

Name: Dr. Wasanthi Madurapperuma

Affiliation: Senior Lecturer, University of Kelaniya, Sri Lanka

*Contact: Ler05mwm@reading.ac.uk
07828655057*

Does culture impact on Social networks of ethnic, small business entrepreneurs?

Abstract

This paper examines ethnic entrepreneurship in Sri Lanka and the UK by investigating the relationship between the characteristics of ethnic business entrepreneurs and their entrepreneurial experiences. What is worth noting in this study is comparative perspective of composition of networks across cultures. The research will discuss the key themes such as the extent to which ethnic (immigrant) entrepreneurs are embedded in networks. These results have the potential to be generalisable to other similar context, for example South Asians in the US, Canada and Western Europe.

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1.1 Introduction

This paper examines ethnic entrepreneurship in Sri Lanka and the UK by investigating the relationship between the characteristics of ethnic business entrepreneurs and their entrepreneurial experiences. The objective of this research is to explore the characteristics of networks across culture. Immigrants are able to create their own jobs and shape their own destinies through entrepreneurship (Rath & Klooserman 2000). By starting their own business, ethnic entrepreneurs may avoid some of the barriers and disadvantages encountered in looking for a job (Sequeira & Rasheed 2006). Hosler (1998) showed that for many immigrants, establishing a business is an alternative to paid employment and a tool for achieving social and economic mobility. Different social and economic circumstances affect ethnic integration in to the nation's economy (Woon 2008). Due to the diversity of ethnic businesses worldwide especially in the United States (US) and Canada, there has been increasing interest among researchers in examining ethnics self employment.

Extant research shows that networks play a key role for ethnic business success (e.g. Aldrich & Zimmer, 1986; Bonacich, Light & Wong, 1977; Boubakri, 1990; Dhaliwal, 1998; Dyer & Ross, 2000; Iyer & Shapiro, 1999; Light, 1984; Peterson & Roquebert, 1993; Ram, 1994; Teixeira, 1998; Waldinger, 1988). The support provided by these networks can be informal from family and friends, or from the wider community

including religious, other organizations, and business people. Economic sociologists call these social networks, “social capital”, and they consider this is an essential component of an ethnic entrepreneur’s success (Rath and Kloosterman (1999). According to Aldrich and Waldinger (1990), entrepreneurship is as embedded in networks of continuing social relations. Within complex networks of relationships, entrepreneurship is facilitated or constrained by linkages. These networks, in turn, assist in successful operation of firms (Aldrich, Waldinger & Ward, 1990). However, little is known about how ethnic entrepreneurs establish themselves in Sri Lanka. While a wealth of research exist in the general entrepreneurship business literature, performance of ethnic entrepreneurship in Sri Lanka has attracted only limited attention. Also, there are many studies existing in the immigrant entrepreneurship and in particular the performance of South Asian ethnic entrepreneurship in the UK has remained relatively limited attention. What is worth noting in this study is comparative perspective of composition of networks across the UK and Sri Lanka. The research will discuss the key themes such as the extent to which ethnic (immigrant) entrepreneurs are embedded in advisor, finance and business networks. These results have the potential to be generalisable to other similar context, for example South Asians in the US, Canada and Western Europe.

1.2 Literature review

Scholars at home and abroad have done some theoretical and empirical studies on performance. Beyond the broad consensus about the importance of one’s social relations (Burt 2000), there is a debate surrounding several issues regarding social capital’s operational definitions and the mechanism through which it has its impact. Three influential scholars are central on this debate. Granovetter (1973), Coleman (1988) and

Burt (1992) lead to different conclusions with respect to the optimal network structure. The aim of this paper is not seeking the answer the question that who is not right, but tries to seek who is right under which conditions.

Subsequently, these three scholars-Granovetter, Burt and Coleman- lead to different conclusions with respect to the optimal network structure. So, it seems that there is no such thing as a universally optimal network structure. The aim of this paper is not seeking the answer the question that who is not right, but tries to seek who is right under which conditions.

The literature agrees on the fact that several kinds of resources are important in the entrepreneurial process (Brush et al. 2001) and that those resources are combined and used indifferent ways during the firm's life (Penrose, 1995). These studies assist policy makers in identifying the relationships that firms may require in order to grow the business, and in this case, in order to manage or overcome the problems that stand in the way of growing the business; a failure to respond to problems or crises (Greiner, 1972) at each stage of development will constrain growth. Arguably, there is a link between the life cycle of an enterprise and social network development of an entrepreneur. Early work in the 1980s highlighted a link between changes in the network of an entrepreneur and the different phases of the entrepreneurial venture (Birley & Cromie 1988). However, to date there is little information available as to how and why these networks change when the business grows and why networks evolve. There are only a limited number of studies that have aimed to throw light on the link between network formation and the different

stages of entrepreneurial process. Then, the question has remained unanswered in the literature on networks so far is

What the network look like - who is involved (structural embeddedness) and how they are related (relational embeddedness). How and why do they differ between cultures?

This paper tries to fill this void.

1.3 Method of study

The empirical study upon which the researcher account in this thesis investigated the growth of ethnic small businesses in two countries: the UK and SL. The target population for this study was south Asian immigrant population primarily in non-manufacturing businesses such as small restaurants and groceries. The ethnicity is used here to indicate the geographic origin of the migrants. Locations in the UK include *urban* locations: city of Reading in the South East of England; City of South Harrow, City of Kingsbury and city of Southall. This is because; migrants from other countries poured into these cities and towns of the UK since the industrial revolution. The location of Sri Lanka includes the urban locations: city of Colombo, Gampaha, Negambo and Kalutara in Western part of the country. This is due to poor and unequal distribution of land, natural disaster and unemployment, migrants from rural areas poured into these cities and town in SL. For the UK, south Asian migrants include Indians, Pakistanis and Sri Lankans. We ignored the dominant populations of whites of British. In Sri Lanka the ethnic migrants includes Sinhalese, Tamils and Muslims. We included Sinhalese who are dominant population because majority of Sinhalese who engage in informal sector are migrants from Southern part of the country. Majority of them belong to the low-cast Sinhalese. We selected these

three ethnic groups to make the study possible to do comparison with the UK ethnics who have a south Asian background.

The study used a purposive sampling method identifying areas of business concentration and premises on high streets. Sample population was identified via developing contacts through business community, advertisements with the local news papers and respondents' referral, the so called snowball sampling method. A questionnaire was administered face to face with 193 owner-managers (86 in The UK, 107 in Sri Lanka), 95.3% of whom were business founders. Interviews took one and half hours to complete. Details about entrepreneurial characteristics, sources of advice, finance & business information, network relationships and relationship structure were collected. The questionnaire includes multiple name generator questions to collect network relationship and relationship structure of the sample. Open ended questions were also asked about attitudes to business growth and to support networks. The qualitative survey data were analysed using non-parametric methods.

1.4 Empirical results

Hypothesis: Network pattern in advisor, finance and business network is similar in the two countries

Individual in various contexts form and maintain network of relationships in their unique ways. These personal networks do not only facilitate the social and economic processes but they become the source of rich contextual information and social phenomena

(Fischer, 1982: p. 4). Individuals bring their personal experiences, beliefs and resources to the network of relationship. However, how people network and make choices of forming relationships with others is based on the multiple factors; most important of which are social cultural and institutional contexts. Different cultures and ethnicities lead to different networking activities and variation in the formation, structure, utilization and process can be duly attributed to differences in cultures. This study is based on the ethnic small businesses in the UK (South Asian) and SL. Fairly high degree of cultural similarity can be seen in these two groups. It is possible to hypothesise that these cultural similarities have impacted upon entrepreneurial networking.

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

1.4.1 Culture and Network size

Table 1- Mann-Whitney U for network size in the UK and Sri Lanka at various stages

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	p-value
Advisor Network size				
Discovery stage	95.69	98.05	4488.5	.733
Start up stage	94.51	94.98	4385.0	.493
Ongoing stage	119.06	97.27	2704	.000
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
Business network size				
Discovery stage	122.17	76.77	2436	.000
Start up stage	96.77	96.86	4589	.971
Ongoing stage	100.16	94.46	4329.0	.453

Source: Field survey 2007

Advisor: The results of network size obtained from the Mann-Whitney U tests are presented in the Table-1. Table-1 shows that the UK and Sri Lanka advisor network are similar in early stages. One explanation is that they face same set of key challenges and must make decision about network which enables them to access similar resources to meet these business needs. Regarding integration into a new business environment, strong kin relationship is of greater importance because they provide valuable information about practical matters in the new surroundings. This supports the previous studies of Fechter (2007); Hindman (2008) and Walsh (2008). However, in later stages, UK advisor network is larger compared to Sri Lanka. This can be noted by the large differences in the mean ranks for size and statistical p-value at .000. This means that the UK entrepreneurs have larger advisor network in later stages of business compared to SL. The UK entrepreneurs specially rely most on their personal networks to extract most of emotional support from family and friends. South Asians are bound to follow the social norms that do not allow them to freely move outside the home territory. Therefore they start the business with the help of family and friends and later on with the expansion of business, they expand their network outsiders. Recent theories have advocated a more interactive framework of mixed embeddedness in which the internal ethnic resources and culture milieu of the ethnic entrepreneurs interact with the external influences of the wider economic and institutional environment (Kloosterman et al 1999). This suggests that ethnic minority entrepreneur is influenced by the complex interplay of a range of actors, including sector, locality, labor market and institutional support. Therefore they tried to build up diverse contact in order to face the foreign environment. In contrast, social hierarchies in Sri Lanka are very much in place and even at work it is not easy to

be friendly with one's own boss in most organizations. Calling one's boss by his first name is rare in SL. In fact, abuse by seniors is also common and usually the entrepreneurs who seek advice for those organizations and persons are helpless and his only recourse is not to maintain contacts. This in turn will probably restrict the feasible number of personal contacts within the immediate strong ties (Mitchell et al 2006).

Finance: In terms of finance network, there are no significant differences in finance network in discovery stage indicating that obtaining finance is the key challenge for both the UK and SL. Mann-Whitney Test showed that mean ranks of finance network size in start up 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 is a statistically significant difference between the UK and SL's median finance network size in start up stage ($U = 3618, P = 0.001$). Marger (2006) study of immigrants entrepreneurs indicate that financial capital were more important integrating to the host society, so they relied on finance from many kin ties. However, in later stages, SL finance network size is larger compared to the UK. This can be noted by the large differences in the mean ranks for size and the p value as shown on the table-1. One explanation is that barriers such as high transaction costs, the rigidity of collateral requirements, heavy paperwork and overall poverty in SL make the cultural and institutional environment that are conducive to larger finance networks in later stages of businesses compared to the UK.

Business: In terms of business network, the UK businesses network size is larger in early stages compared to Sri Lanka. This is because entrepreneurs with homogeneous ties with family and friends in business networks were less likely to find diverse information they

required. However, for start up and ongoing stage of the business, there are no significant differences in network size in both the UK and SL. This is because entrepreneurs face same set of key challenges that is creating and maintaining business relationship with customer and suppliers.

1.4.2 Culture and Network diversity

Table 2- Mann-Whitney U for network diversity in the UK and Sri Lanka at various stages

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	p-value
Advisor Network diversity				
Discovery stage	105.34	90.30	3884.0	.056
Start up stage	113.47	83.77	3185.0	.000
Ongoing stage	107.45	88.60	3702.5	.019
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
Business network diversity				
Discovery stage	123.19	75.95	2345.8	.000
Start up stage	95.40	98.29	4463.5	.678
Ongoing stage	101.41	93.45	4221.5	.321

Source: Field survey 2007

Advisor: Mann-Whitney U tests presented in the Table-2 reported that there were no significant differences in advisor network diversity in discovery stage. However there were significant differences in advisor network diversity in startup stage and ongoing stage between the UK and Sri Lanka. This can be noted by the large differences in the mean ranks for network diversity and statistical p-value at .000. This means that the UK entrepreneurs have diverse advisor network in startup stage and ongoing stage compared to SL. This is because past studies showed that immigrants have to find a way to deal

with the surrounding society, culture and local people (Leibkind et al 2004), therefore, diverse ties left behind the greater importance for minority ethnics in the UK. Also new rules and regulations of the UK generated the institutional environment that is conducive to larger advisor network. In contrast, SL cultural orientation is supported by shared structured social order and therefore, SL are less autonomous and more dependent on their place in the surrounding social system. It is also likely that SL entrepreneurs will develop networks in which the contacts are well-known to each other, by drawing on extensively family, friends, and colleagues. Family support in relations to financial assistance and business advice have repeatedly emerged in the entrepreneurial trajectories of SL entrepreneurs and are considered important for achieving empowerment (Anthias 2003; Masurel et al 2002).

Finance: There are no significant differences in finance network diversity in discovery stage. Obtaining finance is the key challenge for both the UK and SL in discovery stage of the business and therefore they rely on family ties for finance. However, the finance network diversity is larger in start up and ongoing stage in Sri Lanka compared to the UK. This can be noted by the large differences in the means ranks for diversity and statistical p-values shown in the Table-2. This is because there is a social risk in borrowing money from relatives and friends and this can develop a negative attitude towards borrowing from relatives. Also borrowing from family can bring unnecessary obligations and if repayment is not prompt, they may lose their good reputation. For example, lenders can ask for repayment of money in front of other or publicly criticize borrowers for the failure to repay. These cultural norms encourage entrepreneurs to seek

finance from diverse sources. In contrast, in the UK, institutional barriers such as high cost of capital and lack access of capital, cultural barriers such as ethnic and religious are reflected more dense finance network. Basu & Goswami (1998) explain that south Asian entrepreneurs tries to maximize returns by using personal investment in the business, as the motivation that might predispose a 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 forgo 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 prefer to utilize ethnic financial resource because they can extend payment time for loans if the business experiences bad times.

Business: In terms of businesses network, UK businesses network diversity in discovery stage is larger compared to SL. One explanation is that UK entrepreneurs keep contact with local and foreign suppliers in their home, ethnic and non ethnic suppliers in the UK while SL entrepreneurs keep contact with family and friends in this stage. This might be the reason for larger diversity network in the UK in early stages. However there were no significant differences between the network diversity in start up stage and ongoing stages. This is because entrepreneurs in both UK and SL face same set of key challenges that is creating and maintaining business relationship with customer and suppliers.

1.4.3 Culture and Closeness

Table 3- Mann-Whitney U for network closeness in the UK and Sri Lanka at various stages

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	p-value
Advisor Network closeness				
Discovery stage	97.52	96.58	4556.5	.906
Start up stage	98.75	95.59	4450.5	.679
Ongoing stage	85.60	106.16	3621.0	.010
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
Business network closeness				
Discovery stage	110.13	86.45	3472.0	.002
Start up stage	78.75	111.67	3031.5	.000
Ongoing stage	98.43	95.85	4478.0	.736

Source: Field survey 2007

Advisor: According to the Table -3, Closeness in advisor network between the UK and Sri Lanka are similar in early stages. This is because they rely on their close-knit ties - family and friends- for advice in early stages. This can be noted by the large differences in the mean ranks for size and statistical p-value at .000. A very high level of uncertainty avoidance is likely to lead to network which closely follow long established norms of social behavior. This will govern whom entrepreneur may contact in given circumstances, how much help it is appropriate to ask for, what entrepreneur should offer in return, and the time-scale needed for the network provide the sought advice (Thomas & Muller 2000). This provide further support for the argument that SL entrepreneurs can thus be expected to expend a considerable amount of time maintaining their existing,

probably small set of strong tie contacts and are unlikely to change their immediate action set with ease.

Finance: In terms of finance network, there were significant differences in discovery stage and start up stage indicating that SL entrepreneurs rely on more close-knit ties for finance compared to the UK. This means that the SL entrepreneurs have close knit ties in early stages of business compared to the UK. Many Asian societies tend to be more groups oriented, less individualistic and less permissive than western societies (Muthaly and Zaman 1999). The Sri Lankan culture also follows this trend and is very group oriented with a large joint and extended family system. Family members are interested in the welfare of others and are respectively of the obligatory aspects of family tradition. There is also desire or willingness of parents and relatives to help their children. This led to generate more strong ties in their finance networks. Religious belief also influence the decision of not to borrow from formal financing methods.

Business: In terms of business networks, there was a significant difference in network closeness between the UK and SL in discovery stage. Mann-Whitney Test showed that mean ranks of closeness in business network in discovery stage for the UK (110.13) was higher than the mean rank (86.45) for SL. From this data it can be concluded that there is a statistically significant difference between the UK and SL's median business network closeness in start up stage ($U = 3472, P = 0.002$). This is because; South Asians are bound to follow the social norms that do not allow them to freely move outside the home territory. Therefore, they start the business with the help of close-knit ties. In contrast,

since the introduction of market liberalisation in 1980s, there has been more support for private enterprise and people are freer to travel and trade with the West. Ralston et al (1999) argue that there will be potential changes in management values across generations, particularly when there have been major changes in the society. The younger generation is more likely to act independently and take risks in the pursuit of profit. Its values were clearly more individualists, less collectivistic than those of their older counterparts. These trends encourage using more weak ties to exploit the business ideas in discovery stage compared to the entrepreneurs in the UK.

Further, Mann-Whitney Test showed that mean ranks of closeness in business network in start upstage for the UK (78.75) was lower than the mean rank (111.67) for SL. From this data it can be concluded that there is a statistically significant difference between the UK and SL's median business network closeness in start up stage ($U = 3015.5$, $P = 0.000$). This is because; relying on close ties was no longer helpful to provide the information about the foreign business environment. So with the expansion of the business they expand their network to outsiders such as local business authority, accountant. In contrast, due to high level of uncertainty avoidance in SL is more likely to lead to networks which closely follow long establish norms of social behaviour. This encourage the entrepreneurs to expend their existing set of strong tie contacts and are unlikely to change their immediate action set with ease.

1.4.4 Culture and Relational trust

Table 4 Mann-Whitney U for relational trust in networks in the UK and Sri Lanka at various stages

	Mean Rank (UK)	Mean Rank (Sri Lanka)	Mann-Whitney U	p-value
Advisor Network trust				
Discovery stage	98.79	95.56	4447.0	.667
Start up stage	100.58	94.12	4293.0	.424
Ongoing stage	115.72	81.96	2991.5	.000
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
Business network trust				
Discovery stage	72.50	116.69	2494.0	.000
Start up stage	83.24	108.06	3417.0	.002
Ongoing stage	91.72	101.24	4147.0	.236

Source: Field survey 2007

Advisor: The results obtained from the Mann-Whitney U tests are presented in the Table 4. According to the Table-4, UK and Sri Lanka there was no significant differences in relational trust in advisor network in early stages. However, relational trust in advisor network in ongoing stage is larger in the UK compared to Sri Lanka. This can be noted by the large differences in the mean ranks for relational trust and statistical p-value at .000. This means that the UK entrepreneurs keep trusted relationship with their advisors in later stages compared to SL. This is because lack of mainstream providers and lack of integration of these mainstreams support organizations. Therefore, entrepreneurs enjoy the patronage and trust of their communities. Smallbone et al (2006) pointed out that personal trust gains importance in those cases where formal sanctioning mechanisms

fail or are absent and/or where particular social groups are excluded from the mainstream society, such as in the case of ethnic minority and/or immigrant groups in host countries.

Finance: In terms of finance networks, there was a significant difference in relational trust in finance network between the UK and SL only in discovery stage. Mann-Whitney U Test showed that mean ranks of closeness in finance network in discovery stage for the UK (86.47) was lower than the mean rank (105.46) for SL. From this data it can be concluded that there is a statistically significant difference between the UK and SL's median finance network trust in discovery stage ($U = 3695.5$, $P = 0.016$). Due to weak financial institution in SL make an environment to develop trust based relationship compared to the UK.

Business: In terms of business network, relational trust of business network in discovery stage and startup up stage in Sri Lanka is larger and significant. This can be noted by the large differences in the mean ranks for size and statistical p-value at .000. This indicates that SLn entrepreneurs in early stages of business rely on trust based relationships for information on business permits, laws, suppliers which is needed to run their businesses. The influence of network ties in entrepreneurial firms recently has received considerable attention (Hite & Hesterly, 2001; Hite, 2005; Jarillo, 1989; Krackhardt, 1995; Larson & Starr, 1993; Larson, 1992). After comparing the market, hierarchy and network transaction models, scholars have concluded that "trust" as the foundation for networks offers another alternative governance structure (Bradach & Eccles, 1989), and can effectively reduce interfirm transaction costs (Gulati, 1998). In the Asian business

environment, which is relatively weakly regulated, trust-based transaction methods are particularly important (Khanna & Palepu, 1998). It has been argued that when institutions are underdeveloped, entrepreneurs rely on personal trust on their networks to mobilise the resources (Walter & Smallbone 2006).

1.5 Summary

The findings suggest that relational ties is particularly important contribute to entrepreneurship for SL especially in early stages compared to the UK. This suggest that in uncertain and potentially risky environment being able to draw on well-established and trust-based relationship is highly valuable asset. Based on these results it is clear that SL entrepreneurs rely heavily on relational trust ties in all venture stages compared to the UK. This implied that entrepreneurs in SL build and maintain close and trusting relations. This is because the confidence in the quality of resources they receive, relational trust tie are crucial. These findings support the argument of Greetz (1978) that uncertain situation such as information is poor, maldistributed, inefficiently communicated are more likely make contacts with partners with whom actors have close relations. Moran (2006) states that actors who maintain on average/close and trusting relationship will motivate alter to engage with that actor more and to exchange more openly, with greater confidence and willingness, particularly in uncertain context. This is consistent with the finings that relational trust ties for finance and business network in early stages play a strong role in Sri Lanka compared to the UK.

1.6 Contribution

This study is a contribution to the literature on comparative analysis of networks by looking at multiple networks and differences in network composition and structures between countries. Knowing what works and what doesn't for ethnic business entrepreneurs and practitioners enable them to craft better strategies to enhance business performance. As such the present research will find great utility in providing the ethnic entrepreneur with insights into their use of networks. Findings given a large number of south Asian immigrants around the world, and ethnic enclave in many cities around the world, understanding the determinants of business performance may help policy makers and enhance the effectiveness of regional economic promotion efforts.

1.7 Limitations

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

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