

# **LACK OF TRUST – THE MAIN OBSTACLE FOR IMMIGRANT ENTREPRENEURSHIP?**

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## **Abstract**

This paper introduces the preliminary results of a study which aims to establish a context sensitive understanding of what are the most essential skills and resources needed by immigrant entrepreneurs in a new country and how these resources are acquired. The theory of social capital is used to interpret the findings. Paper gives a short introduction to labour market status of immigrants in Finland. Also the push and the pull factors to entrepreneurship, the role of the family as a context of socialization and source of support as well as the networks needed for success are briefly discussed. The data consists of 50 interviews conducted among self-employed immigrants in Finland. The results show that specific challenges for immigrant business owners are the lack of language skills and cultural knowledge as well as the distrust of locals. Those challenges are interrelated. Ways of gaining more social capital are discussed

Key words: immigrant entrepreneurship, social capital, trust

## **Introduction**

There are around 6 300 self-employed immigrants in Finland (Statistics Finland, 2012). The share of self-employment among immigrants is only slightly lower than among native population (8 and 9 per cent of the labour force respectively). As the number of non-natives has been increasing so has the number of self-employed immigrants. Despite of the growing importance of immigrant entrepreneurship in Finland the studies of self-employed immigrants are quite rare.

Our study aims to establish a context sensitive understanding of what are the most essential skills and resources needed by immigrant entrepreneurs in a new country and how these resources are build. This paper introduces the preliminary results of the study in progress as well as the theoretical tools used in analysing the interview data. Also the push and the pull factors to entrepreneurship among immigrants, the role of the family as a context of socialization and source of support as well as the networks needed for success are briefly discussed in this paper.

In this paper immigrant entrepreneur is defined as a person who has immigrated to a new country and started there a business. Therefore, our definition excludes ethnic entrepreneurs belonging to ethnic minorities who have been living in the country for several generations.

The paper is related to an EU-funded project ELIE – Employability: Learning through International Entrepreneurship<sup>1</sup>. ELIE is a joined project of HE Institutions, an SME & SME associations from four very different areas of the EU; UK, Finland, Poland and Greece. The project aims to develop new methods of giving people the capabilities and skills to start up their own business if they emigrate from their country of birth. ELIE is working with immigrant entrepreneurs across Europe to discover their experiences of starting up and maintaining a business in a new country.

The paper starts by a short introduction to the immigrant entrepreneurship studies and the labour market status of immigrants in Finland. This is followed by a chapter of the social capital and its focal conceptual tools which will be used in the analysis. The method of data gathering and analyses are explained in methodology section. In the end of the paper, the preliminary results of our analysis as well as their implications are reported.

## **Literature**

Despite of the growing importance of immigrant entrepreneurship in Finland the studies of self-employed immigrants are quite rare. The existing studies are mostly concentrated on certain ethnic groups (Wahlbeck, 2007; Jumpponen et al., 2007) or some entrepreneurship in specific geographical areas (Sjöblom-Immala, 2006; Heinonen, 2010). Our study covers several ethnic groups and geographical areas.

### *Previous research on ethnic and immigrant entrepreneurship*

Ethnic entrepreneurship as a social phenomenon has fascinated many researchers for decades. Waldinger et al. (1990, p.3) defined ethnic entrepreneurship as “a set of connections and regular patterns of interaction among people sharing common national background or migration experiences”. Alternative terms for “ethnic” have been used in the previous research. These include for example “minority entrepreneurs” which refers to business owners who do not belong to the majority population, and “immigrant entrepreneurs” which would include only the individuals who have actually immigrated over the past few decades. Sometimes minority entrepreneurship can include women, so to make the distinction the term “ethnic minority entrepreneurship” is also commonly used. The definition of immigrant entrepreneur is the narrowest one as it excludes ethnic entrepreneurs belonging to ethnic minorities who have been living in the country for several centuries. (Volery, 2008) In this paper the focus is on immigrant entrepreneurs who are defined as persons who have immigrated to a new country and started there a business. We also use a term “immigrant business owner” as a synonym to an immigrant entrepreneur. Our definition includes those individuals who employ themselves as well as those who employ also others.

The decision related to business entry, being a fundamental part of entrepreneurial behaviour, has been the main topic of interest in ethnic entrepreneurship research (Volery, 2007). Generally

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speaking, individuals who have difficulties in finding a paid work are “pushed” into self-employment in contrast to individuals who are “pulled” into self-employment, possibly attracted by the rewards and autonomy that it offers (Borooah and Hart, 1999). For individuals who cannot adapt to a social system, such as immigrants and minority groups, their marginal social position might be a driving force to become self-employed. For them self-employment is not only a means of earning a living; it is also a means of recognition and social acceptance. (Sahin, Nijkamp and Baycan-Levent, 2007).

In ethnic entrepreneurship research much focus has been paid to the question whether cultural or structural factors influence the business entry decision. Culturalist approach suggests that immigrant groups have culturally determined characteristics leading to a greater propensity for self-employment (Masurel, Nijkamp and Vindigni, 2004). The structuralist approach, on the other hand, proposes that there are external factors in the host environment that pushes immigrants into self-employment. These can be for example discrimination or entry barriers on the labour market due to education and language deficits. Different ethnic and immigrant groups are affected by these external factors in different ways (Razin, 2002). More recent approaches, which attempt to combine the culturalists and structuralist perspectives, demonstrate that a differentiated view is needed to understand this complex phenomenon (Volery, 2007).

#### *Immigrants and Finnish labour markets*

The immigration to Finland has traditionally been small compared to many other western countries. The number of immigrants to Finland remained below 20 000 annually until the beginning of 21st century. Within the last ten year the annual number of immigrants has grown from 18 955 in 2001 to 29 481 in 2011. Naturally, the number of immigrant labour force has increased simultaneously. In 2010 there were almost 83 000 persons whose nationality was something else than Finnish in Finnish labour markets (see table 1). That is 3% of the whole labour force. The largest groups of immigrants in labour force are Estonians (17 483) and Russians (13 697). The next largest groups are Swedes, Thais, Chinese, Turks, Brits and Germans, of which the Finnish labour markets have more than 2000 each. (Statistics Finland, 2012.)

*Table 1. The labour market status of Finnish labour force by country of origin (year 2010)*

Country of origin	Population	Labour force	Employees	Self-employed	Unemployed	Total
Finland	5 207 322	2 509 696	81 %	9 %	10 %	100 %
Estonia	29 080	17 483	81 %	6 %	12 %	100 %
Russia	28 426	13 697	61 %	6 %	33 %	100 %
Sweden	8 510	4 133	77 %	9 %	14 %	100 %
Somalia	6 593	1 740	30 %	0 %	70 %	100 %
China	5 559	2 493	77 %	13 %	10 %	100 %
Iraq	5 024	1 753	23 %	5 %	72 %	100 %
Thailand	5 021	2 575	60 %	14 %	26 %	100 %
Turkey	3 973	2 209	48 %	27 %	25 %	100 %
Germany	3 715	2 055	79 %	12 %	9 %	100 %
India	3 468	1 494	86 %	3 %	11 %	100 %
UK	3 454	2 173	75 %	13 %	12 %	100 %
Former Serbia and Montenegro	2 903	1 296	54 %	7 %	39 %	100 %
Vietnam	2 783	1 257	66 %	7 %	27 %	100 %
Iran	2 584	1 084	43 %	9 %	48 %	100 %
Afghanistan	2 522	880	32 %	5 %	63 %	100 %
USA	2 483	1 092	76 %	11 %	14 %	100 %
Poland	2 241	1 222	80 %	5 %	15 %	100 %
Ukraine	2 103	1 151	76 %	4 %	20 %	100 %
Other countries	45 303	23 128	73 %	6 %	20 %	100 %

The average unemployment rate among immigrants is 23 % which is substantially higher than among Finnish labour force (10 %). There are, however, big differences in unemployment rates between nationalities. Immigrants from Iraq, Somalia and Afghanistan have an unemployment rate over 60 per cent each, whereas among Germans, Estonians and Chinese the unemployment rate is below 13 %. (Statistics Finland, 2012.)

The labour markets are segmented (Bauder, 2006) and the immigrants are competing in quite different markets than the locals. This explains also partly the fact that regardless of the level of education, the immigrants suffer from higher unemployment than the society in general and they end up more often into blue collar jobs like cleaner or shop assistant (Statistics Finland, 2008). Markets where ethnic entrepreneurs are operating are often characterized by low barriers of entry in terms of required capital and educational qualifications, small-scale production, high labour-intensity and low added value. However, a gradual shift away from the stereotypical ethnic-run corner shop towards more diversified sectors can be perceived. Although the typical ethnic stores persist, new sectors such as ICT, global trade, leisure and recreation management, real-estate agencies and cultural enterprises are developing as well. (Volery, 2007).

The small demand of immigrant labour force has been regarded as a push factor to self-employment in immigrant entrepreneurship studies (Borooah and Hart, 1999). The statistics do not directly support this interpretation. The ethnic groups where entrepreneurship/self-employment rates are

high are different than those which suffer for high unemployment. The entrepreneurship/self-employment rates are highest among Turks (27 %), Thais (14 %) and Chinese and Brits (13 % each). The studies have shown (Zhou, 2004; Kelley et al., 2012) that high entrepreneurship activity is associated to certain nationalities and the statistics seem to be well in line with these finding.

### *Social capital*

The theme of trust appeared several times in our interviews. Therefore, we got interested in the concept of social capital. Social capital became popular in the 90's (Portes, 1998; Adler and Kwon, 2002). In the immigrant entrepreneurship studies it has been mainly used to describe the resources immigrant entrepreneurs gain from their own ethnic community either in the new country or in their country of origin. We will exploit the theory of social capital to understand the resources needed by immigrant owner-managers when starting up a business whose potential customers come from different culture than the business owner. In our data this usually means that an immigrant owner-manager is selling her/his services or goods to Finnish customers.

The paper will apply the three dimensions of social capital: the *structural*, the *relational*, and the *cognitive* (Nahapiet and Ghoshal, 1998). Structural dimension refers to structures of social system and the relations of social networks as a whole. The linkages between people and units in those systems are impersonal. By relational dimension of social capital we mean the personal relationships between people which influence their behaviour. Thru those relations people fulfil their social motives. The resources providing shared representations and systems of meaning (incl. shared narratives) are creating the cognitive dimension of social capital. Those systems of meaning are embedded in cultures and communities of practice.

The dimensions of social capital are interrelated. They can be mutually reinforcing, but not necessarily. Social capital resides in relationships (Bourdieu, 1986) and therefore, it has qualities that other forms of capital do not have: it is not transferrable from one context to another and it does not decrease in use – on the contrary it most probably increases (Nahapiet and Ghoshal, 1998). Even if there has been debate whether social capital is really a form of capital (see e.g. Adler and Kwon, 2002, p.2122) there seems to be quite large consensus that it is transferrable into other forms of capital.

Social capital and the networks among immigrant communities have been regarded as an asset in many studies (Oliviera, 2007). The studies have shown that social capital will ease up the start of companies that are providing goods and services to business owner's own ethnic group. However in local markets where most of the customers are from the target country, immigrant entrepreneurs starting up a business are often short of both relational and cognitive dimensions of social capital in relation to the surrounding culture. There are few local networks they belong to and the greater the cultural distance between country of origin and country of destination, the greater is the lack of cognitive social capital, as well. This can be explained through the importance of group identification as a source of relational aspect of social capital (Nahapiet and Ghoshal, 1998). The lack of identification to the same group among actors may constitute significant barriers to trust.

The start-ups of immigrants have a disadvantage compared to local start-ups – the owner-managers do not have the same networks of friends, school mates or relatives which are normally regarded as

an important asset when starting up a business. Immigrant owner-managers lack also the cultural knowledge (e.g. the cognitive aspect of social capital) which would help them to ‘bond’ with the customers (more about the use of bonding and bridging social capital in business start-up, see Davidsson and Honig, 2003; Katila and Wahlbeck, 2012). On the other hand, immigrant business owners have social capital that stems from their ethnic roots, which will help them to succeed in fields of business that require ethnic credibility or connections to their ethnic community either in the new country or in the country of origin.

Trust is closely interrelated with social capital. In the literature there are different interpretations of the relationship between trust and social capital (Adler and Kwon, 2002). The concepts can be treated as synonyms, trust can be seen as a form of social capital, trust can be seen as a source of social capital, or trust can be seen as a collective asset resulting from social capital. Nahapiet and Ghoshal (1998) refer to Mizralski’s (1996) definition of trust as the belief that the “results of somebody’s intended action will be appropriate from our point of view”. They state that trust is one aspect in the relational dimension of social capital; and where relationships are high in trust people are more willing to engage in social exchange. There is a two-way interaction between trust and cooperation. Hence, we believe that trust between the immigrant business owner and the surrounding society will increase the sales of a business as well.

But since there is a cultural distance between the immigrant and his/her new home country, the building of trust takes time and effort. Networks and clubs – both professional and private – will help this trust building as well as individual family members and friends. This takes place in various ways. Integration into new culture enables immigrant to share the same codes, language and narratives (the cognitive aspect of social capital) as the surrounding society as well as to gain reputation as a trustworthy business man/woman (the relational aspect of social capital). These, on the other hand, will ease up the joining of new networks and organisations (the structural aspect of social capital).

As the integration process goes on and the business develops, also the forms of trust profitable to the owner-manager change (Welter and Kautonen, 2005). The importance of personal trust, which is useful in the start-up phase of the firm, will diminish and collective trust becomes more important to the business as the firm develops. The concept of collective trust refers on one hand to the reputation of the company (information gleaned from hearsay) and to public image of the company (build e.g. through media presence) on the other hand. Collective trust and institutional trust, which are based on general formal and informal codes of conduct, enable the company to do business acts with previously unknown people.

## **Methodology**

The data consists of 50 interviews conducted among self-employed immigrants in Finland. As there are no single register for self-employed immigrants in Finland we had to use various kinds of techniques to identify potential interviewees. Some of the interviewees were found via Internet and magazines. We were also able to recruit interviewees from two entrepreneurship courses organised

for immigrant business owners. In addition, some of the interviewees recommended their friends and acquaintances to be interviewed. We also made visits to the business sites that we knew were owned by a foreigner. The semi-structured interviews were conducted face-to-face and by telephone during the spring and summer 2011. The interviews lasted from 30 minutes to one and a half hours. All interviews were recorded and the interviewers also made notes during the interviews.

The topics of the interviews included general themes related to immigrant entrepreneurship. These were the reason for immigration, the motives for starting up a business, the start-up process, the role of the family both as a role model and in running the business, and the challenges faced in their business ownership. A directed content analysis was used in interpreting the data. It starts by creating (theoretical) pre-understanding of possible categories and then goes on to test this pre-understanding with empirical evidence. (Hsieh and Shannon, 2005). We started the analysis by listening the recordings and reading the notes made during the interviews in order to identify the above mentioned topics of the interviews. In addition to those topics, the importance of trust and networks before starting up the business but also while running it strongly came up in the talk of the interviewees. Therefore, we went back to the theoretical part to look for previous research on trusts and social capital. The presented results in the following chapters are based on the preliminary analysis of the data.

The average age of the immigrants interviewed was 42 years (min. 22; max. 69 years). The interviewed business owners came from 28 different countries. The most common countries of origin were Estonia, Turkey, Russia, Germany, Iraq and Iran. In our study immigrant business owners with an Asian background were over-represented, as altogether 42 per cent of the interviewees had come to Finland from Asia, whereas about 30 per cent of immigrant business owners in Finland are from Asia (Työ- ja elinkeinoministeriö, 2011). 40 per cent of the interviewees were female, which corresponds to the share of female immigrant entrepreneurs in national level in Finland (Työ- ja elinkeinoministeriö, 2011). The interviewees had very different backgrounds. Almost half of them had a higher education (24 entrepreneurs) but on the other hand eight of them had neither vocational nor higher education. Also the time lived in Finland varied considerably – between three and 42 years, the average being almost 15 years.

The enterprises of the interviewees were located mostly in Uusimaa region, South-West Finland and Oulu region. The majority of interviewees had businesses in the service sector, such as restaurants, welfare services, and various kinds of consulting services. Also enterprises in wholesale and retail trade, e.g. various kinds of ethnic shops, were common. The branches of business of the interviewees correspond quite well to the situation in national level in Finland (Työ- ja elinkeinoministeriö, 2011). Almost all of the interviewees can be counted as micro enterprises. The majority worked alone. 14 per cent had family members (occasionally) helping them in the business. Only three of the interviewees employed more than 10 people.

It is typical that the businesses led by immigrants are quite young (Työ- ja elinkeinoministeriö, 2011); this was the case also among the interviewees in this study. 56 per cent of the interviewees

had run their current business for less than five years. Previous experiences of entrepreneurship were quite common. Almost half of the interviewees had either previously owned a business in their country of origin or in Finland, or had been involved in the start-up process e.g. by helping their spouse when he/she started up a business. The majority of the interviewees (78 per cent) had also close family members who had established their own business. When analysing the customer profile of the immigrant business owners it was noticed that the reliance on co-ethnic customers is basically non-existent among the interviewees. 70 per cent of the interviewees considered Finns as their most important customers. 30 per cent targeted their products and services to both natives and to ethnic groups. This is explained by the size of the country. As there are only around 5,3 million inhabitants in Finland, it is in practice impossible for a business to survive by serving only ethnic groups.

## **Results and implications**

The reasons for starting up a business varied, but lack of employment opportunities was mentioned repeatedly. Regardless of the level of education, there had been difficulties to find employment opportunities. As stated earlier, the labour markets are segregated and even the highly educated are struggling to find jobs. Strikingly, people had hardly ever started the business in the field where they had their PhD or Masters from, but to the fields of business where they can exploit their ethnic and cultural background (like their ethnic networks or language skills) or to the fields with low barriers of entry (like restaurant or well-being industry). There were graduates from natural sciences running beauty salon, human resources agency, translations services, to name a few. There were also several pull factors motivating people to start a business. Possibilities to be independent, to gain profit, and to be creative were mentioned.

Some of the interviewees had noticed the decline of their status in a new culture. They had had a status in their country of origin, which was based on their occupation, education or the status of their family. But when moving to a new country they had to start to accumulate their social and intellectual capital from scratch.

The results show that specific challenges for immigrant business owners are the lack of language skills and cultural knowledge as well as the distrust of locals. Those challenges are interrelated and especially important since almost all of them were targeting their services and products to the local community. For many interviewees getting better language skills and cultural awareness eased the building of trust among potential customers and business partners. Many sorts of networks and clubs (*structural aspect of social capital*) – both private and professional – were regarded very helpful for building trust as well as learning to know the culture and the language. Networks that the interviewees had found useful were various: clubs for their hobbies, like drama club, junior chamber of commerce as well as the local entrepreneurship association, and Rotary club. Start-up courses for immigrant entrepreneurs were regarded helpful both due to the peer support they got from the group as well as the mentoring services provided by the course organisers. Some of the interviewees emphasised that the less an immigrant entrepreneur is involved in any kind of clubs of

immigrants the faster the integrations process will be. This may be a good strategy for some, but there are some risks also involved. Integration to a new culture is a process of personal identity building and giving up your own community and culture may not be useful in that process.

The concept of time was also brought up in relation to gaining trust among local community. The owner-managers emphasised that it takes time to gain the trust of locals, and showing good results – quality of services and products – is the most reliable way to start the grapevine, “the mouth-to-mouth marketing”. It also takes time to learn the habits and mind-sets of the locals. These may have direct influence on the success of your business. For instance, if you are selling groceries you’ll need to know what people are accustomed to eat and drink during different holidays or if you are selling garden furniture, you’ll need to know that not all materials survive the cold and hard winter and the annual season for selling the furniture is quite short.

There were different attitudes in our data towards business partnerships. There were couple of business owners who reported to have benefited from having a Finnish business partner. This partner had the contacts that helped them to get their first assignment and, hence, an opportunity to proof the quality of their work. The Finnish partner had also cultural specific knowledge and skills to deal with authorities which helped the start-up company. So, in these occasions the company was able to increase their social capital by having a team of owners including a member of surrounding society.

On the other hand, there was also a team of Pakistani entrepreneurs with supplementary skills. This team had experienced challenges related to responsibilities and equal distribution of work. Therefore, one of the business owners from that team interviewed felt that having a partnership with your own family members would be easier than having partners outside your family, since it would be easier to trust family members.

Family members had several roles in our data. In 78 per cent of the cases the interviewee had someone in a family already owning a business, and hence making it easier for them to choose self-employment as well as socialising them into entrepreneurship. We had in our data also people who had been small children when immigrating to the country and they have seen their fathers starting up a business here and are now starting their own. It seems to be easier for the second generation ethnic entrepreneurs to start up a business. They know already the language, the culture and they have their father who can teach them how to run a business. The number of companies, which employed more than one member of the same family was quite low – only 14 per cent of the firms. However, several business owners emphasised the importance of advice and support of the spouse. Finnish spouse was a source of social capital in many forms. They provided the starting business owner language skills, knowledge of the rules and regulations as well as introduced them to local norms, habits (*relational aspect of social capital*) and narratives (*cognitive aspect of social capital*). With a Finnish spouse it was also easier to get new friends: first through relatives and then later by themselves. One female entrepreneur thought that it was easier to gain the trust of customers when she had a Finnish surname. The Finnish name made it easier for her to cross the cultural barriers.

She was treated increasingly as a part of the group after the change of her surname. She was identified to the same group with the surrounding community by her potential customers, which increased the social capital of her in relation to them (see Nahapiet and Ghoshal, 1998).

Trust is also vital in acquiring financing to your business. The immigrant entrepreneurs interviewed had got help from their Finnish friends and family as well as other networks in getting the loans and other forms of finance. Good reputation was mentioned as a prerequisite for getting finance. The level of institutional trust was regarded quite high in the Finnish society both in business-to-business relations, in finance and between businesses and public authorities. This was regarded a positive feature, which makes it easier for an immigrant to start up a business.

There are not many positive and successful role models available to immigrant business owners. More stories of ethnic, well-educated entrepreneurs are needed by our interviewees. One interviewed pointed out that quite often when immigrant entrepreneurs were referred to in public media, they were kebab shop owners or performing artists.

The strong role which the concept of trust gained in the talk of immigrant entrepreneurs when describing the start-up phase is well in line with previous literature (e.g. Welter and Kautonen, 2005). Our results indicate that in the context where there is a lack of collective and institutional trust (due to cultural strangeness) the personal trust becomes important not only between businesses but also between the start-up company and its (potential) customers. The stories of our interviewees seem to back up the intuitively appealing connection that shared codes and language will strengthen the trust between actors.

Participants of the study emphasized the importance of networking both among immigrant entrepreneurs and entrepreneurs in general as a way to gain new skills. They wished they had more opportunities for this kind of networking. The findings of the research will benefit all SMEs interested in entering international markets as well as local policy makers designing services and training for immigrant entrepreneurs.

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