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THE EWING MARION KAUFFMAN EMERGING SCHOLAR AWARD

**DETERMINANTS OF THE IMMIGRANT ENTREPRENEURS'
SUCCESS: IMMIGRANT ENTREPRENEURS IN
THE EUROPEAN REMITTANCES MARKET**


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ABSTRACT

This paper examines the influence that immigrant entrepreneurs' home and host country-differences have on their business growth. Building on organizational learning and prospect theory literature, we suggest that: (1) knowledge-related differences have a negative, while (2) economics-related differences have a mixed effect on immigrants' business growth (positive when these are in the favor of host and negative when these are in the favor of home country). Employing social categorization literature, we also contend that these impacts are moderated by (a) naturalization (b) home to host geographical distance, and (c) the size of the immigrant entrepreneur's diaspora in the host country. We test our theory using a sample of immigrant entrepreneurs operating in the remittances market and our findings are mostly consistent with the predictions.

INTRODUCTION

An unprecedented acceleration in international immigration rates is more and more recognized as a critical challenge in the XXIst century. In 2013 the number of international immigrants was 231.5 million people or 3.25% of the world population (UN estimates). Yet, while offering immigrants an opportunity to relocate is viewed as strategically desirable by those wealthy but challenged by deep demographic crisis nations, the economic integration of immigrants becomes a concern (Chand & Tung, 2014). Finding a way of enjoying the positive aspects of international immigration while dealing effectively with the corresponding issues – is extremely important for ensuring persistence of the positive macroeconomic dynamics resulting from the globalization. One important way of addressing this problem is through facilitating engagement of immigrants in business activities and helping them become successful entrepreneurs.

Despite the common recognition as by the scholars as by the policy-makers of the global implications of the international immigration (Adams & Page, 2005) and of the role that entrepreneurship may play in managing immigrants' economic integration (Rath & Kloosterman, 2000), the attempts of understanding the factors leading immigrants starting and succeeding in a business are rather limited (Altinay & Altinay, 2008; Basu & Goswami, 1999). Even though there are many similarities between immigrant and non-immigrant entrepreneurs, what distinguishes immigrant entrepreneurs is their multisided identity mixing that of their home and their host country (Haritatos & Benet-Martínez, 2002; Roccas & Brewer, 2002). Each of these home and host identities, being associated with a distinct set of environmental characteristics, life norms, expectations and motivations, has a particular imprinting on immigrant entrepreneurs' business behavior (Akerlof & Kranton, 2000; Benet-Martínez & Haritatos, 2005; Chen, Benet-Martínez, & Harris Bond, 2008).

In this paper, we study the way home and host country-level knowledge and economics-related differences influence immigrant entrepreneurs' business growth. We argue that immigrants' self-identification with the home or the host country affects their growth aspirations (Phinney, 1990). Based on the organizational learning literature (Argyris, 1977; Argyris & Schön, 1978; Cohen & Levinthal, 1990; Hedberg, 1981; Malerba, 1992; Starbuck, 1996), we hypothesize that the presence of knowledge-related differences has a negative influence on immigrant entrepreneurs' business growth. Based on the prospect theory literature (Kahneman & Tversky, 1979; Tversky & Kahneman, 1992), we also argue that economics-related differences may have both a positive impact if these differences are in direction of immigrants' host country and a negative impact if they favor the home. Finally, building on the social categorization literature (Ashforth & Mael, 1989; Stets & Burke, 2000; Turner & Oakes, 1989), we theorize the effects that geographic distance, immigrants' naturalization and the size of the immigrant entrepreneurs' diaspora size have on relationships between knowledge and economics-related differences – on one side and business growth – on the other side.

HYPOTHESES DEVELOPMENT

Home and host knowledge-related differences and their influence on business growth

While it is generally argued that there is a strong relationship between knowledge and organizational outcomes (Grant, 1996; Kogut & Zander, 1992; Levin, Long, & Carroll, 1999; Levitt & March, 1988), it is also recognized that creation and smart application of knowledge are not easy tasks. Learning is effortful and requires significant inputs which may have a negative reflection on business growth (Malerba, 1992). Moreover, learning curves are usually steeper at the beginning – representing how difficult it is to start (Cohen & Levinthal, 1990). The complexity rises when an entrepreneur is not familiar with the environment or has other knowledge-related barriers (Cohen & Levinthal, 1990). In the context of immigrant entrepreneurship, the negative effects should be particularly pronounced being provoked by the presence of linguistic barriers (Kloosterman, 2000). Adaptation to the local business conditions in the host country could distract an entrepreneur from his/her core activities and hence make them less efficient (Konya, 2007). As a result, we expect that immigrants coming from the countries which are more different from the host in linguistic aspects could have lower business results.

Hypothesis 1: The higher are the linguistic differences between immigrant entrepreneur's home and host countries – the higher is the learning effort required for adaptation to the local environment and, therefore, – the lower is the business growth.

Home and host economic differences and their effect on business growth

Following prospect theory (Kahneman & Tversky, 1979; Tversky & Kahneman, 1981, 1992), individuals put more emphasis on the value of loss rather than gain when involved in making a choice between probabilistic alternatives that involve risk. In our context, taking risk will be more specific to those immigrants for whom failure will be associated with a lower relative loss. Immigrant entrepreneurs residing in the countries with the higher life quality levels as compared to their homes are generally located on the gain side. Gains decrease as the negative difference in the life quality between home and host is reduced. Finally, when the life quality in the country of residence is lower than that in the country of origin, immigrant entrepreneurs get concerned much more about potential losses as for them their current option is inferior to an alternative which is going back to their home country. As a general outcome, we can conclude that the differences in

life quality (economic differences) between immigrants' homes and hosts (in favor of hosts) will be positively associated with risk tolerance (Kahneman & Tversky, 1979; Tversky & Kahneman, 1981, 1992), perhaps, more entrepreneurial behavior and higher levels of business growth (Begley & Boyd, 1988; Kihlstrom & Laffont, 1979).

Hypothesis 2a: The higher are the economic differences between immigrant entrepreneur's home and host countries in the favor of host – the lower is the loss aversion (higher risk-tolerance) as the conditions are worse in home as compared to host country, and, therefore, – the higher is business growth.

Hypothesis 2b: The higher are the economic differences between immigrant entrepreneur's home and host countries in the favor of home – the higher is the loss aversion (lower risk-tolerance) as the conditions are better in home as compared to host country, and, therefore, – the lower is business growth.

The moderating impact of naturalization on the relationship between home and host country-level differences and business growth

Acquisition of the host's citizenship indicates that an immigrant is considered to have a higher degree of association with his/her new country whose national interests he/she is now expected to protect (Akerlof & Kranton, 2000). An individual being naturalized should identify himself/herself as a representative of the host's nation to at least same extent as he/she does in relation with the country he/she originates from (Yang, 1994). In the context of our study, naturalization could therefore decrease knowledge-related differences (Alba & Nee, 1997; Gordon, 1964) and, by doing so, should enhance immigrant entrepreneur's business growth (Bratsberg, Ragan Jr, & Nasir, 2002).

Hypothesis 3a: Naturalization results in a higher association of an immigrant entrepreneur with the host and a weaker association with the home – facilitating the learning and decreasing the negative effect that the linguistic differences have on growth proposed in H1.

On the other hand, naturalization should also increase the perceived distance between home and host and should make an individual more prone to compare his current life quality with the local and not so much with the origin's levels (Festinger, 1954; Hinkle & Brown, 1990). As an outcome, after naturalization, immigrant entrepreneurs coming from the poorer/(richer) countries as compared to the host become less risk tolerant/(less risk averse) since they are now more accustomed to the local well-being level and attribute more/(less) value to their eventual loss in case of a business failure. This decrease/(increase) in risk tolerance should affect the entrepreneurship by making employment a more attractive alternative than owning a business and will likely reflect in lower/(higher) levels of business growth (Bratsberg et al., 2002; Chiswick, 1978).

Hypothesis 3b: Naturalization results in a higher association of an immigrant entrepreneur with the host and a weaker association with the home – reducing comparison of the life quality in the host country with that in the home country – leading to a less positive in case of host-favoring economic differences or a less negative in case of home-favoring economic differences risk-tolerance effect proposed in H2.

The moderating impact of geographical distance on the relationship between home and host country-level differences and business growth

Geographical distance that separates immigrants' home and host countries influences the level of emotional, informational and economic attachment to those states. As a result, the country of origin located at the higher distances will be less viewed as a comparison option (Festinger, 1954; Hinkle & Brown, 1990) – giving an individual an additional motivation to make steps for the integration in the local community he/she is currently in (Konya, 2007). Such predictions also find support in the fundamentals of the social comparison literature which argues that a tendency to compare the self with a group of other individuals decreases as the differences between them increase (Tesser, Millar, & Moore, 1988). Higher geographical distance will create an impression of increasing differences with the home, leading to a higher social comparison with the hosts' nationals. Thus, we believe that geographical distance will stimulate an individual to decrease the knowledge-related differences with the host (Bills, Chávez, & Hudson, 1995; Gaarder, 1977), and by doing that will have a positive effect on business growth.

Hypothesis 4a: The higher is the geographical distance between immigrant entrepreneur's home and host countries – the weaker is the connection with the home country and the easier is the acquiring of the new knowledge – leading to a less negative learning effort effect proposed in H1.

While we state that geographical distance should have a positive effect on growth as it gives immigrant entrepreneurs an additional motivation to decrease knowledge-related differences – there is also a reason to think that it influences growth in some other ways. As we argued before, higher geographical distance weakens connection that an immigrant has with the country he/she originates from (Baker, 2011). In realm of the argument we provided in support of the positive (negative) relationship between economic differences and growth, this will mean that an immigrant entrepreneur will be less comparing his/her current life quality with the country of origin, but more with the host. In other words, higher geographical distance will speed up assimilation of the host's economic expectations (Konya, 2007). This, in case when the economic differences are in favor of host, will make an entrepreneur become more risk averse, leading to lower entrepreneurship and business growth. In the opposite case, when the economic differences were in favor of home, this assimilation will help an entrepreneur to tolerate higher risks, increasing entrepreneurship and business growth.

Hypothesis 4b: The higher is the geographical distance between immigrant entrepreneur's home and host countries – the weaker is the connection with the home country and the lower is the comparison of the life in host country with that in the home country – leading to a less positive in case of host-favoring economic differences or a less negative in case of home-favoring economic differences risk-tolerance effect proposed in H2.

The moderating impact of the immigrants' diaspora size in the host country on the relationship between home and host country-level differences and business growth

While local population may force immigrants to integrate, the presence of the supporting minority may significantly decrease the effectiveness of such forces (Asch, 1955). Moreover, the higher are the forces that push to remediate the effect that the presence of diaspora has on opposing the integration – the higher is the opposition itself to this extrinsically enforced goal and forced compliance (Festinger & Carlsmith, 1959; Lepper, Greene, & Nisbett, 1973). In

other words, higher number of immigrants and especially those from the home country serve an immigrant as an extremely strong supporting group helping withstand social pressure and abstain from integration, preserving original identity. As a consequence, the knowledge-related differences between the home and the host remain high (Barry & Miller, 2005), having in case of the immigrant entrepreneurs a negative effect on business growth.

Hypothesis 5a: The higher is the size of diaspora in the host country – the stronger is the connection with the home country and the more complicated is the acquiring of the new knowledge – leading to a more negative learning effort effect proposed in H1.

By helping immigrants resist integration pressures, the presence of diaspora contributes to preservation of the stronger relationships immigrants have with the home while preventing their development with the host countries (Mazumdar, Mazumdar, Docuyanan, & McLaughlin, 2000). This also leads to persistence of the economic comparison of immigrants with the home (Tesser et al., 1988) or, otherwise stated, to selection of the home country's life quality level as the main reference point. In case of immigrant entrepreneurs originating from economically less developed countries than the host this results in a more durable perception of immigration as an improvement in life conditions since similar effort secures the immigrants more benefit in the host as compared to their home country. This reflects in a lower opportunity cost and disposes such immigrants to more entrepreneurial experimentation and should result in the higher business growth (Amit, Muller, & Cockburn, 1995). To the contrary, immigrant entrepreneurs from the countries with the higher economic differences in the favor of home continue much longer remaining in a risk-averse position.

Hypothesis 5b: The higher is the size of the immigrant's diaspora in the host country – the stronger is the connection with the home country and the stronger is the comparison of the life quality in the host country with that in the home country – leading to a more positive in case of host-favoring economic differences or a more negative in case of home-favoring economic differences risk-tolerance effect proposed in H2.

METHODS

Sample: n=9769; immigrant entrepreneurs from 130 countries in 15 European states
DV: Business growth determined as a maximum transaction volume limit immigrant entrepreneurs' remittance agency has achieved since it was opened
IVs: Direction and size of the immigrants' home-host linguistic, education and economic differences; geographical distance, immigrants' diaspora size in the host and naturalization
Controls: immigrant entrepreneurs' demographics (age, gender); businesses' age and legal type; market size and competition-related characteristics; other host country-level parameters (tolerance toward immigrants, immigrant employment rates)
Statistical analysis = OLS

RESULTS

Having in mind that the effects of the immigrants' home and host country differences could fade away with the immigrants' acculturation produced by their economic integration (J. W. Berry, 1997), we focused our investigation on the first growth quartile. Since most of immigrant businesses in our data are rather young, this decision helped us to clean the analysis from potential contaminating effects. Our findings show that six out of nine interactions we predicted do have a strong association with the immigrants' business growth. Four of these are in line with the

theory. Specifically, we observe that the negative influence of the knowledge-related differences on business growth is reinforced by the higher diaspora presence in the host and is weakened by immigrant entrepreneur's naturalization. We also notice the reinforcing impact of the geographic distance on both positive relationship between host-favoring and negative relationship between home-favoring quantitative economic differences and business growth.

DISCUSSION & IMPLICATIONS

This paper contributes to existing body of knowledge on small businesses' growth (Davidsson, Achtenhagen, & Naldi, 2007; Dobbs & Hamilton, 2007; Gilbert, McDougall, & Audretsch, 2006). We complement prior studies by addressing the immigrant entrepreneurship context. We attract the attention toward considering immigrant entrepreneurs' mixed identity which is shaped by the home and host country-level characteristics and especially their differences and explore implications that has for the immigrant entrepreneurs' business growth (Akerlof & Kranton, 2000). In addition, we also investigate how contextual factors give support to either immigrants' home or host-country-part of identity (Alba & Nee, 1997; Gordon, 1964) and analyze how it further reflects on their business success.

Our study also contributes to the entrepreneurial literature in regards of discussion of differences between opportunity and necessity-driven entrepreneurs (Reynolds, Bygrave, Autio, Cox, & Hay, 2002). We challenge a dominant view that immigrants from the poor countries are naturally prone to become necessity rather than opportunity-oriented entrepreneurs (Kalnins & Chung, 2006). As we show, the entrepreneurial motivations of immigrants is potentially contingent on the direction of economics-related differences and the poorer immigrants may, in fact, have higher predisposition to experimentation and undertaking entrepreneurial risks. That behavior is clearly different than what has been recorded on necessity entrepreneurs in their countries. Further research should explore those differences and the implications for understanding necessity entrepreneurs in their home countries and as immigrant entrepreneurs.

The policy implications unfold in developing ground for the legislative normative base aimed to facilitation of immigrants' economic integration though entrepreneurial activity. We point out that successful immigrants' integration should not necessarily stimulate the reduction of differences by making immigrants embrace local life style. As we show in this paper, under some circumstances preservation of the home country-level-specific identity may be more beneficial as it decreases the perceived cost of risk-taking behavior and stimulates more entrepreneurial experimentation (Dalziel, 2008; Kloosterman & Rath, 2003).

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