

~~Not what you know~~ Who you know

Yekta Mustafa and Stephen Chen look at the differences between the knowledge networks of first and second generation ethnic entrepreneurs.

Entrepreneurs' knowledge networks play a critical role in business success. Governments worldwide, including Australia, have invested considerable resources to developing such networks to assist entrepreneurs but little research has been done to understand how such networks evolve over time and almost no research has been done in the growing area of self-employed ethnic minority entrepreneurs.

Using a series of qualitative case studies, this study examined the knowledge networks of seven ethnic businesses based in Melbourne. We addressed three questions:

1. Are there differences in the types of knowledge networks used by founders and successors?
2. Does the type of knowledge used by founders and successors vary according to knowledge networks?
3. If there are significant differences in the knowledge networks between generations, why is this so?

Our findings indicate that significant differences exist between first and second-generation entrepreneurs, both in the types of knowledge networks used and the specific knowledge acquired from them.

ALL IN THE FAMILY

Seven ethnic family business were polled from Turkish (A and F), Greek (D and E), Italian (B), Croatian

(C) and Dutch (G) communities in Melbourne. All founders were born overseas, arriving in Australia during their early or late teens. Around half of the successors (cases B, D, F and G) had tertiary qualifications while only two of the founders (cases E and G) did. Most were in the service industry (A, C, F, G) while a number were in manufacturing (B, D, E). On average the family business had been operating for around 19 years: cases B, C, E, F and G for 10 years or more while A and D for less than 10 years.

The table (above right) suggests that the knowledge networks of successors (median 23.71) are broader in scope in comparison with founders (14.86). However, surprisingly, there was no difference between the informal knowledge network used (11.14 for both) but a significant difference in their use of the formal knowledge network (3.71 and 12.57 respectively).

Human resources: In all cases, friends/acquaintances and ethnic associations/clubs were reported as

Successor's use of knowledge/information networks

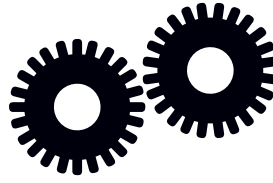


A: Turkish

Services based enterprises
Young enterprises
(operating less than 10yrs)

important sources of knowledge regarding human resources. Founder A captured the sentiments of other respondents: *Finding someone to work for us was relatively easy. I talked to my friends at the club, and within an hour they gave me the contact details of several individuals willing to work.*

Accountants: Business consultants such as accountants were extensively used by both generations to acquire knowledge about financial matters such as taxation and financing. But the cases revealed that founders and successors sought and used such knowledge for different purposes.



C: Croatian

Services based enterprises
Successor assumed ownership of enterprise

about one through a business contact who's also in the travel business. Founders A, B, C, D and F all reported

founders and successors. However, successors B, C, E, F and G used business consultants and contacts as additional sources of knowledge. Successor C said: *Now there are all these new financing companies giving out specialist loans. I found out*

FOUNDERS AND SUCCESSORS KNOWLEDGE NETWORKS USAGE (GROUP MEDIUMS)			
Network type		Knowledge network usage	
		Founders	Successors
Formal	Business consultants, government agencies/financial institutions, educational/training institutions, trade shows/professional associations	3.71	12.57
Informal	Customers/buyers/suppliers, friends/acquaintances, business contacts, ethnic associations/clubs	11.14	11.14
Total		14.85	23.71

Founders A, B, C, D and F used accountants to acquire knowledge about tax return lodgement and changes to legislation. Founder B said: *Honestly I know very little about financial management. Our accountant has helped me a lot in understanding the rules and regulations as they are changing all the time.* All founders except G acquired contacts for business consultants from their friends and members of ethnic clubs. In all these cases the business consultants were of the same ethnic origin or could speak the same language. For successors, the knowledge provided by accountants went beyond that of taxation and compliance. Successor B said: *I consult our accountant not only on financial matters but on other matters as well. Over the years he has given me much knowledge on how to grow certain parts of our enterprise.*

B: Italian

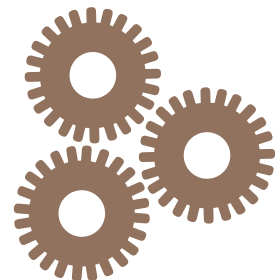
Successors with tertiary qualifications (bachelors and above)
Manufacturing/construction based enterprises
Successor assumed ownership of enterprise

the same ethnic origin or could speak the same language. For successors, the knowledge provided by accountants went beyond that of taxation and compliance. Successor B said: I consult our accountant not only on financial matters but on other matters as well. Over the years he has given me much knowledge on how to grow certain parts of our enterprise.

Finance: For start-up or expansion finance, banks remained an important source of knowledge for both

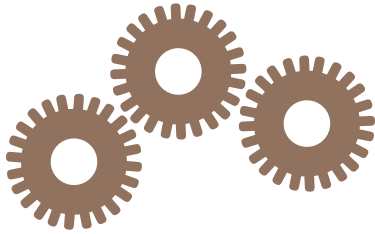
difficulties in using banks' services. Founder A said: *The banks' terms and conditions were difficult to understand, especially with little English like mine. I got my brother-in-law to come along since he grew up in Australia.* This simple example offers a partial explanation as to why founders frequently listed friends/acquaintances and ethnic associations/clubs as additional sources of financing knowledge.

Business contacts: Successors in all cases made extensive use of their business contacts and regularly took time to visit trade shows and engage in professional associations. Such networks were considered essential knowledge sources for marketing/advertising, industry competitiveness and changing regulation. Successor D acknowledged the importance of a fellow manufacturer's knowledge to his enterprise: *He's been in the game for a long time and knows the general lay of the industry. When I*



D: Greek

Successors with tertiary qualifications (bachelors and above)
Manufacturing/construction based enterprises
Young enterprises (operating less than 10yrs)



E: Greek

Founders with tertiary qualifications (bachelors and above)

Manufacturing/construction based enterprises

Successor assumed ownership of enterprise

see him we talk about what's going on, which companies are having trouble, who bought who etc. Founders on the other hand preferred to talk to friends and close acquaintances about industry competitiveness. Founder A said: *My friends and I meet at least once a week. We talk about this and that, but mostly I manage to walk away with knowing what the new fads in Turkey are...*

Value-added services: Founders preferred to acquire such knowledge from trusted sources, either through close family, personal friends in the ethnic community or business contacts. The description of marketing by Founder A exemplifies this: *I regularly consulted my friends and other Turkish businesses in the same line of business about how to advertise my products.* Successor F recognised the importance of trade shows as a source of marketing knowledge: *I only learnt the theory behind marketing while at uni ... Trade shows provide me with practical marketing knowledge. Not only can I see what others have done, but mingling around I can also find out more importantly exactly how others have marketed their products.*



F: Turkish

Successors with tertiary qualifications (bachelors and above)

Services based enterprises

Government and education bodies: Besides knowledge about financial management, founders seldom made use of other government services. Founder D typically said: *I get confused when dealing with the government. One department says one thing, and then another says something else. Getting a straight answer from them is near impossible.* Founder A said that *finding the right government department to help you is the*

trouble half the time. However, successors reported no such difficulties when dealing with the government. Successor A said: *Nowadays the government seems to offer all sorts of support services to small business. I just go online and all the info I need about what I can import and export and the relevant duties are all there...* Evidence suggests that although the government has initiated numerous programs over the years to help entrepreneurs, the inability of the founding generation of ethnic entrepreneurs to directly communicate with and trust the relevant agencies, has limited their ability to acquire useful knowledge from such programs.

THE RESEARCH IMPLICATIONS

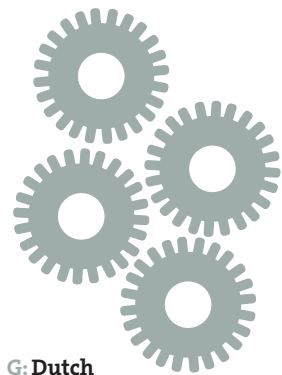
This study shows that there are clear differences between generations in the types of knowledge and knowledge networks used. The following comment by Successor D captures the essence of such structural differences: *I realise that my friends from work and in the ethnic community are excellent sources of knowledge, but I wouldn't rely on them entirely for business advice... When I hire an accountant, I know the advice and knowledge he is giving me is objective, rather than subjective as my friends would give.*

Findings from this research confirm that government and support agencies are ill-equipped to deal with the unique requirements of ethnic business on their own and should adopt an integrated approach across all departments. More specifically, they should develop more innovative strategies for disseminating knowledge about how to run a business and when delivering them, take into consideration needs of the founding generation of ethnic entrepreneurs such as language skills.

Yekta Mustafa, Department of Business, Macquarie University.

Dr Stephen Chen, Professor of Management, Macquarie University.

To view this academic paper in full, see www.buseco.monash.edu.au/industry



G: Dutch

Successors with tertiary qualifications (bachelors and above)

Founders with tertiary qualifications (bachelors and above)

Services based enterprises

Successor assumed ownership of enterprise