Interpersonal Networking and Business Resilience: How Immigrants in Small Business Face the Crisis in Italy

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Business Activity and Networks

- Relations with different sources of information are considered factors in the success of business activity.
- While impersonal information is accessible to everyone as a public good in the age of the Internet, personal information can sometimes be used to pre-empt profit opportunities, but this entails mutual trust and reputation.
- Therefore, information exchanges among relevant persons require stable interpersonal relations, which in turn are based on cooperation, contracts, alliances, mutual acquaintance, co-membership, etc.

Evidence from the past

- The importance of social ties in economic performance has long been recognized, especially where economic actors have different social identities and ethnic minorities are involved.

- Different kinds of business networks based on ethnic, cultural, or kin specificities have been identified in history.

- More generally, business networks based on ethnicity and conveying mutual trust and reputation have been at the origin of international trade in regions around the world where diaspora networks have arisen during the past four centuries.

Strong vs Weak ties (1/3)

- Business networks based on **strong ties** have not lost their importance in the modern economy, which is only apparently led by anonymous markets and impersonal exchanges.

- While a body of literature stresses the importance of strong ties in business success, another one is based on empirical findings indicating that success in business depends on the availability and effectiveness of **weak ties**.

Strong vs Weak ties (2/3)

- Ethnic business is sometimes the only way to gain a position in the market, and it can bring competitive advantages for those belonging to a minority group.

Source: http://pacepromotion.com/pacewp/wp-content/uploads/2015/12/bigstock-Group-of-multi-ethnic-business-95962616.jpg

Strong vs Weak ties (3/3)

- Interpretations stressing the importance of **trust and solidarity** focus on the function performed by strong ties, social closure, and **bonding** social capital (SC)

- Interpretations giving importance to **information access and circulation** consider the functions performed by weak ties, structural holes, and **bridging** SC.

Interpersonal Networks and Social Capital

- Traditionally, business success by immigrants has been explained by factors pertaining both to the supply side – cultural and human capital, and/or the ethnic minority's propensity for business – and to the demand side: specific sectors which immigrants can enter according to a given structure of economic and/or institutional opportunities.

Objective of study

- This article describes how a sample of immigrants in small business has been studied to enter the black box and examine how they rely on their SC.

- Individuals belonging to minorities have different opportunities in their interpersonal relations. Some of these relations are used to obtain resources of various kinds. These relations are therefore rationally exploited and represent the person's SC. This should be particularly evident in business strategies, owing to the competitive environment in which they take place.

Business Networks

- Business networks are defined as *the patterns of interpersonal relations that emerge from business activities*.

- Personal relations are at the basis of business activities, and business people are often aware that their success depends on the quality and quantity of their personal relations with relevant Alters.

Ego networks

- The analysis of individual SC has made extensive use of ego-networks, where Ego is the focal node—the person usually interviewed—and Alters are those cited with whom Ego is in contact.

- By construction, ego-networks cannot have isolated nodes and have a minimum n-1 number of ties.
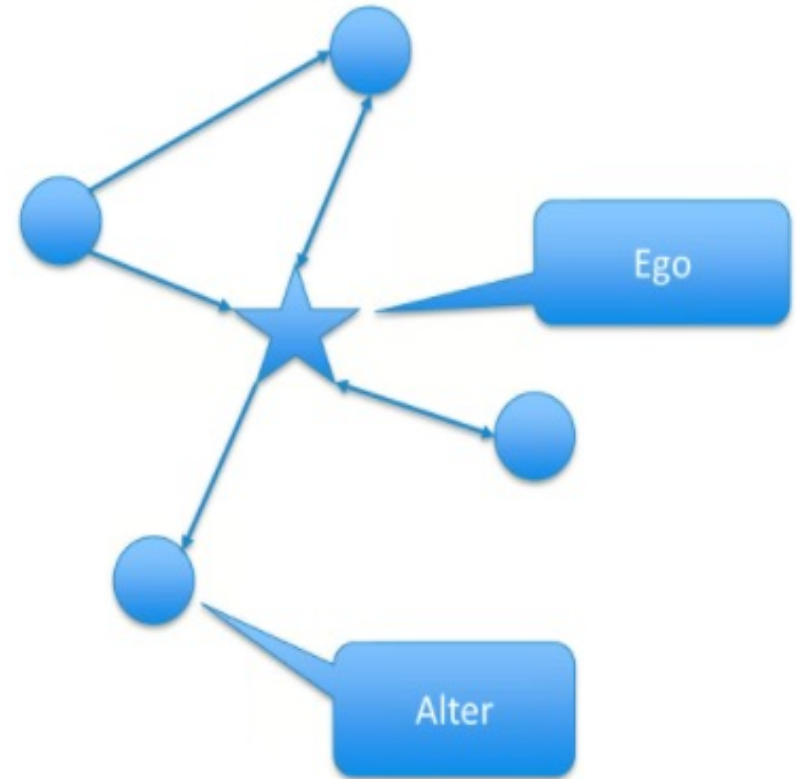
Networks size and structure

- A first distinction must be drawn between *potential* and *mobilized* SC, which is based on interpersonal relations with Alters whereby Ego has actual access to important resources.

- The larger the number of helping Alters—measured through the **network size**—the higher the individual SC.

- The **network structure** in itself can be interpreted as an indicator of SC.

- The effectiveness of strong or weak ties depends on the type of resources that Ego needs.

High vs Low density

- **High density**, which implies network closure—or bonding SC or strong ties—can bring advantages when resources based on solidarity and social support are needed. However, various studies have pointed out that high density networks can also bring disadvantages for Ego and are not effective when information is the resource needed.

- **Low density**, which implies network openness—or bridging SC or weak ties—can give access to additional or external resources provided by outsiders.

Structural concept of individual SC
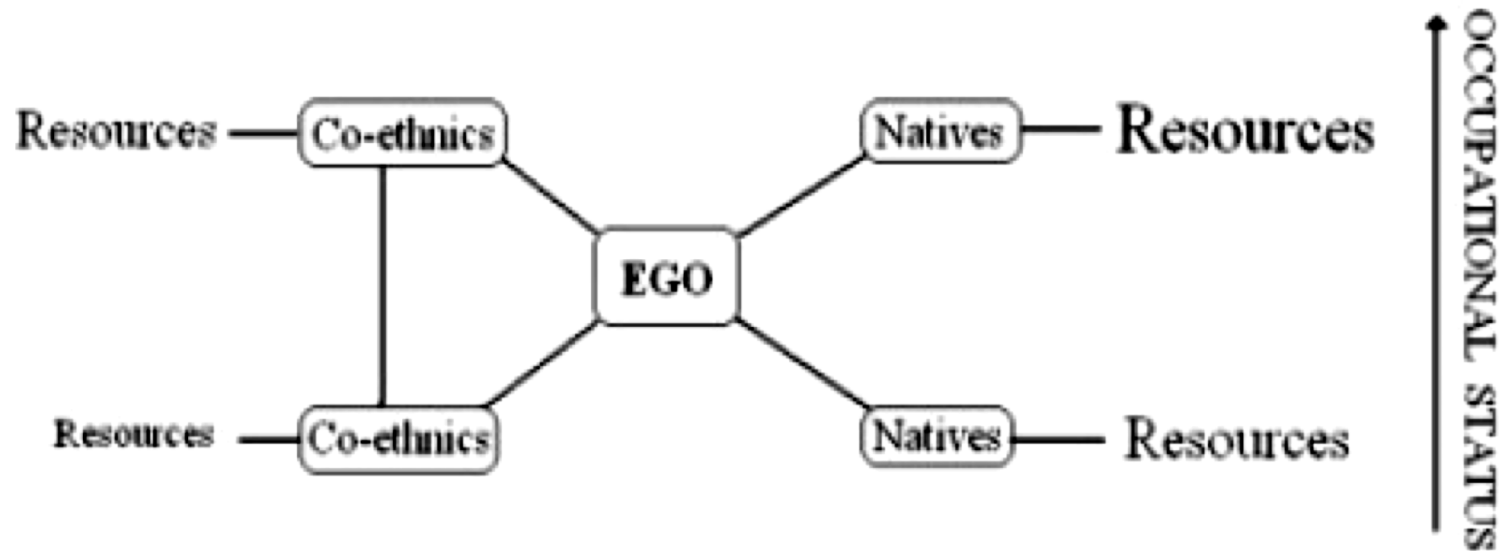
- The effectiveness of interpersonal ties depends on the access to different amounts of resources (which are depicted through the font size of the labels), which in turn are related to the occupational status of Alters and to the strength of ties.

- The scheme assumes that co-ethnic ties are stronger than ties with natives because they more often give rise to closed circuits, as shown on the left side of the figure.

Hypotheses

- Principal hypothesis: (**1**) **SC**—measured through network parameters—**is a significant predictor of business resilience to the crisis**. The hypothesis can be further articulated as follows:

- (**1.a**) The **size of the network** is positively related to business resilience;

- (**1.b**) The **strength of ties** is negatively related to business resilience, and is measured by applying the distinction between in-group/co-ethnic relationships as strong ties and inter-group/ inter-ethnic relationships as weak ties.

- (**1.c**) The **proportion of natives** in the network also predicts the business resilience of immigrants.

Recent development of ethnic business in Italy and its structure of opportunities (1/2)

- After being a country of emigration, Italy became a country a immigration in the late 1970s.

- High proportion of self-employment towards immigrants. Correlated with native self-employment (institutional factor ?)

- Proportion that increases despite the crisis and low GDP, which is not the case of the proportion of native self-employed (non institutional factor ?)

Recent development of ethnic business in Italy and its structure of opportunities (2/2)

- Recession is relatively persistent in Italy
- 3/4 of immigrant firms are retail trade and building industry. Chinese are very much more entrepreneur than Filipinos. From 0.03% to 13.93% of the firms are immigrants firms, depending on the geographical location, positively correlated with GDP at a provincial level.

Measuring individual SC (1/2)

- 200 individual records on face-to-face sociometric interviews using the name-generator technique.

- Limitations on registered businesses, and only personal networks at the time of the interview.

- Two-stage quota based on a preliminary selection of 6 provinces (50% in the North, 33% in the Centre, 16% in the South).

- For each province, random selection of 40 cases on the base of the list of the local Chamber of Commerce. Second list because of the refusals and list inaccuracies, and then snowball once this second list has been exhausted.

Measuring individual SC (2/2)

- General profile = 41 year old male, immigrated from Maghreb, Balkans, China in his adulthood, apprenticeship in a firm owned by natives, established a business 9 years later, employed 2 to 3 persons, half of employees are co-ethnic, and 1/4 are family members or relatives. 16% of respondents hired Italian personnel.

- Five name generator questions referring to the most important ressources needed in business : partnership, general expertise, monty lending, personnel recruitment, and an open question about a specific resource model. For each name, four elements were asked: country of birth, gender, occupation, place of residence.

Measuring Business Resilience
in Time of Crisis: Conceptual definition

- Usually in literature measured by: sales growth, profit margins, increase in personnel, decrease in transaction costs.

- In Italy all Financial Statement indicator is biased and then unreliable.

- Entrepreneurs are unwilling to show real objective situation.

- Measure of Business resilience by subjective combination of answers to: 'the business will be closed to avoid further losses', and 'the business will be strengthened by the crisis'.

Measuring Business Resilience in Time of Crisis

- Only territorial difference are statistically different, no differences among ethnic groups and sectors.

- Indicator of resilience is significantly related to the structure and composition of ego-networks

- Both the size of the network and the average occupational status of Alters discriminate significantly among groups, and the proportion of natives in the network.

- Co-ethnic relations aren't always important in immigrants' businesses.

- Resilience is correlated with change in the number of employees and change in the value of sales.

Size of network, resilience, and hiring possibilities
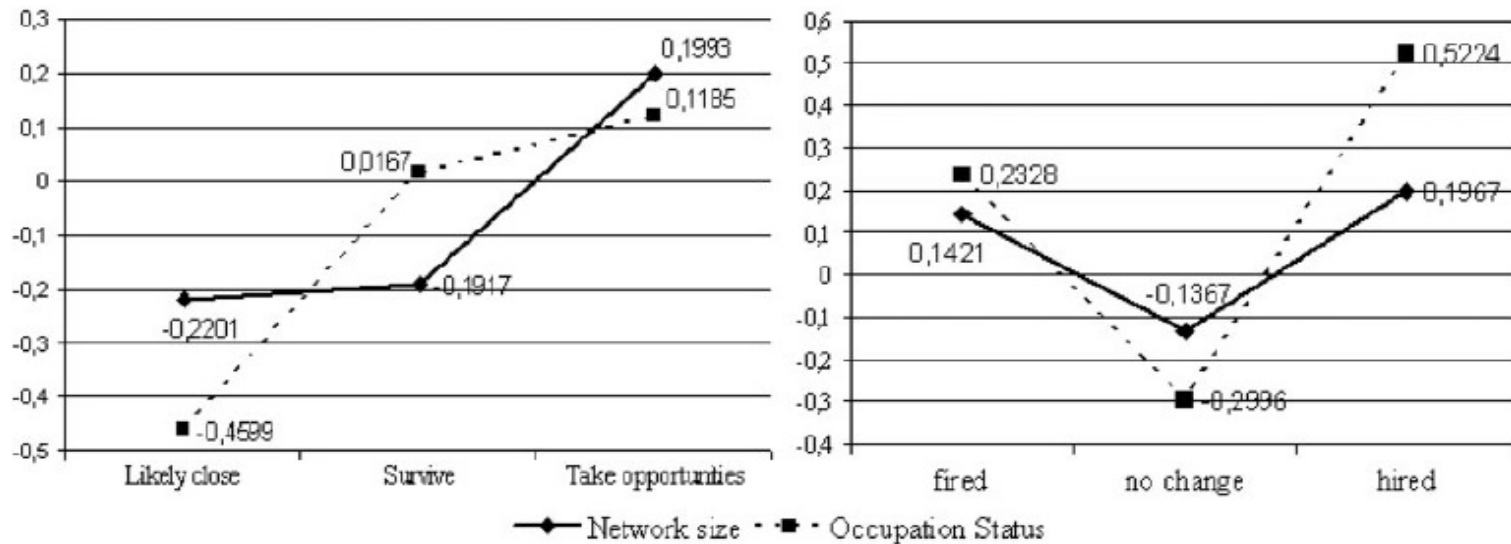
- Distribution of the resilience indicator is linear,
- Distribution of fire-hire indicator is clearly U-shaped
    - Derives from mechanism that less hired person consent to cut costs and offer more affordable goods.
- Those who take either decisions represent a higher proportion of natives in the network, and conversely a lower proportion of co-ethnics
- High difference in the ethnic composition of the network holds true for respondents who had hired additional personnel.

The Effectiveness of SC

Dependent: dummy $1 = 48.2\%$	Exp(B)			
Znetsize*status	1.778**	1.806**	1.743**	1.761**
Z%Italians	1.252	1.418	1.590*	1.622*
Male	1.373	1.874	4.246	4.072
Zeduc	1.101	1.154	1.188	1.192
North-West regions	1.347	1.433	5.183*	4.782*
Commerce-Services		1.733	0.560	0.510
Building		0.886	0.455	0.419
Chinese			6.797*	5.764*
Arabs			0.382	0.387
Co-ethnic interviewer				1.347
Constant	0.592	0.368	0.269	0.271
Classified	64.5%	65.3%	70.1%	68.1

Significance: *0.05, **0.001.

- Both structural variables are positively and significantly related to resilience, controlling for all other independent variables.
- Network size interaction with average occupational status is significant in models.
    - Proportion of Italians in the network becomes significant only after introduction of the ethnic groups dummies.
- Gender and education do not affect business resilience.
- North-West regions become significant only after insertion of Chinese.

Conclusions and Discussion of Still Unanswered Questions (1/2)

- Remarkable economic progress of Immigrant since the end of the last century
  - entering new markets for new products
  - offering cheaper prices
- Their increase has counterbalanced the progressive decrease of natives in sectors like small shop keeping and the small-scale building industry.
- The rate of self-employment in the total immigrant active population is higher than in most other Western countries. More in general, across 16 countries at different points in time, the self-employment rate of immigrants is **closely correlated with the self-employment rate of natives**, which reflects the **general opportunity structure for business in the receiving economy**.

Conclusions and Discussion of Still Unanswered Questions (2/2)

- The global crisis has brought higher uncertainty to immigrant small business persons. However, although 17% of those surveyed had decided to give up and withdraw, 48% of them were convinced that they could take advantage of the situation and showed resilience to the changing economic context.

- The indicators of SC were based on three structural characteristics of mobilized ego-networks: size, occupational status of Alters, and proportion of natives involved. The data showed that these indicators were good predictors of business performance

Implications of results for the more general debate on social capital (1/2)

- A first implication concerns the relation between SC and human capital
  - In this population, the acquisition of human capital through linguistic knowledge was a condition for investing in SC
  - Only a tiny minority of respondents could run a business without knowing Italian, and these were concentrated among the Chinese

Implications of results for the more general debate on social capital (2/2)

- Importance of natives rather than co-ethnics in networks. This result is contrary to the consolidated idea that immigrants' business success is related to ethnic enclaves

  - This sample shows that family ties played an important role by providing capital in 19.1% of cases during the start-up and subsequent consolidation phase of the firm.

  - But to face further challenges, especially at a time of crisis, firms may have drawn additional advantage from external information and advice deriving from more open and heterogeneous ties.

Specificity of the Chinese (1/2)

- Controlling for the remaining variables in the equation, being Chinese made resilience to the crisis five times more likely.

- Their capacity to turn the crisis into an opportunity was evident despite the fact that they could not rely on an extensive network and/or a higher occupational status of Alters, and had a poorer knowledge of Italian and consequently a lesser proportion of natives in their networks.

Specificity of the Chinese (2/2)

- In contrary to the general rule evidenced by model, and they require more specific explanations. Three possible interpretations:
  - Factors compensating for the handicap of having fewer natives in the network. Two important aspects in this regard: **a higher proportion of business relations with the country of origin**, and a **higher rate of business among relatives**.
  - Specificity of Chinese SC in itself. A large body of literature on Chinese society has highlighted the role of **guanxy** in structuring interpersonal relations; This implies asymmetrical ties of influence/obligation, rather than reciprocal ones, and recalls pre-modern patron/client relations.
  - a cultural approach to economic activity: e.g. relation between Japanese entrepreneurship and Confucianism. Specific cultural features of Chinese business people.

Data collection

- **Recognition**
  - Give a list of people's name and ask... What is happening in their interactions ...
  - Good for whole/complete network

Not so close

Fairly close

Close

- **Recall**
  - Open question (name generator)
  - Affective type
  - Role-related (position generator)
  - Exchange relationship (resource generator)
- On a written or online questionnaire ask respondents to name who they are connected with and can remember them on a first name basis; and ask about their relationships with each other (ego network is network from ego's point of view; could include family, non-kinship and different alters and ties ...)
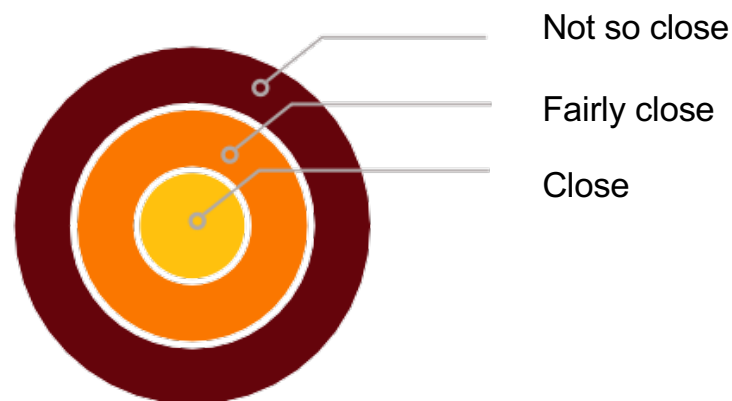
  (Van Der Gag, 2005, Borgatti et.al 200)

Ego network analysis vs social survey (1/2)

- Migratory story and the occupation trajectory starting from the occupation condition in the origin country. With this strategy it is possible to recognize some tools that the migrant has developed in the business carrier.

  – That means you can get totally different ego networks (they change in time) and scope of paper seems to be focused on the ego networks people has built in host country, but interesting question for another research

- It would be useful to see whether their perceptions turned out to be correct. Especially it concerns the firms that were sure that they would thrive in spite of the crisis.

  – Panel data (through time) in network analysis and relational data is much more harder to gather than traditional panel data, because you have to keep ego and all alters identified and consistent through the time to be able to see dynamically, not so much feasible, but good suggestion

Ego network analysis vs social survey (2/2)

- Author has built a resource specified name generator (name people who provide these resources for your business); then interpret those name (demographics and **occupational status like a position generator**)

  – This resources could be considered somehow general to different sectors, added to that in analysis sectors are divided by a dummy

- how we have to consider the co-ethnic networks of the second generations? Can role they play in creating a bridge between immigrants and natives for more open and heterogeneous ties?

  – Good question, although author is considering 1ˢᵗ generation migrants, he could have investigated how the relationship between ego and alter has been formed

Snowball sampling procedure

1. *I have to admit that I'm not an expert of networks, but I'm really sceptical about the use of snow ball sampling strategy, even if just for the 16%, to study networks. Interviewed people will give a contact of someone in his network and this may lead to overlaps and misleading results.*

Snowball process is often used to recruit highly relevant participants to a specific topic. Since in this study, the focus is exploring SC at individual level, the ego-network of participants, the participants are treated as focal points and not explored at a full network level; thus we can apply the snowball technique in this study.

2. *I am wondering if the effect of snowball procedure can partially overlap the names that the respondents generated (it is not clear to me if the respondents have to generate five names different from the people that he indicated with the snowball procedure).*

In social network analysis, the level of 'betweenness', the reciprocity and density between actors are often measured. So if participants name the same persons, this is not necessarily a limitation of the study, on the contrary, it is an indication of centrality and reciprocity existing in the network. Again, here the study focuses on ego-networks, so we should focus on the characteristics of individuals' networks.

Various issues

- The analysis focused only on registered business.
  - I think is hard to select "informal companies", and is also harder to have a collaboration with them
- Why are not included in the survey a sample of Italian small firms?
  - The question is interesting, I think the answer is to be found in the ethnic specificity of certain companies is not the same small Italian companies, which have a different social-capital.
- Why only some province are included in sample, and Rome is excluded?
  - Prato is the city with the maximum share of immigrants firms (26%), Milano (13%), Modena (10,2%), Trento (6,6%), Catania (4,7%) (Unioncamere) . Rome has 10,3% of share of Migrants firms like an average Italian province of the north.
  - Prato affects the Chinese effects an bias the sample, due high concentration of Chinese immigrants in Prato. (8.39%)
  - Immigrants in Italy are almost 60% in the north. 25% in centre and 16% in south. Average share of immigrants owned firms is 9.5% in the north, 9.35% in centre and 5.5% in the south.