 800,000 people (Ethnic Minorities and the Labor Market, 2003). Similar statements can be made about ethnic minority businesses in many cities in European countries as well as in the United States and Canada.

Ethnic minority SMEs face fierce competition not only from the other ethnic minority businesses but also from the mainstream businesses and brands. In the United States, many of the major retailers, groceries, banks, and other service providers have already adopted their business strategies to target ethnic minority consumers, leading to an increase in competition for ethnic entrepreneurs (Gore, 1998; Mummert, 1995). In the United Kingdom, with the increasing number of ethnic consumers, mainstream marketers tend to adapt their marketing strategies to target increasingly diverse consumers (Jamal,

2005). In the past, ethnic minority businesses competed only against their ethnic counterparts for survival. In today's world, competition is also with mainstream businesses that sell ethnic products such as Chinese Food, Turkish Delight, Chicken Biryani, and Japanese Sushi and also continuously seek ways to attract the "second generation immigrants" whose needs and wants are more aligned with those of the host country. It is also known that many ethnic minority SMEs in the United States and Europe target tourists visiting the host country.

Self-employed immigrants are highly concentrated in the tourism and hospitality industry (OECD, 2000). Particularly the independent restaurant sector, which includes restaurants, takeaways, and cafes, has been a popular activity for ethnic minority businesses in many developed countries. This can perhaps be explained by the relatively low entry barriers, such as the low financial start-up capital required compared to the other sectors (Basu and Altinay, 2002), low skill requirements (Basu and Goswami, 1999), and the cultural business tradition of ethnic groups (Basu, 2004; Basu and Altinay, 2002). Ethnic minority businesses in the tourism and hospitality industry have been traditionally reluctant to allocate time and financial resources for a strategic approach to managing their businesses (Altinay and Altinay, 2006). However, due to rapid changes in the business environment and fierce competition, they now need to adjust their entrepreneurial orientation by continuously monitoring the internal and external environments and finding creative ways to survive and prosper. This involves not only analysing the customer needs in the market but also adjusting the firm's strategies according to the competitors' moves; including the ones from the mainstream market.

To date, there has been limited research on entrepreneurial orientation of ethnic minority-owned SMEs in the tourism and hospitality industry. Given this, this chapter aims to discuss factors influencing entrepreneurial orientation of ethnic minority SMEs in this industry. This chapter begins by explaining the concept of entrepreneurial orientation. The following section evaluates the relationship between the cultural attributes of a business owner and the entrepreneurial orientation of the firm. This section also discusses whether the differences in the cultural backgrounds of the entrepreneurs lead to any differences in their reliance on their ethnic resources, in other words, on the use of ethnic capital, labour, advice, and customers in the hospitality industry. Finally, it draws on a number of conclusions and discusses several implications for small ethnic minority business owners and policy makers.

## Entrepreneurship and entrepreneurial orientation

Entrepreneurship usually involves opening a new business and/or buying an existing one. It normally requires investing financial resources and time, which means a risk is associated with this move. Different reasons can be given to why some people are more successful in opening and running business and why people choose to become entrepreneurs. According to Basu (2004) and Basu and Altinay (2002), these reasons include making profit, the desire to take risk, having a spirit of adventure, having access to information or knowledge, the desire to create new products, and having no other choices but to choose self-employment. It appears that people become entrepreneurs due to one or more of the above reasons.

Entrepreneurial orientation refers to “the methods, practices, and decision-making styles managers use to act entrepreneurially” (Lumpkin and Dess, 1996, p. 136). As a strategic choice, entrepreneurial orientation is an embedded organizational philosophy that drives decision making and behaviour towards creating new goods, new methods of production, new markets, or diversification of the business into a new industry (Stevenson and Jarillo, 1990). These definitions suggest that while responding to developments in the market, organizations need to reflect propensity to engage in entrepreneurial behaviours, namely innovation, proactiveness, risk taking, and autonomy. Innovativeness refers to seeking new and creative solutions to problems and needs that can lead to new products and markets (Covin and Slevin, 1991). An example for prosperity to innovate in restaurants would be encouraging the employees, the chefs in particular, to come up with new dishes in order to meet and exceed the expectations of current and potential customers. Proactiveness involves shaping the environment by introducing new products, technologies, processes, and administrative techniques (Lumpkin and Dess, 1996). In the tourism and hospitality industry, we can see many examples of proactiveness ranging from Southwest Airlines’ no frill and low cost concept in the United States, to a small pizza owner being the first one in a region doing home delivery to those customers who seek for convenience.

Risk taking involves the willingness to devote significant resources to new initiatives which have a reasonable chance of costly failure (Rugman and Hodgetts, 2000). Risk in broad sense occurs whenever anyone makes a choice and the potential outcomes involve uncertainty (Thompson, 1999). For organizations, uncertainty derives from political, economic, regulatory, and legal actions of government as well as global changes that can

threaten the ability of the firm to map out and pursue strategic choices (Covin and Slevin, 1991). There is also uncertainty associated with competition. SMEs in the catering sector in particular should change their menus on a regular basis, take the risk of dropping off some of the offers from the menu, and introduce the new ones. For example, introducing Mexican food to your fast food restaurant menu in Europe may have a reasonable chance of costly failure because unlike in the United States, there are not many Mexican-origin people living in Europe or Americans may like to try more Mexican food than Europeans. However, changing consumer taste in Europe might indicate that there are opportunities for business growth if one was to introduce Mexican food or one Mexican dish in the menu. Here, you are taking a relevant risk that has a good business potential.

Autonomy refers to the organization's willingness to delegate responsibility to individuals or a team to take an independent action in bringing forth an idea or a vision and carrying it through to completion (Lumpkin and Dess, 1996). In the tourism and hospitality industry, autonomy is typically understood as a technique where front-line employees resolve problems immediately without management approval or intervention (Lashley, 2001). This is important since in a hotel, café, or restaurant, customers' demands cannot be kept "on hold" for long. Employees should have the authority to decide how to respond to customers' requests. For example, if owners of ethnic minority SMEs want their employees to deliver customized services to the customers, employees should have the authority to touch the feelings of the customers by solving problems and offering discounts or giving complementary foods and drinks.

In the ethnic minority SMEs context, innovativeness may entail using employees, suppliers, and information within and outside of the firm's ethnic enclave, and offering new products and services to customers. Again, even offering products or services from the home to the host country targeting home country residents may be considered as partly an innovation. Proactiveness may encompass increasing market share by serving co-ethnic customers, home country citizens as well as tourists. Ethnic minorities would heavily rely on capital from their relatives and co-ethnics at business start-up in order to avoid paying interest (Basu and Goswami, 1999). Risk taking in ethnic minority businesses is often related to different levels of resource commitments, and modes of financing such as banks and other financial institutions (Altinay and Wang, 2007). The other question is whether ethnic minority-owned SMEs delegate power to family or non-family members as a form of empowerment. Autonomy involves the ability to delegate

responsibility to non-family members or to non-ethnics in terms of decision making, spending money, and resource allocations.

Creating an entrepreneurial orientation that leads to survival and business growth is a more multifaceted task. It requires an effective management of the interdependence between a firm and its environment. A number of factors influence the entrepreneurial orientation of a firm. According to Covin and Slevin (1991) a firm behaviour of entrepreneurship consists of three levels of variables—environmental, organizational, and individual. Various external environmental conditions including political, economic, and sociocultural factors stimulate or impede entrepreneurial activity. For example, the growing demand for healthy options stimulated entrepreneurial activities in the catering sector and triggered off the need for innovations in this area. Business strategy, organizational structure, organizational culture, and organization's resources and capabilities can affect the ability of the firm to engage in entrepreneurial activity. For example, standardized business strategies limit innovative solutions and the flexibility to adapt to the changing environment leads to missed business opportunities (Hall, 1991).

Reacting to changes in the environment requires moving the decision-making authority away from centralized structure towards a decentralized authority. In order to be capable of adequately responding to changes in dynamic environments, organizations often decentralize decision-making authority, have minimal hierarchical levels or structural layers, and adopt free-flow communication channels (Caruana *et al.*, 2002). These attributes permit flexibility and rapid decision making, and thus make a positive impact on an organization's opportunity seeking performance. In addition, organizational structure and culture should support and facilitate generation of new ideas. Internal resources and capabilities are also portrayed as essential foundations for business owners to develop their ventures. These resources include management skills, strategic planning, and capable human capital. The strategic combination of these valuable and unique resources creates competitive advantage and permit successful competition (Barney, 1991).

In SMEs, entrepreneurial orientation is grounded in the values, intentions, and actions of the individual who is in charge. In fact, a small firm is simply an extension of the individual entrepreneur, and therefore influenced by the inherent characteristics of the entrepreneur (Lumpkin and Dess, 1996). Bamberger (1982) suggests that owner's values and backgrounds are important determinants of a small firm's culture and its business practices. He states that "The manager's value systems determine whether a firm pursues the objective of

growth or independence, diversifies, enters foreign markets, adopts an active or passive behavior on the market” (p. 46). An ethnic minority-owned small firm is simply an extension of the owner, and therefore influenced by the inherent characteristics of the entrepreneur. In other words, owners are the key stakeholder group and one needs to pay particular attention to their backgrounds in order to be able to understand the entrepreneurial orientation of ethnic minority SMEs.

There may be numerous factors influencing ethnic minority entrepreneurship; however, the relevant literature suggests that cultural attributes of the entrepreneur including ethnicity, religion, language, education, and experience play important roles in developing entrepreneurial abilities and contributing to the survival of the entrepreneur’s business (Altinay and Altinay, 2006; Basu and Altinay, 2002; Basu and Goswami, 1999; Ucbasaran *et al.*, 2003; Westhead and Cowling, 1995). These factors influence the four constructs of entrepreneurial orientation, namely, innovation, proactiveness, risk taking, and autonomy, and thus the growth of the ethnic minority firm. The following section discusses the main factors influencing entrepreneurial orientation in ethnic minority SMEs.

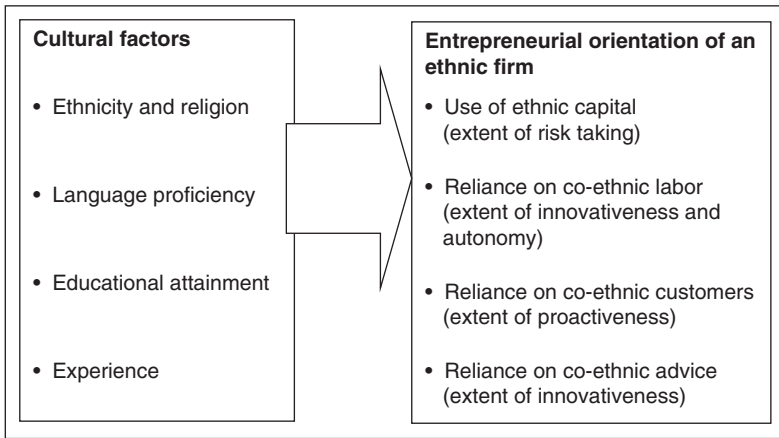
## Factors influence entrepreneurial orientation in ethnic SMEs

As noted above, there may be numerous other factors influencing entrepreneurial orientation in ethnic SMEs. However, ethnicity, religion, language proficiency, education, and previous experience particularly emerged as the main factors from an extensive literature review. Therefore, it was decided to focus particularly on these factors in this section. In short, this section aims to answer how cultural background (ethnicity, religion, proficiency in the host country language, education, and previous experience) can influence entrepreneurial orientation, in particular the use of ethnic capital (extent of risk taking), reliance on co-ethnic labour (extent of innovativeness and autonomy) and advice (extent of innovativeness), and targeting co-ethnic customers (extent of proactiveness) (Figure 20.1).

### Cultural background of the owner and the access to capital—risk taking

Ethnic minority entrepreneurship literature suggests that cultural background (ethnicity in particular) and religion of owners can influence the entrepreneurial orientation of their firms. For example, Bonacich (1973) claimed that immigrants are more





**Figure 20.1**  
Cultural background of an owner and entrepreneurial orientation of an ethnic firm.

entrepreneurs than local residents since they work hard and support each other. Bonacich also recognized that some immigrant communities have more entrepreneurial characteristics compared to other communities such as the Jews, Armenians, Chinese, and East African Asians who would likely become entrepreneurs and open businesses when they immigrate to other countries.

Korean immigrants differ from other immigrant groups such as European and Asian immigrants in the United States in terms of their high education level, job occupations, religion, urban and middle class origin, strong informal networks (high reliance on family labour, co-ethnic employees), and high degree of sectoral concentration, which enabled them to strengthen their ethnic solidarity and allowed access to significant amounts of capital when they immigrated to the United States (Park *et al.*, 1990; Yoon, 1997). In contrast to the Korean entrepreneurs in the United States, Chinese entrepreneurs lack human capital skills, labour market information, and money to invest on arrival in the United States. Therefore, Chinese immigrants were found to be relatively more disadvantaged compared with other immigrant groups in the United States (Kwong, 1997; Zhou, 1992). Therefore, the business success rate of Chinese businesses is lower than that of Korean businesses (Zhou, 1992). However, there is still limited empirical evidence about the success rate of various ethnic minority businesses in the tourism and hospitality industry.

In the United Kingdom, Pakistanis seem to be less successful than Indians in self-employment because of cultural factors,

for example the influence of religion which prohibits the payment of interest on (bank) loans. Pakistanis who wish to live according to Islamic values are less willing to integrate with Western culture and consequently have not performed as well as non-Muslim businesses (Rafiq, 1992; Smallbone *et al.*, 1999). It appears that the religion of the owner may constitute a barrier to capital access from banks and the Muslim managers rely on the capital from co-ethnics for their business start-ups and entrepreneurial activities. Contrary to these practices, there are other Muslim entrepreneurs such as Turkish and Turkish Cypriots who seem to be pragmatic. They borrow money from financial institutions especially if alternative modes of finance are unavailable (Basu and Altinay, 2002). Therefore, it is difficult to generalize for all immigrant communities that religion alone plays an important role in accessing the capital for investment. Other factors such as cultural background, education, and the immediate need for capital may influence decisions to find capital and take risks.

For the ethnic minority business owners the ability to communicate with others in the host country language is an important factor in finding capital. This is because it has a significant impact on social and economic integration (Levent *et al.*, 2003). Ethnic minority business owners who can communicate in the host country language can have a higher level of personal confidence to seek capital from banks and other financial institutions and rely less on co-ethnic capital. In the tourism and hospitality industry, entrepreneurs need capital to start up their businesses. These entrepreneurs' business ideas may range from a small takeaway shop or coffee shop to a restaurant. Similarly, small business owners who develop new ideas and concepts need capital to sustain growth. In most cases, they need capital to expand the capacity or to open another branch. There may also be cases that new ideas are either postponed or totally cancelled because of the entrepreneurs' level of education leading to a confidence or ability problem to develop proposals for loan application from banks or other financial institutions. Educational attainment also helps business owners improve their knowledge about business and equips them with the skills to apply for funds from banks and evaluate the risk associated with any investment decision (Basu and Goswami, 1999).

The entrepreneur's previous work experience in the field prior to opening a new venture is also an important factor that influences how the entrepreneur handles the start-up and the growth of the business (Hatch and Dyer, 2004). For example, in the catering industry, there are many owners who worked

either as waiters/waitresses or as chefs before they started up their businesses. Previous experience significantly diminishes the risk and influence positively the individual's intentions of founding a business (Goedhuys and Sleuwaegen, 2000). Previous experience facilitates the creation of networks which affect fund raising to start up their businesses. Informal networks such as friends and relatives can give them the opportunity to raise capital with minimum interest and also without going through the bureaucratic obstacles of financial institutions. In case they ask banks for loans, previous experience can also give them credibility in the eyes of lenders.

Finding capital at the lowest cost is an important factor both at the start-up and growth stages of an ethnic minority-owned business. There is no consensus about the influence of co-ethnic capital on ethnic minority firms' growth. Some researchers argue that reliance on co-ethnics for financial loans can be a barrier to business growth. This is because such a practice allows some flexibility to the business owners and thus leads to a "lax" management style (Altinay and Altinay, 2006). Contrary to these views, some argue that the business survival of ethnic minority entrepreneurs depends on the access to cheap family labour and close community networks, which may offer low-cost capital (Barrett *et al.*, 2002; Basu and Goswami, 1999; Basu, 1998). In ethnic SMEs business in the tourism and hospitality industry, the "widespread" approach appears to rely on the informal networks for financial loans at the start-up to minimize the risk and the cost of borrowings. Once the business starts to grow, then the business owners apply for financial loans from banks to sustain growth. These practices aim to reduce the risk of borrowings.

### Cultural background of the owner and the use of ethnic labour force

Cultural background and the religion of the owner in particular may affect the use of human resources management practices of the ethnic minority businesses in some cultures (Gudmundson and Hartenian, 2000). Owners of ethnic SMEs might have a strong preference for hiring candidates from their own religion and cultural background, even though the candidates may be less qualified to perform certain duties. The reliance on employees from their own religion and national culture may reflect the owner's attempt to strengthen what they call "brotherhood" within their own community. A high reliance on co-ethnic labour may imply that entrepreneurs belonging to that ethnic

group have a strong cultural identity that they wish to preserve (Altinay and Wang, 2007). Language difficulties can also influence the recruitment practices of the ethnic minority business owners. Those entrepreneurs who do not have good command of host country language may have to rely mainly on co-ethnic labour force and delegate responsibility to only their co-ethnics in order to be able to manage the firm (Levent *et al.*, 2003). This, however, may raise further challenges and problems.

Having or not having education and training in the field can have implications on recruitment. The owners with good education can break out of the ethnic enclave and recruit qualified people outside of their ethnic community. This in return can assist ethnic minority entrepreneurs both to integrate with the wider community and also to exploit the skills and mindsets of the outsiders. Those entrepreneurs who have attained higher level of education have the mindset and the skills to recruit people outside of the ethnic community and empower them to expand the breadth of perspectives and ideas. Looking at the nature of the hospitality industry, one can easily see that hospitality firms accommodate customers from diverse groups with different nationalities and cultures. The entrepreneurs with higher educational attainment usually develop the analytical and managerial abilities to screen the applicants and recruit better candidates in order to accommodate the diversity in consumers' culture-bound service and product preferences. Therefore, it should not come to us as a surprise to see a highly educated Greek-owned restaurant offering contemporary Chinese food experience to a diverse group of customers with its Chinese chefs and a group of waiters and waitresses from different nationalities and backgrounds.

The competitiveness of small and medium-sized businesses in the catering industry very much depends on their ability to differentiate themselves on the quality of the service they offer (Altinay and Altinay, 2006). They are, therefore, in need of employees who possess enough knowledge about the operations of the industry and the skills to deliver quality service which would meet and exceed customers' needs and expectations. Previous experience of the owners can also help them to find unique ways to differentiate their businesses from competitors. In particular, previous experience of owners can help assess the quality and suitability of potential employees for specific positions.

Cost of labour is the largest component of overhead costs in tourism and hospitality operations (Burgess, 2001; Harris, 2003). Therefore, ethnic minority SMEs in this industry tend to employ family members and co-ethnic employees

especially at the start-up. This gives them a competitive advantage over their counterparts because family members and co-ethnic labour enable them to reduce their labour costs and maintain a wage lower than the average payroll. In addition, immigrant entrepreneurs can have access to co-ethnic labour who are ready to work under less favourable economic conditions due to lack of qualifications, making it difficult for them to obtain employment in the mainstream job market or even due to their illegal status (Waldinger *et al.*, 1990). More importantly, in the case of ethnic minority-owned tourism and hospitality firms, recruitment of co-ethnic employees who know the ethnic products can help them inform the customers about the ethnic products. This can help ethnic minority business owners differentiate themselves at the service level. Increasing the proportion of the “co-ethnic labour force” can add “ethnic flavour” to what they offer to customers. This may be seen as an innovation and competitive advantage for ethnic minority SMEs.

In the foodservice sector, it is important that employees know enough about the products in order to be able to inform the customers about what they experience (Seo *et al.*, 2001; Stephenson, 1995). In the case of an ethnic catering outlet, offering an “authentic food and drink” or an “authentic experience” can inevitably require employing a “co-ethnic labour force” who knows about the cultural dimension of the food and food-serving experience. Having said that, there are many ethnic minority-owned hospitality firms which suffer from the consequences of recruiting relatives and co-ethnics because such a practice encourages nepotism in management and promotion issues. In addition, they cannot break out into the mainstream or tourist market because of the heavy reliance on co-ethnic labour. Recruiting a nationally diverse workforce can help them expand the breadth of perspectives and ideas available to the organization in making decisions and richer wider customer segments (Cox, 1991).

Empowerment of employees and managers is an important issue in tourism and hospitality organizations since it can lead to higher customer satisfaction and increased profits and sales (Baum, 2006; Lashley, 2001; Nickson, 2007). Empowerment provides employees with a sense of autonomy and control in the service process and this produces a positive emotional state from which stems additional commitment and effort. In turn, this produces better service quality and more satisfied customers, together with increased sales and more profits. Immigrant entrepreneurs make maximum use of family labour as not only the members of the family provide cheap labour support but also they can be empowered believing that it is their family business and they have to succeed (Waldinger *et al.*, 1990).

Family members, therefore, will try to reduce cost and offer better service and, when necessary, can take the ownership of problems and opportunities when the owner of the business (or head of the family) is not present.

However, in most of the small ethnic minority tourism and hospitality firms owners/managers prefer to have a “hands on management approach” and tend to centralize the decision making. Such a management approach neither gives a sense of authority and control to the employees (particularly non-family members) nor stimulates employee commitment to the workplace and the job. In turn, this brings about de-motivation in employees, lower service quality, and a decrease in sales and growth. Empowering non-family members in particular can help the ethnic minority businesses both to integrate with the wider community, including customers, suppliers, businesses, and banks, and also to exploit the skills and mindsets of those outsiders (Altinay and Altinay, 2006).

### Cultural background of the owner and choosing ethnic customers as target market

There is an ethnic as well as religious loyalty between ethnic businesses and their clients (Levent *et al.*, 2003). Religion, in particular, can be a source of trust and confidence between customers and the owner, which can create more-than-average loyalty and relationships between the ethnic firm and its customers. This intra-cluster ethnic loyalty offers potential competitive advantage for ethnic firms because the emotional attachment will bring the mutual trust that all long-term relationships need to have (Altinay and Wang, 2007). However, this comparative advantage may also create some barriers for break-out strategies in terms of new opportunities to expand the business and opening to new and non-traditional markets (Levent *et al.*, 2003). In the catering sector in particular, there are some Muslim business owners who are not willing to break out of their religious territories and, for example, sell alcohol or serve pork dishes if demanded by customers. Such a practice may limit their ability to sell products to this customer group and thus weaken their position against the firms that are prepared to diversify their products and services to accommodate customers' needs. However, it is very common to see ethnic restaurants in many big cities worldwide selling halal food that aim to target Muslim customers.

Fluency in host country language and familiarity with the culture undoubtedly provide the ethnic minority entrepreneurs

with opportunities in the wider mainstream customer market. For example, a study investigating business strategies of Turkish businesses in the United Kingdom showed that the survival and growth of Turkish businesses operating in the catering sector was highly dependent on meeting the expectations of existing and future customers (Altinay and Altinay, 2006). However, the business owners who had language difficulties could not communicate with customers other than the co-ethnics. Therefore, they received support from their children, who are mainly the second generation of immigrants, to facilitate the communication. In this study, it became apparent that communication with different stakeholder groups, particularly with customers, is a key to the successful operations of the catering businesses. Ethnic minority entrepreneurs need to possess good host country language communication skills in order to be able to break into the mainstream market successfully (Altinay and Altinay, 2006).

Owners and managers of ethnic minority businesses in the tourism and hospitality industry need to gather market intelligence in order to respond the changing customer trends. A higher level of education develops both the analytical ability and the computational skills of the entrepreneur to gather market intelligence and break out into the mainstream market, as well as communication skills to target a wide range of customer groups. In terms of the level of education, there seem to be differences among immigrant groups. For example, in the United Kingdom it was found that 25% of working-age Indians had higher educational qualifications, compared with 12% Pakistanis and Bangladeshis, and 29% Chinese. Similarly, the unemployment rate among Indians is 7.6%, compared with 17.1% for Bangladeshis and Pakistanis (Office for National Statistics, 2001). One may also claim that the level of education among ethnic minority groups may be very different between the first and second generation of each immigration group.

In terms of expanding a business, recent research found a positive effect of one's educational level on the likelihood to perceive entrepreneurial opportunities (Clercq and Arenius, 2006). For example, the Greek Kailis brothers attribute their success as exporters of lobster and other seafood to their secondary/tertiary qualifications which, they maintain, better equipped them to remain flexible and open to market forces and opportunities (Peters, 2002). Previous experience can also assist owners to identifying new market opportunities (Perez and Pablos, 2003) and diversify their products and services. In circumstances where the context of the new business is similar to the one where the entrepreneur gained earlier, s/he might

be able to capitalize on the previous relationships with customers and suppliers in their operations (Haber and Reichel, 2007).

Ethnic minority businesses rely heavily on selling ethnic products to co-ethnic markets particularly at the initial stages of the business where it gives an additional advantage (Ram and Hillin, 1994; Waldinger *et al.*, 1990). This is particularly the case in the catering sector where dealing with co-ethnic customers influences business growth because the business owner is always around to assert control over the operations, especially in addressing customer problems. However, heavy reliance on co-ethnic customers and failure to attract customers from the mainstream market can be the main constraint to business growth (Basu, 1998; Jamal, 2005; Smallbone *et al.*, 1999). For example, if an ethnic minority business owned by an Indian stays within the community and sells only chicken biryani to Indian customers, then their business growth will be limited. In other words, inability to attract customers from outside of the Indian market by diversifying their product range will be the key constraints on the growth. Therefore, to enable the growth of a business, a strategic “breakout” into the mainstream market of local residents is needed. In addition, ethnic minority SMEs in many cities and urban tourism destinations such as London, Berlin, Paris, New York, Orlando, and Toronto do target not only their ethnic markets and local residents but also tourists visiting these cities. This implies that the owners of these SMEs not only need to have a good understanding of the needs and expectations of tourists from main tourism markets but also should be able to learn some key words and expressions from different languages and prepare menus in several languages.

## Cultural background of the owner and the use of ethnic advice

Ties between people with the same religion and ethnic background are most likely to be realized through financial loans and giving trusted advice (Feld, 1984; McPherson *et al.*, 2001). People socialize with friends, relatives, and associates and ask advice from these parties who belong to the same religions and ethnic background. For example, there are many Indian-, Chinese-, Korean-, and Turkish-owned catering businesses in the United States and United Kingdom whose information gathering requirements may be satisfied by contacts from social/informal “networks.” There is little, if any contact with “formal” support bodies such as trade associations, Chambers of Commerce, and other business links. Even if there are such associations, advice is usually gained through organizations or individuals with an



affinity to the operations of firms who have an owner/manager from the Indian, Chinese, Korean, or Turkish community with similar religious and ethnic background.

Proficiency in the host country language affects the extent they use mainstream business support agencies. Ethnic minority-owned SMEs often rely on self-help and co-ethnic sources of advice because they do not have a good command of host country language, which results in lack of effective communication with the support agencies. Due to language barrier, they may not even be aware of trade associations and support agencies. In the United Kingdom, a series of workshops and short courses are being held by local councils and business support agencies for the ethnic minority restaurant and café owners about food hygiene, environmental sustainability, and management training (Wealden Food and Safety Bulletin, 2005). However, most of the time council and mainstream business support agencies do not communicate in the language of the ethnic minority group and such a practice acts as a barrier for the dissemination of the information on business support issues for those entrepreneurs who do not feel comfortable with the language of the host country.

In the context of business planning and development, business owners have regular meetings with banks and venture capitalists and receive feedback on their applications for financial loans (Richbell *et al.*, 2005). Education can contribute to the development of good relationship with a credit officer (banker), as can good interpersonal skills (Basu and Goswami, 1999; Storey *et al.*, 1989). It is also possible that owners with good education have a higher level of personal confidence to seek advice from banks, financial institutions, and mainstream business advisers (Coleman, 2005; Rogers *et al.*, 2001; Young, 2002). Previous experience further creates a “cognitive framework” that facilitates pattern recognition and therefore favours the identification of sources for advice and information. Ethnic minority business owners who have had experience of gaining advice from financial institutions, banks, and other consultancy firms might find it easier to collect information or get advice from these sources. Contrary to these, the ones who have had only the experience of getting advice from their informal networks such as family members and friends tend to rely solely on these sources (Altinay and Altinay, 2006).

Information support is important for business growth in every industry (Storey *et al.*, 1987). Ethnic minority entrepreneurs rely very little on mainstream institutional information from banks, accountants, business advisors, and support service providers (Fadahunsi *et al.*, 2000; Marlow, 1992; Ram

and Sparrow, 1993). Instead, informal social networks such as family members and friends are more common (Basu, 1998; Fadahunsi *et al.*, 2000). From the business growth point of view, the research suggests that information about markets is very important for growth and the businesses that maintain strong ties and informal networks have advantages compared to their counterparts (Basu and Altinay, 2002; Werbner, 1990; Waldinger *et al.*, 1990). For example, there are small ethnic minority tourism and hospitality firm owners who seek advice from business consultants especially for their start-ups. This however raises their cost of operations and impact upon the growth negatively. The ones who rely on the advice and information from the informal networks have comparative advantage over the others because they shave costs off the advice/information element of the value chain at the start-up. However, it is important to note that these firms might need advice from mainstream institutional information from banks, accountants, business advisors, and support service providers in order to improve their marketing, human resource, financial, and operations practices in the growth stage of their operations.

## Conclusions and recommendations

This chapter aimed to discuss and evaluate factors influencing entrepreneurial orientation of ethnic minority SMEs in the tourism and hospitality industry. From the above discussions, we can draw a number of conclusions for the academics and propose implications for the practitioners and policy makers. First, owners of ethnic minority SMEs play a crucial role in setting a direction and influencing the culture and management of these firms. Therefore, one needs to understand and evaluate the cultural background and skills of their owners even before providing specific recommendations for these ethnic firms. The background and competencies of the owners very much determine the extent an ethnic minority-owned SME can operate proactively, communicate, innovate, take risks, and delegate autonomy to the employees and managers.

Second, the growth of SMEs is a process that has two main stages, namely, start-up and growth. It is clear that cultural background, religion, language skills, education, and work experience of the business owner influence these two important stages. Therefore, owners of ethnic minority-owned SMEs need to consider and appraise their cultural attributes and skills even before they start up the business. These factors are the antecedents of the set-up and growth of a business that

they should possess prior to the start-up of a business. For example, an adaptation of cultural and religious background to the changing global economic conditions could help them further exploit their multifarious cultural heritages and contribute to the economic and social development of a broad-based community.

Third, accumulated experience of working as an employee, manager, or an entrepreneur in the related field can help them prevent or solve customer and employee–management issues by drawing on a “cognitive framework” that facilitates pattern recognition and favours identification of solutions and opportunities. Fourth, those owners who have a higher level of language proficiency of the host country and business education are better equipped to communicate and understand bankers, employees, suppliers, and customers, gather market intelligence, and develop appropriate strategies. In return such skills then lead to better performance and a higher growth in their businesses. The owners with a higher level of education (i.e., business degree) possess the mindset and the skills to adopt a more professional approach to human resources, marketing, finance, and strategic development. More specifically, they can invest more into employee training, offer incentives to their employees to retain them, use various marketing channels (not only ethnic newspapers or radio) to target the diverse consumer groups, and make more use of recent technological innovations in operations and marketing. The ability to communicate with customers, employees, bankers, and other stakeholders in host country’s language is an important factor which in turn has a significant impact on their ability to attract customers and access necessary resources such as business advice and start-up bank loans.

Finally, for ethnic minority SMEs in the tourism and hospitality industry, competition is no longer about gaining and increasing market share, but also about finding employees who are well trained, dedicated, and keen to be a part of operations and the strategic direction of the company. On the one hand, customer expectations are rising across the range and the competition is intensifying to gain market share and, on the other hand, the tourism and hospitality industry is struggling with the general shortage of skilled staff (Baum, 2006; Hospitality and Catering Industry Report, 2003). In a labour-intensive industry, competitive advantage requires having employees who are equipped with the necessary skills and competences and empowering them to deliver optimum service quality. However, it is a great challenge for the SMEs to recruit skilled labour force as the industry is faced with skills shortages.

In addition, skilled employees prefer to work for larger companies that offer better payment and benefits, employee reward schemes, and career opportunities (Small Business Research Trust, 2001).

In terms of recommendations for owners and policy makers, we believe that the owners of ethnic minority SMEs should continuously reconsider the strategic position of their firms in the competitive market. This certainly requires the adoption of the entrepreneurial orientation of their firm that would allow change and align the firm's activities with the dynamic environment. Such a strategic move necessitates the notion of openness to new ideas. Operating within the community and targeting only their co-ethnic customers by working closely with co-ethnic suppliers, relying solely on co-ethnic capital, co-ethnic employees, and co-ethnic advice might offer them a "secure" environment for business opportunities, particularly in the early stages of their business development. It is more likely that they will survive with their socioculturally embedded attributes, including education, language, religion, and experience. However, in order to be able to compete, they need to align their entrepreneurial orientation with the changes in the broader environment. This can only be done by integrating their cultural attributes to the social, economic, and cultural realities of the host country and the global markets. Ethnic minority business owners who have been reluctant to allocate time and financial resources for personal development in the past should now start investing in the development of their business and communication skills. They should further invest in recruiting, training, and empowering their entrepreneurial employees while encouraging accountability. Another alternative would be developing succession plans for their children who are culturally more integrated with the host country and investing in their education.

Policy makers and members of local councils should establish and use the right mechanisms to help these ethnic minority business owners so that they can improve their skills in communication, negotiation, finance, marketing, and strategic planning. For ethnic minority business owners, especially for the first-generation immigrants, doing business in another country might mean a radical cultural shift in their business mentality. Specific workshops on marketing, leading people, communication, finance and accounting, and strategic planning can be helpful for the current and potential ethnic entrepreneurs. Certainly depending on their ethnic background and language proficiency, these workshops can be delivered in multiple languages. These training workshops can be broadcast

on local TVs. However, it is also possible that owners of some ethnic minority SMEs may still be in the early stages of cultural shock and therefore need to have a better understanding of the host county culture and business environment before attending workshops and training programs on marketing, communication, finance, accounting, and strategic planning. There is no doubt that their survival and success can contribute to the economy and social well-being of the country.

Community-based organizations and ethnic accountants should be supported by the government to help integrate these business owners into the host county business environment. Among various channels “ethnic accountants” are perhaps one of the most appropriate ones as ethnic minority business owners are reluctant to attend the workshops organized by the local council and business development units because of the “time constraint.” However, they seem to spend a considerable amount of time (both social and formal occasions) with their accountants. It is also important that both community-based organizations and government policy makers target ethnic minority SMEs with growth potential and help them develop succession plans as well as the appropriate human resource, marketing, operations, finance, and strategic management practices to change the value systems in their firms and secure long-term growth.

As noted earlier, there have been limited conceptual and empirical studies looking at ethnic minority SMEs. Given this, this area offers many research opportunities. For example, researchers can empirically investigate how far the cultural background of owners influences the entrepreneurial orientation of ethnic minority SMEs in tourism and hospitality organizations. Comparative studies can be undertaken looking at problems and success factors of SMEs from various cultural backgrounds in one country or in several countries. Research studies can also look at marketing, human resource management, finance, and strategic planning practices of ethnic SMEs in different sectors of the tourism and hospitality industry. Providing empirical evidence about why entrepreneurs from some cultures in certain sectors are more successful and what the success and failure factors in this journey are would be helpful to academics, practitioners, government officials, and policy makers.

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