

ROLE OF ETHNIC ECONOMY IN LOCAL DEVELOPMENT. A CASE STUDY: GERMAN ECONOMIC SOCIETY BRAŞOV

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Abstract: *Ethnic economy is an important phenomenon for current sociological research as it allows our identifying several forms of solidarity in business, based on a common ethnic-cultural identity. The main sociological concepts used in this research field are ethnic entrepreneurship and ethnic enclave, the latest studies being especially focused on the immigrants' economic life. The present paper submits a case study on the German Economic Society of Braşov and provides an insight into this ethnic criterion-based business association and into its contribution to the local socio-economic development.*

Key words: *ethnic economy, ethnic entrepreneurship, ethnic enclave, local development.*

1. Introduction

The phenomenon called *ethnic economy* was first theorised by Ivan H. Light (1972) in his study on economic-life organization and business development within the groups of Chinese, Japanese immigrants and the dark-skinned persons from America. A few years later, Bonanich and Modell (1980) went thoroughly into the relation between *social class* and *ethnicity* in the case of the Japanese community from America, proving that ethnic solidarity is an important factor for the success of small businesses. For two decades, the concept of *ethnic economy* has been developed in a direction covering complex socio-economic realities. Light and Karageorgis (1994) defined ethnic economy this way: “the ethnic self-employed and employers, their

unpaid family workers, and their co-ethnic employees” (Light and Karageorgis, 1994 apud Light, 2005: 650). Subsequently, Light (2005) refined the meaning of this concept, showing that one may envisage two dimensions of ethnic economy: *the ethnic-controlled economy* and *the ethnic ownership economy*. The ethnic ownership economy refers to the owners/businessmen with a certain ethnic identity who act on a distinct labour market. The ethnic-controlled economy appears where the members of a certain ethnic group, as employees, represent a significant workforce, which is due either to their high number or to their organization (example: the case of a union mainly consisting of employees of a certain ethnic origin, who influence the employment and wage policy to the employees' benefit).

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Light proves that in both forms, ethnic economy allows immigrants and ethnic minorities to reduce their own disadvantages, inclusively exclusion, negotiating the terms of their participation on the labour market for a better position. Unless they find workplaces, unless they accept the conditions offered by the labour market or if they refuse to mingle with the members of other ethnic groups, the immigrants or the minorities may resort to the alternative of initiating a business or being employed within their own ethnic group.

Yet the concept of *ethnic economy* is not easily definable, given the multiple real forms that this phenomenon might take. Kaplan and Li (2006) claim that when we speak, for instance, of “Italian bakery” or of “Chinese laundry” we definitely refer to concrete forms of ethnic economy. In these two authors’ vision, there are five basic conditions whereby we might identify an ethnic economy: *ethnic ownership, employment, customer base, sectoral specialization, and spatial concentration*. To put it otherwise, we speak of ethnic economy where the employers belong to a certain ethnic group, the employees pertain to the same ethnic group, the market mainly consists of consumers who are members of this group, there is a specialization on a specific economic activity and, moreover, this group resides in an established physical space.

This would be, we dare say, the strong meaning of the ethnic-economy concept or the ideal type, in weberian sense. However, as shown by Kaplan and Li (2006), in reality, ethnic economy does not simultaneously fulfil all these conditions. Most frequently, it is mixed economy or integrated economy; being, as a matter of fact, the outcome of globalisation and domestic-economy restructuring. It possesses one or several features of the aforementioned ideal type, but it represents

withal an integrated and even indispensable part of the wider economic system. The two authors provide the example of the companies with owners of a specific ethnicity from Silicon Valley or the clothing industry from the big cities, where the ethnic borders are crossed on all levels: employers, employees, suppliers or customers. Kaplan and Li show that *ethnic entrepreneurship*, including various forms of ethnic-controlled economy, and *ethnic enclave* are fundamental concepts that facilitate our better understanding the complexity of this phenomenon in these latter days.

In this article, I will discuss the concept of *ethnic entrepreneurship* and of *ethnic enclave*; thereafter I will submit an illustrative case study on the influence of ethnic economy on local development, through a specific form of ethnic entrepreneurship.

2. Ethnic entrepreneurship

Ethnic entrepreneurship is a very interesting social phenomenon for sociology and economic sciences. This phenomenon has been defined as simultaneous activity by owners and/or managers who constitute a distinct business group, based on their common cultural inheritance or common origin, and who are acknowledged by the out-group to possess this specificity (Zhou, 2004). It is generally known that some ethnic groups have more entrepreneurial spirit and develop business within their ethnic group as a strategy to obtain higher positions within the social-mobility processes (Glazer, Monihan, 1963 apud Zhou, 2004).

The first author to have systematically used the concept of ethnic entrepreneurship is Light (1972), preoccupied to highlight the differences as regards the management of one’s own business between the various ethnic groups

from the United States (Kaplan, Li, 2006).

Ethnic entrepreneurship is defined as a set of interaction patterns between entrepreneurs who share a common national identity or a migratory experience (Waldinger, Aldrich and Ward, 1990) and is reckoned an important tool of economic growth (Assudani, 2009 apud Chand, Ghorbani, 2011). Chand and Ghorbani (2011) used the concept of *ethnic entrepreneurship* to explain the entrepreneurship activities of the Indian and Chinese immigrants from the United States. The two authors show that this concept is widely used in studies describing and explaining the immigrants' economic evolution and their integration in the destination societies through ethnic social networks. For instance, many a time, the immigrants who launch their own businesses prefer to hire staff from their own ethnic group, not only because the latter accept lesser wages, but also because of a better understanding and control.

Ethnicity-based economic relations may create trust and generate economic-cooperation forms among co-ethnics to a higher extent than in the context of non-ethnic transactions. Why? Since cultural values and norms shared by ethnic communities help establish understanding and mutual trust relationships which, in their turn, establish and maintain contractual relation establishment and maintenance. Ethnic entrepreneurship is based on the social capital built within ethnic networks. Social capital provides access to information and influence, underlying the development of community solidarity (Coleman, 1988). Social capital allows individuals to access social benefits by virtue of their membership in social groups and structures. Ethnic identity may constitute an important source of social capital and therefore social solidarity, inclusively in the business world.

The concept of ethnic entrepreneurship is also used in studies comparing the economic behaviour of various nations or ethnic groups; many studies starting from Hofstede's model of value orientations (Chand, Ghorbani, 2011). Hofstede (1980) showed that long-term oriented societies, such as Japan, Korea, China and Taiwan stand out through their strong entrepreneurship spirit and offer more opportunities for economic initiatives and innovation than short-term oriented societies.

Chand and Ghorbani (2011) emphasized similarities and differences between the entrepreneurship behaviours of the Indian and Chinese minorities from the United States. For instance, with a view to launching business, the Indian entrepreneurs resort to a higher extent to financial funds from their large families than the Chinese ones. Conversely, the Chinese entrepreneurs search for financial funds in the ethnic community exterior to their large family. The Indian entrepreneurs hire staff beyond their large family and ethnic community to a higher extent than the Chinese ones. In terms of economic profitability, the Chinese businesses are advantageous.

The concept of *ethnic entrepreneurship* is often associated to the one of *ethnic-controlled economy*, when one refers not only to social networks made of employers or business owners, but also to the ones made of managers or employees, which significantly influence the economic activities. Indeed, the ethnic-controlled economy is defined through the *influence* had by the immigrants or by the members of an ethnic community on an economic market (Light, 2005). In this case, the influence does not derive from the property rights, but from the power exercised by the numerous members of an ethnic group on an economic-market segment or by the organization of such a group (Volery, 2007).

3. Ethnic enclaves and enclave businesses

Ethnic economy is also studied in terms of *ethnic enclaves* (Greve, Salaff, 2005). They are seen as ethnic niches where distinct economic networks develop. Niches need not be physically separated, but consist in social networks defined by recurring interaction patterns. Greve and Salaff consider that the analysis of these social networks may lead to a better comprehension of the part played by ethnic economy in orienting the immigrants into ethnic labour markets and entrepreneurship (2005:7). The two authors define ethnic enclaves as social structures consisting of family members, relatives, friends, neighbours and acquaintances who participate in an ethnic-based employment and consumption system. The borders of these structures are socially defined through the common ethnic identity, in terms of “people like ourselves” (2005:9). A suggestive example provided by the two authors consists in the well-known Chinatowns – socio-economic structures with well established ethnic borders.

In order to understand these ethnic enclaves, the cultural theories of migration sociology are of great help, as they aim at describing the use of the ethnic resources by the immigrants in order to obtain workplaces or to initiate and develop businesses (Orazi, Soggi, 2011). The premise of these theories is that cultural similarities create social relations that facilitate the access to ethnic labour markets. Contrary to a generally shared opinion, which reckons ethnic minorities as disadvantaged in society, the researches on ethnic enclaves have shown them to provide their members with important economic advantages. There are cases of immigrants hired by co-national employers who earn more than in non-ethnic economy (Portes, Bach, 1985; Greve, Salaff, 2005).

Cultural theories claim that ethnic enclaves provide the new immigrants with varied opportunities to create their own ethnic-based businesses (Greve, Salaff, 2005). Firstly, the enclave may induce the urge to become an entrepreneur. If the economic market of the destination society does not offer opportunities or even blocks the immigrants’ access to workplaces, they may choose launching an *enclave business* where they benefit from connections and legitimacy.

Secondly, in an enclave, an immigrant may start a business more easily if (s)he can rely on ethnic networks of economic help and other ethnic-type resources. In enclaves, the new entrepreneurs are supported by their co-ethnics as the latter have in their turn been helped. Light and Bonanich (1988 apud Chand, Ghorbani, 2011) use the concept of “ethnic facilitation” to describe this situation of generalized help between the members of an ethnic group. The ethnic facilitation process may be trans-national, when the entrepreneurs mobilize resources from their home country and use them for their new business in the destination country.

Thirdly, enclave businesses hire to a great extent from their ethnic group. Employers search the needed persons within the group and hire acquaintances or acquaintances’ acquaintances. Ethnic identity, through sharing a common culture, is often deemed a business sustainability guarantee, which motivates the employers to provide with jobs, those speaking the same language and originating in the same cultural environment (Portes, 1998).

Fourthly, the common culture shared within ethnic enclaves creates a climate of trust and ensures the observance of the business norms. In Putnam’s terms, ethnic enclaves may be important sources of social capital, consisting in trust, norms and social networks (Putnam 2001). This is

not only the case of the legal business, but also of the underground-economy business. This way, many enclave businesses are, as a matter of fact, unregistered companies that do not pay taxes and insurances for their employers, and are therefore beyond the control and protection of the State institutions (Castells, Portes, 1989 apud Greve, Salaff, 2005). Hence they rely on their own operation regulation and are often underlain by a mutual trust culture, distinct cultural codes and an agreement “that goes without saying”. Most often, these common cultural codes are set and enforced within the family, relatives or other informal groups.

Kaplan and Li (2006) emphasize that an important aspect of ethnic enclaves, even in the contemporary globalized world, is the geographical concentration of the economic activities into an easily identifiable ethnic “neighbourhood”, with a minimal institutional organization (Kaplan, Li, 2006).

4. Role of the German Economic Society Brașov (DWK) for local development

The German Economic Society of Brașov - Deutscher Wirtschaftsclub Kronstat (DWK) is an association of the businessmen in the area of Brașov, with German ethnic identity as criterion of association. Theoretically, this society falls into the aforementioned *ethnic entrepreneurship*. From unsystematic observations prior to this study, we understood that the association set its goal to significantly contribute to local development in the area of Brașov. With a view to identifying its role in the socio-economic development of Brașov, we resorted to the method of the explorative case study (Yin, 2005) using a methodological triangulation: semi-structured interviews with leaders of the

association, document study and observation. We organized the obtained data on three chapters, which will be tackled as follows: association mission, obtained results and projects aiming at the development of the economy of Brașov. The field data were collected during May-July 2013.

The German Economic Society was established in 2007 and brings together one hundred companies with German, Austrian, Swiss and also Dutch or Flemish capital. The election criterion in this businessmen’s association is for the company to have 25% foreign capital and, as regards natural persons, to be of German ethnicity or German speakers.

In the county of Brașov, the main foreign investors, according to the subscribed social capital, originate in Germany (“Development Strategy of Brașov County - Horizons 2013 – 2020 – 2030”, www.addjb.ro). In this context, the biggest companies in Brașov area are also DWK members. In May 2013, five companies in the top 10 companies of Brașov in terms of the highest turnover were members of the German Economic Society from Brașov.

While the membership criterion has an identity basis and this ethnic mark is preferably kept, the association is open towards “*almost anyone, especially companies from fields we are interested in*” (DWK leader).

The mission of DWK takes shape on two main axes: 1) business-environment optimization for the German-capital companies already established in Brașov area, to the purpose of maximizing the advantages of these companies on the local and regional economic market; 2) activity of *Corporate Social Role* – involvement of the society in the local community, in order to raise social development and improve life quality.

The chairman of DWK emphasizes that attracting foreign investment is not

enough, it must be reinforced by creating optimal conditions to the maintenance of the German-capital companies on the market of Braşov, which companies have raised their investment and increased the number of their employees in latter years: *“Our idea is first and foremost to improve the business environment for the already established companies, as many underestimate or pay little regard to this factor, they only think to bring investors [...], but it might be more important for those who are already here to reinforce their position, to settle in the long term”*. This objective may be achieved if the entire community develops and offers a pleasant life environment: *“Take a look, all these cutting-edge technologies only go to beautiful places, therefore I can choose and I do choose beautiful places because I understand it is very important for people to feel comfortable; as, if they feel comfortable, you need not motivate them solely through money [...], hence we must offer them a complex and integrated environment for them to feel well”*.

The objective of creating integrated and developed communities is transposed, on one hand, in the involvement of the companies in the professional training and educational process, by their contribution to the creation of the skilled labour force, and, on the other hand, in the support or organization of activities aimed at enhancing the community cohesion. Hence the second dimension of the mission undertaken by DWK takes shape: involvement in community, transposed in projects either already implemented or under implementation. One of these projects is *Fit for Future*, first held in May 2013, also called “Professional Information Week”, in whose framework 11th-grade pupils from high schools of Braşov are invited to an internship in DWK-member companies; the pupils availing themselves of the opportunity to

practice a job or a position in a real context, on the labour market.

One of the projects reckoned highly successful by the management of the German Economic Society from Braşov is *Kronstad* German Professional School (SPGK), opened in 2012, professional-education institution that reforms the Romanian technical education system. Conceived as private structure to be financially supported by DWK-member companies, which aimed at qualifying human resources for their activity field, this professional school was integrated in the State system, after an intense lobby by a group of DWK-member companies to the national and local public authorities, which resulted in the legislation modification in the technical education field. This way, *Kronstad* German Professional School was formed on the basis of a partnership between the County School Inspectorate, the Town Hall of Braşov, the German Economic Society of Braşov and seven German-capital companies, DWK members.

The analysis of press releases occasioned by the opening of this school in Braşov, as well as by official meetings between the president of DWK and other public personalities, as well as of the data obtained from the interviews with managers of DWK, we noticed two effects of this initiative. Firstly, the establishment of SPGK has a double advantage for the local economy: a) it supports the local business environment, by human-resource qualification where there is demand of labour force and b) it supports young graduates from general education to get qualified along two years and to rapidly integrate on the labour market. Secondly, SPGK has already become a model of good practices, there being numerous institutions in Romania who want to implement a similar model: groups of companies, chambers of commerce and industry, town halls or county councils.

Another result of importance for the management of DWK is the event Oktoberfest, initiated in 2009, on the model of a Bavarian tradition, appreciated by the management of DWK as “*the greatest event throughout Romania. Having launched Oktoberfest, we expected 2000 people and, during its first edition, we had 40000 visitors*” (DWK leader). It is an event bringing together DWK-member companies and offering the community of Brașov and the tourists, several German-typical festival days, on a concept intertwining beer consumption and German-tradition promotion, but intending withal to be a framework for the development of the economic collaboration network between the participating companies.

The creation of a network with a view to obtaining advantages for DWK-member companies is another outcome of the association, substantiated in two mechanisms: a) negotiation with suppliers and acquisition in group, in order to obtain bonuses and discounts; b) reciprocal price cuts between the club members so that the employees of the member companies might benefit, based on membership cards, from discounts to goods and services (for instance: hotels, restaurants etc.)

As regards the development of local economy in the medium and long term, the main project supported by DWK consists in forming, at Brașov, a strong cluster in aviation industry, TAC – Transylvania Aerospace Cluster Romania, capable of bringing together specialized companies and of developing an integrated centre of the aeronautics from Brașov, competitive on the international market. The management of DWK has been involved, this year, in attracting support from national authorities towards this project and in strengthening the relations with the

public partners: municipality of Brașov and *Transilvania* University of Brașov, the project also having an important component of research, development and human-resource training, necessary for the smooth functioning of this cluster.

In terms of critical analysis, the weakness of DWK consists, for the time being, in promotion. The president of the society declares that re-branding and investments in promotional means are called for, so that a new catalogue and flyers should raise the visibility and notoriety of this organisation. Our observations suggest the need of redesigning the association site, whose information are mostly in German and not sufficiently updated.

5. Conclusions

The latest studies in economic sociology show that ethnic economy, with the business networks and immigrants' ethnic enclaves as main forms of manifestation, is an interesting object of research in the contemporary world dominated by globalization and rapid changes. At Brașov, through the explorative study case on the German Economic Society, I have sought to prove the existence of another form of ethnic entrepreneurship, consisting not of immigrants, but members of an ethnic group living for centuries in Transilvania and having laid the bases of a business association with two main objectives: improvement of the business environment for the German-capital companies and contribution to the local economic development, through complex and integrated investments in technology and human resources. Being the first case study made on this association, I wish it constituted a solid basis for significant explanations and generalisations in the European socio-economic area.

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