

**IMPACT OF CULTURAL AND INSTITUTIONAL DIFFERENCES ON
ETHNIC ENTREPRENEURS' FINANCE NETWORK AND ITS
EVOLUTION**

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ABSTRACT

The purpose of this paper is to determine the formation of finance network of ethnic entrepreneurs and behaviour of this network on entrepreneurship. The study uses a purposive sampling method. The sample population was identified via developing contacts through the business community, advertisements in the local newspapers and respondents' referral, the so-called snowball sampling method. The current study found that relational ties made a particularly noteworthy contribution to entrepreneurship for SL, compared to the UK. The results for this study show an increased understanding of the business surroundings for policy makers, NGOs, business support institutions and the ethnic entrepreneurs.

EXECUTIVE SUMMARY

This paper examines ethnic entrepreneurship in Sri Lanka and the UK by investigating the relationship between the network characteristics of ethnic, small business owners and their entrepreneurial experiences. The research question of this paper is 'how finance network change when the business grows and why these networks evolve'. (Kinunda-Rutashobya, 1999) stated that entrepreneurial activities are different from one socio economic environment to another. These differences are because of dissimilarities in economic, political, historical and social circumstances, laws and regulatory framework, policies and level of state involvement, formal and informal socioeconomic institutions, type and distribution of resources and social cultural factors. These differences may influence the networking activities of the entrepreneurs. Subsequently, this study posits that these institutional and national cultural differences have impacted upon entrepreneurial networking its evolution.

This thesis' aim is to examine how and why finance networks develop, from the perspectives of ethnic, small business entrepreneurs. To achieve this aim, a qualitative study was conducted on 107 ethnic, small business owners in Sri Lanka and 86 South-Asian ethnic, small business owners in the United Kingdom using semi-structured interviews. Data was analysed using non-parametric statistical techniques.

The results supported the conflicting pattern from the literature and were able to reconcile it. The analysis confirmed that cultural and institutional differences shape the network density and ties strength. The study suggested that in uncertain and potentially risky environment compared to the other, being able to draw on well-established and trust-based relationships is a highly valuable asset.

The result for this study has implications for other researchers interested in researching network development of entrepreneurs. It also alerts managers, entrepreneurs and investors to craft networking strategies and methods that shape to the institutional and cultural atmospheres of a given country.

INTRODUCTION

Since the early 1970s ethnic entrepreneurship has been of growing interest to researchers (Hosler, 1996). The increased importance of the subject is shown in the fact that the UK and Western Europe are experiencing a high-growth rate in their ethnic population, leading to a more visible presence of ethnic businesses in major cities (Woon, 2008). Since the industrial revolution, plenty of jobs have been available, and ethnic immigrants have arrived in the major cities of the UK. The majority of migrants in the UK come from developing countries, and their numbers are increasing steadily over time. However, it is different in Sri Lanka. The migration in Sri Lanka is due to employment creation lagging behind an increase in the labour force, as a result of this, migrants pour into the cities and towns. Those who fail to find a job in the labour market are pressed into self-employment, especially in the informal sector. The majority of the small business activities in developing countries have taken place in the informal sector (Rogerson, 1998 cited in (Mitchel, 2003).

Existent research shows that networks play a key role in ethnic business success (Aldrich & Zimmer, 1986), (Bonacich, Light, & Wong, 1977), (Dhaliwal, 1998), (Dyer & Ross, 2000), (Iyer & Shapiro, 1999), (Peterson & Roquebert, 1993), (Ram, 1994), (Teixerira, 1998), (Waldinger, 1988). The support provided by these networks can be informal, from family and friends, or from the wider community including religious, other organisations, and business people. Economic sociologists call these social networks as “social capital”, and they believe this is an essential component of an ethnic entrepreneur’s success (Rath & Kloosterman, 2000). According to (Aldrich & Waldinger, 1990), entrepreneurship is embedded in networks of continuing social relations. These networks, in turn, assist in the successful operation of firms (Waldinger, Aldrich, & Ward, 1990). However, little is known about how ethnic entrepreneurs establish themselves in Sri Lanka. While a wealth of research exists in the general entrepreneurship business literature, performance of ethnic entrepreneurship in Sri Lanka has attracted only limited attention. Also, for the UK, there are many studies existing about immigrant entrepreneurship, but the performance of South Asian ethnic entrepreneurship has received relatively little attention (Aldrich, Cater, Jones, & McEvoy, 1981), (Curran & Blackburn, 1993). This study adapts a comparative perspective on the formation of finance networks of ethnic entrepreneurs and the behaviour of finance networks across the UK and Sri Lanka.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

There is an intense debate about the valuable configuration of social networks for resource mobilisation processes. For some scholars, redundant ties with many strong contacts - “*closed networks*” - are more effective, as they foster trust and cooperation among the actors (Ahuja, 2000), facilitating the exchange of high-quality information (Gulati, 1998) and complex (Hansen, 1999) and tacit knowledge (Lundvall, 1993). These network configurations may be largely beneficial to obtain scarce resources (Lovas & Sorenson, 2008). According to other scholars, however, more “*open*” contacts with many weak relations and structural holes (Burt, 1992) have more rewarding, since they allow that persons make contacts with various unconnected actors and search brokerage opportunities (Burt, 1992). Therefore, this type of network configuration makes possible access to diverse information, which can be particularly significant in the establishment of new opportunities (McEvily & Zaheer, 1999).

In terms of business development process, the development influences the access to outside resources. (Hite & Hesterly, 2001) suppose the existence of two stages (emergence and early growth) and explore the changing resource requirements of start-ups in different stages of development of the firm, and their relationship with diverse network configurations. From this analysis, we can conclude that, at the early stages of the entrepreneurial process, networks with other actors can be central to find out and access information, opportunities and resources (Batjargal, 2003); at this stage networks are mainly informal and it is based on earlier personal contacts and the network structure. In later stages, network contacts tend to be more formal and centre on the firm's business activity, and structural holes become more salient for firm's success (Hite & Hesterly, 2001). In later stages, firms expand strategic networks, which may be inter-organisational, in nature (Butler & Hansen, 1991).

Other scholars, also within this life-cycle approach, discuss on alliance innovation networks using two different stages - exploration and exploitation. They conclude that diverse forms of cooperation are needed at different stages. Some scholars have adopted a co-evolutionary approach, aiming at the dynamics of alliance networks. However, it is still essential to increase a better knowledge about how network vary over time, and how those differences impact on access and mobilisation of resources required for the firm establishment and growth. For example,

(Koka, Madhavan, & Prescott, 2006) distinguish four different patterns of network development i.e.; expansion, churning, strengthening and shrinking. (Gilding, 2008) finds a path from weak ties and diversity in the early stage towards stronger ties and increasing density in later stages. Another view of literature is related with the stability in networks. (Gulati, 1995) finds that firms are expected to maintain more relationships with their existing actors and their actor's actors. (Walker, Bruce, & Beijian, 1997) examine that new relationships reproduce the inherited network configuration, and establishes that there is a propensity for reproduction the network over time. Likewise, (Adobor, 2006) considers the role of personal ties through time and concludes that those ties lessen risk in alliances but may encourage some inertia precluding the ending of uncertain corporations.

However, so far there is little information available as to how these networks change when the business grows and why networks evolve. (Brass, Galaskiewicz, Greve, & Tsai, 2004) identify a number of reasons why networks evolve: First, changes can be explained by rules of attachment that affect subsequent network evolution. Second, entrepreneurs differ according to their individual propensity and capability to form networks (Brass et al., 2004), (Burton, Sorensen, & Beckman, 1998), (Hite & Hesterly, 2001). Third, given the different nature of the industry in which the entrepreneurial venture was founded resource needs may be higher. Fourth, outside pressures may impact upon the network and force it to change. Fifth, clearly not all ties are created equal. In fact, the compositional quality of a tie, as argued by (Borgatti, Jones, & Everett, 1998), may influence firm outcomes. Sixth, the tension between the hope of acquiring new capabilities and the fear of losing control over one's own resources may explain network reproduction and change (Burt, 1992), (Das & Teng, 1998). Seventh, (Burton et al., 1998) and (Hite & Hesterly, 2001) suggest that networks evolve as entrepreneurs leverage prior to firm affiliations and previous career experiences to bring broader functional networks to their new venture and influence the emerging firm's success. This study employs a life cycle approach to see why network evolve. In this study, business are divided into three stages as 1) opportunity identification, 2) Opportunity evaluation, and 3) opportunity exploitation (running an established firm) (see also (Wilken, 1979). During these three stages, networks may be utilised for different purposes, and the different stages may require different resources.

Ethnic entrepreneurs, Sri Lankans, Pakistanis and Tamils, in the UK and SL have some common characteristics, but, they may change environment in which the business operates. (Kinunda-Rutashobya, 1999) stated that entrepreneurial activities are different from one socio economic environment to another. These differences are because of dissimilarities in economic, political, historical and social circumstances, laws and regulatory framework, policies and level of state involvement, formal and informal socioeconomic institutions, type and distribution of resources and social cultural factors. These differences may influence the network activities of the entrepreneurs. It is believed that individuals from diverse institutional background form and maintain connections in their unique manner. These personal networks do not only ease the social and economic processes, they become the basis of rich background information and social phenomena (Fischer, 1982). Individuals bring their own experiences, beliefs and resources to relationships. Different cultures and ethnicities are directed at different networking activities, and differences in the pattern, structure, utilisation and the process, can be properly attributed to dissimilarity in cultures. This study is based on the South Asian ethnic, small businesses in the UK and SL. A fairly high degree of cultural and institutional differences can be seen between these two groups. Therefore, it is possible to posit that these institutional and cultural differences have impacted upon entrepreneurial networking its evolution.

RESEARCH DESIGN

This study investigates the network relationship of South Asian ethnic, small businesses in the UK and SL; conducting 193 semi-structured interviews with entrepreneurs working in groceries, restaurants and cafes. The ethnicity is used, in this study, to indicate the geographic origin of the migrants. South Asian ethnic, small business entrepreneurs were chosen as the focus of the study because the growing phenomenon of Asian entrepreneurship remains insufficiently studied. It is worth noting that developing personal relationships and being part of the informal ties in the ethnic community is highly significant in facilitating and maintaining access to ethnic minority entrepreneurs (Blackburn et al., 2005). In the case of this study, the fact that the researcher shares the same language and ethnic background as the South Asian entrepreneurs helps to obtain and maintain access to this ethnic group. In particular, those personal contacts help the researcher to gain access to the entrepreneurs.

In the UK, South Asian businesses include Sinhalese, Pakistanis and Tamils. The study ignores the dominant population of British whites. In Sri Lanka, the ethnic entrepreneurs include Sinhalese, Pakistanis and Tamils. The study includes Sinhalese, who are migrants from the Southern part of the country¹. The study selects these three ethnic groups to make it possible for the study to make a comparison with the UK ethnics who have a South Asian background.

The study uses a purposive sampling method, identifying areas of business concentration and premises on high streets. The sample population was identified via developing contacts through the business community, advertisements in the local newspapers and respondents' referral, the so-called snowball sampling method. An attempt was made to include entrepreneurs operating not only in groceries but also restaurants, cafes and takeaway shops. In addition, the number of potential interviewees grew as each respondent was asked to provide names, addresses and telephone numbers of other South Asian entrepreneurs. This proved to be particularly useful in gaining access to potential South Asian entrepreneurs. In some cases, the interviewees themselves telephoned their known businessmen and convinced them to participate in the research. This type of sampling is often described in the literature as purposive sampling or snowball sampling (Robson, 2002). Purposive sampling enables the researcher to use their judgement in selecting people with the appropriate experience and expertise that would best enable them to answer the research questions and, therefore, meet the researcher's objectives (Altinay, 2009). Snowball sampling acts as a chain referral method, to identify potential participants based on the recommendations of other business owners.

The UK sample consisted of 86 South Asian ethnic, small business owners who own micro businesses (minimum 2, maximum 10 employees) in different boroughs of London. The Sri Lankan sample included 107 SL business entrepreneurs who own micro businesses (minimum 2, maximum 10 employees) in different districts of the Western province. A questionnaire was administered face-to-face with 193 owner/managers, 95.3% of whom were business founders. Most of the interviews were conducted in English and lasted about one and a half hours.

¹ The migration in Sri Lanka is due to employment creation lagging behind an increase in the labour force, as a result of this, migrants pour into the cities and towns.

Respondents were asked closed as well as open-ended questions on a wide range of issues relating to their sources of resources and information, utilisation of network relationships and how they manage their relationships with different actors. The questionnaire included multiple name generator questions to collect network relationship and relationship structure of the sample. The qualitative survey data was analysed using parametric and non-parametric statistical techniques.

RESULTS

This section first describes the basic characteristics of the data. It further presents the qualitative and quantitative results of network characteristics across the UK and SL.

DESCRIPTIVE STATISTICS

Profile of Entrepreneurs

The entrepreneurial characteristics for investigation include the male-female distinction, the age distribution of the entrepreneurs, their previous income earning activities, the educational level of them and their experience. These characteristics help to understand the nature of the people who turn themselves into business entrepreneurs. With regard to the male-female distinction, as shown in Table 1, it is evident in both the UK and SL sample that the majority of business owners are male. Of 89 UK business owners, 84.5% are male. Among the SL sample (N = 107), male constituted 81.3 per cent of the sample.

In this survey, it was found that 67.9 per cent of the business owners in the UK started their business career between the ages 30-45. Of which 37.3% fall into the 35 – 45 age-group and 30.6 per cent fall into the 30-34 age-group. Only 4.7% belong to under age 30. In contrast, 36.4% of SL entrepreneurs fall into over-45 age group and 35.5 per cent fall into the 35-45 age group. More than half of them belong to the 35 & over 45 age-groups. It is clear that ethnic minority entrepreneurs in the UK were younger compared to SL entrepreneurs. It indicates that SL entrepreneurs needed a longer time to gain either sufficient experience or confidence to initiate entrepreneurial activities. Of 86, 9.3%, respondents were belonging to the second generation and were born in the UK.

Table 1
Frequency distribution of characteristics of the entrepreneur

Characteristics	UK (N= 86)	SL(N = 107)	χ^2/F	P value
Gender			2.527	0.082
Male	89.5	81.3		
Female	10.5	18.7		
Age			11.254	0.010**
<29	5.8	4.7		
30-35	38.4	24.3		
35-45	39.5	33.6		
45>	16.3	37.4		
Ethnicity			8.324	0.016**
Sinhalese	33.7	43.0		
Pakistanis	31.4	40.2		
Tamils	34.9	16.8		
Education				
Below A/L	48.8	48.6	0.01	0.544
A/L or Above	51.2	51.4		
Work experience	5.26 ^a	7.99 ^a	37.428 ^b	.000**

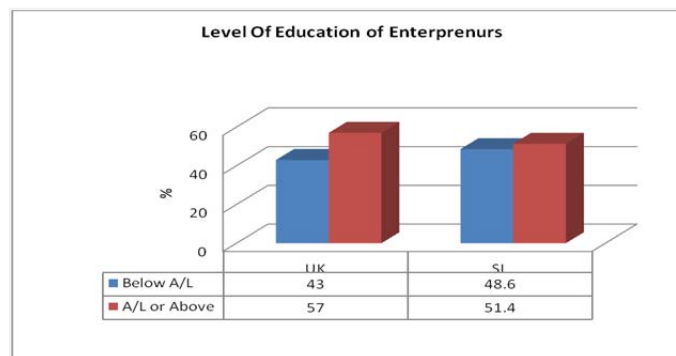
Note:a: the values are Mean scores

b: the value is a F statistics from running an ANOVA test

** (P ≤ 0.05) (two tailed tests)

With regard to the ethnic distinction, as shown in Table 1, it is evident in SL sample that the majority of business owners are Sinhalese (43%) and Pakistanis (40.2%). Tamil constituted 16.8 per cent of the sample. Of 89 UK business owners, 33.7% are Sinhalese, 31.4% are Pakistanis and 34.9% are Tamils.

Figure 1
Level of Education



Education and prior business experience represent general and specific human capital that enables individuals to organise and establish a business. Both samples do not differ appreciably in these crucial resources. As shown in Figure 1, approximately 50% of both the UK and SL entrepreneurs have a tertiary qualification (A/L or above). The educational attainment directly influences the implications for the likelihood of business ownership (Borjas, 1986), (Evans & Leighton, 1989; Evans, 1989), (Butler & Herring, 1991).

Previous business experience has been singled out as a key factor promoting business growth within an ethnic community. Entrepreneurs, in Sri Lanka, exhibit quite a varied amount of prior business experience. Entrepreneurs in both the UK and SL sample had engaged in some form of income-earning activities before they started or inherited the existing business. These activities were reported in Table 2.

Table 2
Prior occupation

Prior occupation	UK	SL
The owner of another firm	9.1	11.9
Worker in a small firm	37.6	28.4
Worker in a large firm	21.4	10.6
Worker in a public sector	0	9.6
Other	2.1	1.3
Missing (not mentioned)	30.8	38.3

Source: Field survey 2007

The figures in Table 2 say that almost 39 per cent of SL entrepreneurs had worked for either other small firms (28.4%) or large firm (10.6%). Similarly, over 50% of SL business entrepreneurs had work experience either working in small firms (37.6%) or larger firms (21.4%). Accordingly, almost 56% of SL ethnic, small business entrepreneurs and over 60% of the UK ethnic, small business entrepreneurs had experience before they started or inherited their existing business ventures.

Table 3
Characteristics of the Enterprise

Table 3 Frequency distribution of the business characteristics				
Characteristics	UK (N= 86)	SL(N = 107)	χ^2	P value
	90.7	N/A	-	-
Generation status²				
Size of the Business			.787	0.675
<5	61.6	66.4		
5-10	34.9	31.8		
10>	3.5	1.9		
Nature of the business			.059	.462
Hospitality	37.2	35.5		
Grocery	62.8	64.5		

** (P ≤ 0.05) (two tailed tests)

Source: Field survey 2007

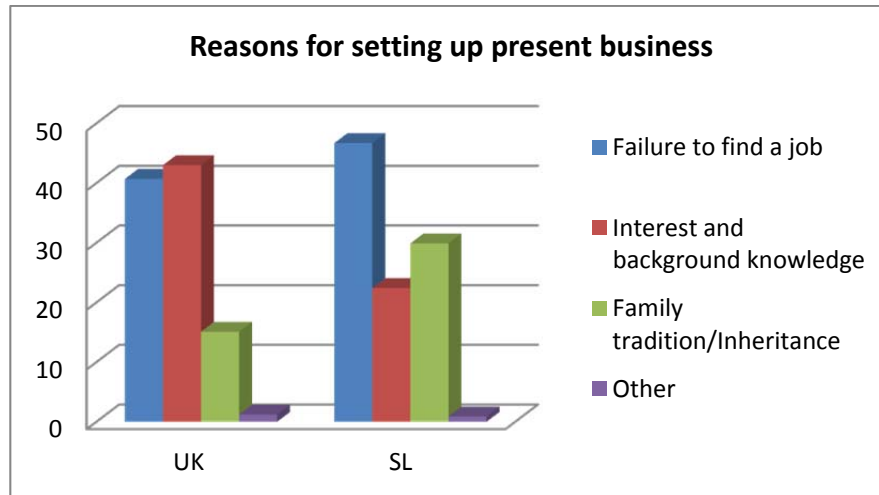
As revealed in the Table 3, the majority of the UK entrepreneurs interviewed (90.7) belong to the first generation of immigrants whose venture falls in the categories of either sole trader or micro entrepreneurs (1-5 employees). In Sri Lanka also, the majority of respondents (66.4%) falls in the categories of micro entrepreneurs. Moreover, the majority of the businesses in both samples are grocery store businesses.

Reasons for setting up present Business

It is also vital to recognise the reasons for setting up a present business. Figure 2 presents that more than 40% respondents were motivated by the interest and background knowledge. The second main reason is failure to find a job. In contrast, for SL entrepreneurs, most common motivation factor for setting up a business is failure to find a job (45%) and family tradition/inheritance (38%).

² Data on generation status of the SL entrepreneurs is missing. Therefore, generation status is not included into the regression model.

Figure 2
Reasons for setting up a business



Source: Field survey 2007

Obstacles in doing Business

Respondents were asked what the major barriers in doing businesses are. Comparing the two samples, Table 4 reveals that a number of barriers relevant to each country.

The results show that main obstacle to doing business for the SL entrepreneurs are finance (71%), inflation (68%), policy instability (65%); corruption and bribery (45%) and inadequate infrastructure (35%). More than half of the entrepreneurs (71%) in SL state that they could not expand the business due to lack of finance. Some entrepreneurs state that they are not solvent, partly because they directly spend all their earnings and could not save any money for an expansion. One entrepreneur remarked that

'I like to expand my businesses. But, I have no facilities, for example, today, we are buying and selling. From this money, we are living. The next day, all the money, is finished. We can't put money aside. If I get more money, I can expand the business.'

(SL grocery owner)

Small business entrepreneurs thought that they could only expand with sufficient money. Also, 65% entrepreneurs in SL claim that the government policy prevents their business expansion into

new markets. Some entrepreneurs remark that they have problems of selling their products outside the region because they do not have a permit.

Table 4
Obstacles to doing business

	UK (%)	SL (%)
Regulations for starting a business	22	12
Price controls	8	0
Regulations on foreign trade	18	31
Financing	42	71
Labour regulations	22	12
Tax regulations/or high tax	47	22
Inadequate infrastructure	0	35
Policy instability	0	65
Safety/environmental regulations	25	12
Inflation	0	68
General uncertainty of costs of regulations	0	7
Crime and theft	27	15
Corruption/bribery	0	45
Terrorism	2	11
Other		

Source: Field survey 2007

Entrepreneurs in all ethnic groups in Sri Lanka express that the conflict prevent them from expanding (15%) the business. The reason is any expansion could lead to damage or great costs. Therefore, expanding is not considered as worthwhile. This confirms to findings of a study on business in Palestine, where entrepreneurs also do not expand due to insecure situation. Some entrepreneurs (45%) do not want to expand, because they fear becoming a target for bribery and gun-culture. Consequently, some entrepreneurs employ only family members and remain in subsistence. Some entrepreneurs stated that the economic situation in the country limit their

market. In contrast, UK respondents face different obstacles when running their businesses. A tax regulation is seen as problematic (47%). Finance is also seen as problematic (42%). Crime and theft is also seen as a significant problem (27%) for the UK entrepreneurs.

Summary of the basic survey findings

	UK	Sri Lanka
Basic characteristics of entrepreneurs	Male oriented	Male oriented
	Majority in age 30-45 age group	Majority in between 35 & more than 45 age group
	Good formal education	Good formal education
	Good work experience	Good work experience
The reason for setting up the present business	Interest and background knowledge	Failure to find a job
	Failure to find a job	Family tradition
Obstacles in doing business	Tax, finance , crime & theft	Finance , economic/political instability, corruption and bribery

Source: Field survey 2007

QUALITATIVE RESULTS

Respondents were then asked about contacts that could provide financial support for their businesses. Accordingly, the following sources were identified as external actors who provided finance.

Family: Table 5 presents the results as to whether entrepreneurs used family as sources of finance to capitalise their businesses. The results revealed that the majority of respondents in both the UK and SL relied on their family members for providing capital for their business. Comparing the results reveals significant differences between the two countries, in the use of family for finance.

Table 5
Sources of Finance

Sources of Finance	UK	SL	χ^2	P value
Family				
Discovery stage	95.3	77.6	12.151	0.000**
Start up Stage	86.0	70.1	6.894	0.006**
Ongoing stage	69.8	56.1	3.801	0.035
Friends				
Discovery stage	19.8	16.8	4.338	0.054
Start up Stage	36.0	22.4	3.105	0.055
Ongoing stage	34.9	23.4	0.279	0.366
Business acquaintance				
Discovery stage	1.2	0.9	0.024	0.694
Start up Stage	3.5	2.8	0.074	0.551
Ongoing stage	5.8	52.3	47.738	0.000**
Supporting Institutions				
Discovery stage	N/A	N/A	N/A	N/A
Start up Stage	3.5	2.8	0.74	0.551
Ongoing stage	5.8	4.7	0.126	0.484

** ($P \leq 0.05$) (two tailed tests)

N/A = Not available

Source: Field survey 2007

Respectively, 95.3%, 86% and 69.8% of respondents in the UK sought finance from their family members in the discovery stage, start up stage and ongoing stage. The following quotes help in understanding how family aids entrepreneurs in financing their businesses.

'I have some relatives in Canada. My wife's brother gave me £5000 to start the business. I bought a grocery from Kingsbury – my brother-in-law helped me look at the shop and buy goods. My sister and brother-in-law in Norway also supported me.'

(UK - grocery owner)

'Father helped me start my businesses... My three brothers help me with money from abroad when I have a cash flow problem.'

(UK – small restaurant owner)

'The entire family is helpful – everyone lends a hand when I have to prepare for an order.'

(UK - cafe owner)

However, a substantial number of SL respondents, i.e. 76.6% in the discovery stage, 70.1% in start up stage and 56.1% in ongoing stage, sought finance from family ties. Three store owners explained how family helped them in seeking finance.

'I have some relatives in Colombo. She gave me her jewellery and I raised Rs. 51,000 by pawning that. I travelled by bus and bought stuff in Maharagama to Colombo and sold here. My uncle gave her old motorbike to travel.'

(SL grocery owner)

'My family - father and elder brother- give a hand to me all the time. They gave me money for following a hotel course – it was my desire, and everyone support me in opening this business.'

(SL small restaurant owner)

'I have pawned my mother's jewellery several times raising Rs. 10,000- 15,000 each time. I do not let my husband know about this.'

(SL vegetable seller)

'It is difficult to find money. I try to sell my wife's land.'

(SL grocery owner)

South Asians in the UK generate social capital through close kinship ties which help to find financial capital and borrow with little or no interest (Rafiq, 1992). There were significant differences in utilising family for finance. UK ethnic, small business entrepreneurs use family ties for finance, compared to the ethnic entrepreneurs in SL. Quotes from two ethnic entrepreneurs provide the answer.

'Family was not helpful in the later stages of the business. No one is there to give loans. They have no money.'

(SL small restaurant owner)

'We really want to get a loan. But, then there is a problem that there is no person willing to give that much in the village.'

(SL grocery owner)

Friends: Table 5 presents the results of how entrepreneurs use friends as sources of funding to capitalise their businesses. The results revealed a small number of respondents in both the UK and SL relied on their friends for finance. There were no significant differences in the help of

friends for finance in early stage of business (p values are not ≤ 0.05). 19.8% and 36% of respondents in the UK sought finance from their friends in the discovery stage and start up stage, respectively. The following quotes help in understanding how friends help entrepreneurs to finance their businesses.

'Actually a friend of my father... He helped me start my businesses...'

(UK – small restaurant owner)

'I have a friend in Sweden. He gave me £2000 to start the business. Whenever I face a cash flow problem, I go to him.'

(UK – vegetable and fruit seller)

Business Acquaintances: From the results, shown in Table 5, it is crucial to note that only a handful of ethnic, small business entrepreneurs in both the UK and SL sample searched for finance from a business acquaintance. However, there were significant differences in the use of business acquaintances for finance in ongoing stage ($P \leq 0.05$). More than half of the respondents in SL relied on acquaintances, for example, money-lenders and joining the chit fund groups. The relationship between the ethnic, small business owner and independent investors was not a personal one. As a result of this, one entrepreneur said they were highly indebted.

'I do not like loans. I will take loans if an emergency situation comes. I got some money from pawning my wife's jewellery and not transferred it yet. It is against our faith to pawn but, we cannot do any about it if we have nothing'.

(SL – small restaurant owner)

'From 2002, we became indebted. I have to pay Rs. 25,000.'

(SL – grocery owner)

Financial Institutions: Based on Table 5, there were no significant differences in the use of loans from banks. None of the respondents in both the UK and SL sample sought finance in the discovery stage. However, a few respondents in both the UK and SL searched for finance from banks. For the UK, 3.5% of respondent stated that they sought finance from banks at the start up stage and 5.8% of respondents stated that they sought finance from banks in the ongoing stage. Similarly for SL, 2.8% of respondents in the start up stage and 4.7% of respondents in the ongoing stage stated that they searched for finance from these sources.

'At first, I didn't get any loans. I spent Rs. 50,000 from my savings. I reckoned that I could sell the shop anytime as it is located in the town. I started this business with one employee and had to increase as my sales grew... I took a loan for one lakh from the Development Bank and paid it back within one and a half years. Then I took a 6 lakhs loan from the DFCC bank. I still have to pay back one and a half lakhs. I used that loan to expand the business. I have requested another 5 lakh loan from the DFCC bank, hopefully, I will be getting it next week...'

(SL small restaurant owner)

'I started with Rs. 500 of my own but, after the first year, I had Rs 2000 earnings. After that, I started taking credit from Ceylinco Grameen, first Rs. 5000, then 10,000 and finally 20,000.'

(SL grocery seller)

Some respondents of SL commented that the reputation of the banks was very distressing among ethnic, small business entrepreneurs. One of the three entrepreneurs in Sri Lanka who received bank loans criticised the banks for not being interested in the development of the country.

'You know it is a sort of a shame for a developing country; now we call us developing countries. Now don't you think that these banks and other financial institutions have to help in the development? They don't go with the idea of helping or developing the country. They only want to fatten themselves, that's what I mean.'

(SL grocery owner)

Most of the Muslim respondents did not want to receive loans, due to their religious belief.

'We don't like interest. Because of our religion, giving interest is not accepted. That's why we never go to banks.'

(SL small restaurant owner)

The majority of respondents of the two countries said they reinvested their earnings, at least partially, in the business. One owner commented that;

'We invest our earnings to the business.' - *(SL cafe)*

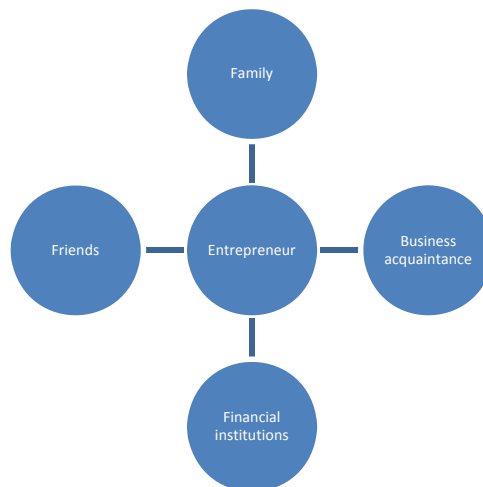
There is a reciprocal obligation when dealing with banks. Banks support the entrepreneurs who have an account. Interviews with respondents indicated that they did borrow from and save in banks, but there was some ambivalence about taking institutional credit. One UK owner commented with his idea about bank loans.

'We requested several times from HSBC and Halifax for £20,000-30,000. They wouldn't consider my request until we had maintained an account for at least a year. It is prohibited, by Islam, for loans. But, we are poor. We don't have an alternative. We wanted to.

(UK small restaurant owner)

Subsequently, the results in Table 5 reveal that both the UK and SL business owners used a variety of information sources for capitalising their businesses. The links associated with financiers provide indicators for the respondent's finance network. The ethnic, small business entrepreneurs' finance network in both the UK and SL can be illustrated as in figure 5. Nodes in the figure represent people; arrows represent the relationship between them. In the UK, the most prominent sources were family and friends. For SL, the most important sources were acquaintances. Formal financial institutions were not considered as an important source for finance by most of the respondents in both the UK and SL.

Figure 5
Finance network



QUANTITATIVE RESULTS

Different cultures and ethnicities are directed at different networking activities, and differences in the pattern, structure, utilisation and the process, can be properly attributed to dissimilarity in culture and institutions. This study is based on the South Asian ethnic, small businesses in the UK and SL. A fairly high degree of cultural and institutional differences can be seen between these two groups. Therefore, it is possible to posit that these institutional and cultural differences have impacted upon entrepreneurial networking.

Hypothesis: The network characteristics of finance network are different in the two countries.

In order to test this hypothesis, a Mann-Whitney U test was used.

Network Size

Table 6
Mann-Whitney U test for network size in the UK and SL

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	P value
Finance network size				
Discovery stage	97.33	96.74	4573	.982
Start-up stage	108.42	87.82	3618	.001**
Ongoing stage	86.85	105.15	3728.5	.009**

** Significance at 0.01

Source: Field survey 2007

In terms of finance network, there were no significant differences in finance network in the discovery stage indicating that obtaining finance was the key challenge for both the UK and SL. The Mann-Whitney U Test showed that the mean ranks of the finance network size in the startup stage, for the UK (108.42), was higher than the mean rank (87.82) for SL. From this data, it can be concluded that there was a statistically significant difference between the UK and SL's

median finance network size in the start-up stage ($U = 3618$, $p = 0.001$). However, the Glass rank biserial correlation is 0.108, a small effect in Cohen's (1998) classification. (Marger, 2006) study of immigrant entrepreneurs indicated that financial capital was prominent in integrating into the host society, so they relied on finance from many kin ties. However, in later stages, SL finance network size was larger, compared to the UK. This can be seen in the significance differences in the mean ranks and the p value, as shown in Table 6. The Glass rank biserial correlation is 0.095, a small effect in Cohen's (1998) classification. One explanation for the small effect is because barriers such as high-transaction costs, the rigidity of collateral requirements, heavy paperwork and overall poverty in SL. These barriers make the cultural and institutional environment to form or maintain larger finance network in the later stages of business in SL, compared to the UK.

Network Diversity

Table 7
Mann-Whitney U test for network diversity in the UK and SL

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	P value
Finance network diversity				
Discovery stage	98.06	96.14	4509.5	.746
Start-up stage	84.63	106.94	3537.5	.002**
Ongoing stage	81.90	109.14	3302.0	.000**

** Significance at 0.01

Source: Field survey 2007

There were no significant differences in finance network diversity in the discovery stage. Obtaining finance is the key challenge for both the UK and SL in the discovery stage of the business and, therefore, the entrepreneurs relied on family ties for finance. However, the finance network diversity was large in the start-up and ongoing stage in SL, when compared to the UK. However, the effect is small. The Glass rank biserial correlation is 0.116 and 0.141 respectively in the start-up stage and ongoing stage, a small effect in Cohen's (1998) classification. This can further be seen in the significance differences in the mean ranks for diversity and statistical p-values, shown in Table 7. One reason for the small effect is because there is a social risk in borrowing money from relatives and friends, and this can lead to a negative attitude towards

borrowing from relatives. Also, borrowing from family can bring unnecessary obligations and if repayment is not prompt, the family may lose their good reputation. For example, lenders can ask for repayment of money in front of others, or publicly criticise borrowers for failure to repay. These cultural norms in SL encourage entrepreneurs to seek finance from other sources. In contrast, in the UK, institutional barriers such as the high cost of capital, lack of access to capital, cultural barriers such as ethnic and religious are reflected in a more dense finance network. Basu and Goswami (1999) explain that South Asian entrepreneurs try to maximise returns by using personal investment in the business, as the motivation that might predispose potential business owners to borrow from family and friends rather than diverse sources. Another reason for not borrowing money from diverse ties is that ethnic, small business owners amass their personal savings through hard work, sacrificing life comfort. They often undertake long hours of work, including multiple jobs, and forego some of their needs, such as holidays and entertainment. Another study of Asian immigrants shows a low propensity towards consumerism and leisure (Werbner, 1984). In addition to these factors, strong financial incentives also encourage borrowing from family members and relatives. These incentives include ease of borrowing, lack of paperwork, no collateral requirement, flexible and low or no interest. Most ethnic entrepreneurs prefer to utilise ethnic, financial resources, because they can extend payment time for loans if the business experiences bad times.

Closeness

Table 8
Mann-Whitney U test for network closeness in the UK and SL

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	P value
Finance network closeness				
Discovery stage	50.48	128.56	736	.000**
Start-up stage	80.69	110.11	3198.0	.000**
Ongoing stage	97.82	96.34	4530.5	.841

** Significance at 0.01

Source: Field survey 2007

In terms of finance network, there were significant differences in the discovery stage and start-up stage, indicating that SL entrepreneurs relied on more close-knit ties for financing, compared to the UK. The Glass rank biserial correlation is 0.026 and 0.152 respectively in the discovery stage and start-up stage, a small effect in Cohen's (1998) classification. This means that SL entrepreneurs have close-knit ties in the early stages of business, compared to the UK. However, there was no significance difference in network closeness in finance network in the later stage of business. Studies shows that many Asian societies tend to be more group oriented, less individualistic and less permissive than western societies (Muthaly & Zaman, 1998). The Sri Lankan culture also follows this trend and is extremely group oriented, with a large joint and extended family system. Family members are interested in the welfare of others and are respectful of the obligatory aspects of family tradition. There is also a desire or willingness in the parents and relatives to help their children. This leads to the generation of many strong finance networks. Religious belief is also influential in the decision to not borrow using formal financing methods.

Relational trust

Table 9
Mann-Whitney U test for relational trust in networks in the UK and SL

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	P value
Finance network trust				
Discovery stage	86.47	105.46	3695.5	.016**
Start-up stage	97.31	95.86	4479.0	.856
Ongoing stage	99.01	95.38	4428.0	.653

** Significance at 0.01

Source: Field survey 2007

In terms of finance networks, there was a significant difference in relational trust in finance network between the UK and SL, only in the discovery stage. The Mann-Whitney U test showed that mean ranks of relational trust in finance network in the discovery stage for the UK (86.47) were lower than the mean rank (105.46) for SL. From this data, it can be concluded that there was a statistically significant difference between the UK and SL's median trust in finance

network, in the discovery stage ($U = 3695.5$, $p = 0.016$). However, this effect is small according to the Glass rank biserial correlation (0.098). This is because weak financial institutions in SL create an environment to build up trust-based relationships with financiers, compared to the UK.

SUMMARY

The findings suggest that both structural and relational ties offer significant benefits to the entrepreneurs. Both ties provide distinct benefits to the firm. The results found that larger and diverse ties were not alone beneficial to the firm. To get the benefit of them, maintaining some degree of closeness/intimacy and relational trust was valuable. The current study found that relational ties made a particularly noteworthy contribution to entrepreneurship for SL in the later stage of business, compared to the UK. This suggests that in high powered distance cultures like Sri Lanka being able to draw on well-established and trust-based relationships is a highly valuable asset. This also emphasises that in uncertain and potentially risky environments, being able to draw on strong trust-based relationships is important to access resources.

IMPLICATION FOR THE UK AND SL

The results for this study show an increased understanding of the business surroundings for policy makers, NGOs, business support institutions and the local entrepreneurs themselves.

First, this study has implications for other researchers interested in researching small businesses belonging to minority entrepreneurs. It also alerts researchers to some of the sensitivities that may be involved when discussing barriers to growth with small business owner/managers. Also, managers, entrepreneurs and investors are informed to craft networking strategies and methods that shape to the institutional and cultural atmospheres of a given country.

Second, it was noted in different places in this thesis that ethnic small business entrepreneurs lack knowledge about the formal institutions and are hesitant to discuss their problems with them. Other studies have also shown that owner/managers are reluctant to talk about their problems because they fear their reputation will be damaged in some way (Curran & Blackburn, 1993). In the context of the current research, it may also be the case that some owner/managers were reluctant to discuss their problems and be advised by formal institutions because they

feared discrimination. Therefore, the government could support in dispelling the myth that keeping control is the key to business success. Programs aimed at micro-businesses might carry on facilitating the development of networks, which may permit business owners to find appropriate business partners.

Thirdly, this study indicated that the main source of funds and other support are informal, and are based on trust-based relationships. However, it also found that a number of government, as well as nongovernment, organisations have been set up to facilitate the small scale enterprise sector in SL. In this regard, the study recommends that the policy makers should look into the ways in which the informal sources of finance and other resources should be effectively combined with the formal sources, such as banks and other micro finance institutions. It would help to increase the flexibility, efficiency and effectiveness of the mobility of capital, and other resources in developing countries like SL. Furthermore, policy makers have a responsibility to dispel the myth, mainly amongst business lenders, that small business owners are high-risk borrowers of funds.

Ethnic, small business owners for the UK and SL have perceived that borrowing from a financial institution will be problematic and do not believe that banks will provide loans for them. This information could guide financial institutions to design appropriate banking products to satisfy the small business owners' banking needs. Financial institutions could introduce banking products to small business owners that are easily obtainable, involve minimal paperwork and are processed quickly. They could also advertise their banking products and provide relevant information to small business owners about obtaining those products. The introduction of mobile banking services may further promote banking products among small business owners. Also, these findings could help financial institutions to develop or review their lending policies to foster ethnic small businesses in the UK and SL.

LIMITATIONS

The findings of this study are relevant to ethnic, small business owners. This study demonstrates the significance of social networks for founding a business, and it also emphasises the importance of pursuing a network perspective for future studies. It is not without some limitations.

The results in the Kruskal-Wallis tables showed in what direction changes take place when the business moves to one stage to another. Some network characteristics changed, according to the phase of the establishment process, some network characteristics did not show any significant differences. Most likely, there was an element of both firmness and change of networks. Because this was a cross-sectional study, the dynamic features of business development of social relations were neglected. A cross-sectional study cannot capture the dynamics of alters.

There may have been respondents with a higher or lower likelihood of going from one stage to another. A longitudinal study can differentiate between these potential justifications. It also may be able to consider evolution probabilities and contingencies for moving to another stage. A cross-sectional analysis mislays the capability of a dynamic research to capture significant time dependent contingencies for moving from one stage of the business development process to another stage.

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