

6-11-2016

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Nastaran Simarasl
University of Tennessee, USA, nsimaras@vols.utk.edu

David W. Williams
University of Tennessee, USA

Recommended Citation

Simarasl, Nastaran and Williams, David W. (2016) "HIGHLY-EDUCATED IMMIGRANT ENTREPRENEURS' START-UP LOCATION DECISIONS," *Frontiers of Entrepreneurship Research*: Vol. 36 : Iss. 12 , Article 3.
Available at: <https://digitalknowledge.babson.edu/fer/vol36/iss12/3>

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HIGHLY-EDUCATED IMMIGRANT ENTREPRENEURS' START-UP LOCATION DECISIONS



Nastaran Simarasl, University of Tennessee, USA

David W. Williams, University of Tennessee, USA

ABSTRACT

We draw on theories from sociology, economics, and economic geography, namely ethnic enclave theory, location theory, and heterolocalism theory to investigate factors that aspiring highly-educated immigrant entrepreneurs take into account when they decide where to locate their start-up. In doing so, we used conjoint analysis with 79 first-generation international graduate students with entrepreneurial intention at a university in the U.S. south. Results showed that location-specific costs of doing business had a negative impact on the likelihood to choose a location. In addition, government support, coethnic social capital and non-coethnic social capital positively influenced the likelihood to choose a location. Furthermore, reliance on ethnic financial capital moderated the relationship between costs of doing business and the likelihood to choose a location. Findings of this study are applicable to start-up location decisions of other minority entrepreneurs in developed countries that have historically been restricted to certain areas and are increasingly on track to locate in new destinations. Furthermore, these findings can be applied to transnational entrepreneurs' start-up location decisions.

INTRODUCTION

Immigrant entrepreneurs play a significant role in economic development through generating new jobs, contributing to innovation, and creating demand for new products and services (Terjesen & Elam, 2009). Because of their importance to economic development, cities such as Detroit, Cleveland, Dayton, and Nashville and states such as Tennessee are currently and actively recruiting immigrant entrepreneurs ("Rolling out the Welcome", 2015). Nowadays, immigrant entrepreneurs are even in greater demand because of the growth potential of their businesses (Degraff, 2015). Yet, our knowledge about the factors that influence their location decisions is limited. The majority of past research is built on ethnic enclave theory, predicting that immigrant entrepreneurs are likely to locate within their ethnic enclaves; however, the more emergent theory, heterolocalism theory suggests that immigrants are as likely to locate outside ethnic enclaves, yet they maintain their bonds with their family members, coethnic friends and acquaintances (coethnic social capital), relying on cost-effective communication and transportation means. Although heterolocalism theory's predictions are consistent with recent evidence about immigrants' decisions to locate outside their ethnic enclaves, we yet do not know the factors that drive immigrant entrepreneurs' start-up location decisions. In both ethnic enclave theory and heterolocalism theory, immigrants' coethnic social capital is a major theme; however, it is possible that beyond social capital, other factors such as costs of doing business play a role in determining immigrant entrepreneurs' location decisions.

Therefore, we draw on theories from economic geography (location theory), sociology (ethnic enclave theory) and geography (heterolocalism theory) to predict highly-educated immigrant

entrepreneurs' start-up location decisions. By doing so, we provide a holistic framework for understanding highly-educated immigrant entrepreneurs' start-up location decisions. In addition, we integrate each theory's contradicting predications and go beyond narrow explanations of social capital. We also contribute to immigrant entrepreneurs' knowledge about factors that they can consider when making start-up location decisions. Furthermore, we bring insights to policy-makers who seek to attract immigrant entrepreneurs to certain locations in developed countries.

HYPOTHESES DEVELOPMENT

Costs of Doing Business and Location Decision Likelihood

Location theory suggests that manufacturing companies locate where operation costs (e.g., costs of land, tax rates, wage rates, costs of acquiring capital, etc.) are minimized and earnings are maximized. Location theory can also be applied to immigrant entrepreneurs' location decisions. Immigrant entrepreneurs are likely to choose locations that require comparatively lower costs of doing business. Starting businesses with lower expenses enables immigrant entrepreneurs to diminish their reliance on financial capital, acquired from external resources (e.g., ethnic financial resources, bank loans, etc.). Therefore, we hypothesize that,

Hypothesis 1. The likelihood to choose a location increases as location-specific costs of doing business decreases.

Government Support and Location Decision Likelihood

As discussed in Hypothesis 1 (derived from location theory), immigrant entrepreneurs seek to minimize costs of doing business as a means of increasing profitability, taking into account that immigrants and other minorities face considerable constraints in access to needed resources. Along those same lines, the U.S. Department of Labor provides the socially and economically-disadvantaged entrepreneurs with free counselling services to help them resolve their challenges in human resources management, safety, laws and regulations, financial planning, patents, trademarks, copyrights, taxes and information technology ("Government incentives, tax credit"; 2011). In regards to the role of government support on promoting immigrants' entrepreneurial activities, we predict that,

Hypothesis 2. The likelihood to choose a location increases as location-specific government support increases.

Social Capital and Location Decision Likelihood

Making location decisions requires that immigrant entrepreneurs evaluate the extent to which they will have access to needed resources at any location. Likewise, ethnic enclave theory argues that immigrants of the same ethnicity cluster in ethnic enclaves which eases their access to a variety of resources, including ethnic financial capital (Sanders, 2002), ethnic labor (Waldinger, 1984; Alvarez, 1990), specialized knowledge (Hernandez, 2014), and access to business contacts (Ebaugh & Curry, 2000). Past research demonstrates that if ethnic enclave's members face challenges in their businesses (e.g., resource constraints, etc.), they are more willing to seek support from their coethnic social capital rather than others (Breton, 1964). In other words, immigrant entrepreneurs are likely to locate where they have coethnic social capital because it facilitates their access to various resources. Therefore, we hypothesize that,

Hypothesis 3a. The likelihood to choose a location increases as the number of location-specific coethnic social capital increases.

According to ethnic enclave theory, immigrants are mostly embedded in their ethnic enclaves; however, heterolocalism theory suggests that immigrants are as likely to locate across dispersed locations. One explanation for heterolocalism's prediction is that immigrants gradually expand their social capital beyond their ethnic enclave (i.e., developing non-coethnic social capital) (Zarrugh, 2007). By non-coethnic social capital, we refer to heterophilous relationships that immigrants develop with individuals from other ethnicities or countries of origin (Prashantham, Dhanaraj, & Kumar, 2015). Distinguishing between immigrant entrepreneurs' coethnic and non-coethnic social capital is important because immigrant entrepreneurs treat them differently and reap different benefits from them (Saxenian, 2002).

Development of non-coethnic social capital mostly applies to highly-educated aspiring immigrant entrepreneurs, many of whom pursue a university degree in the host country which gives them considerable networking opportunities beyond their enclave, prior to starting their business (Wadhwa, Rissing, Saxenian, & Gereffi, 2007). Therefore,

Hypothesis 3b. The likelihood to choose a location increases as the number of location-specific non-coethnic social capital increases.

Past research demonstrates that in the course of assimilation and in response to their needs, immigrants reconstruct their social capital in the host country (Breton, 1964). We argue that throughout time, highly-educated immigrant entrepreneurs rely more on their non-coethnic social capital because this introduces them to an extensive opportunity pool beyond their ethnic enclave. Past research shows that as immigrant entrepreneurs' contact with their non-coethnic social capital increases, they become less engaged in their ethnic enclaves (Zhou, 1998; Ndofor & Priem, 2011). Therefore,

Hypothesis 4. Non-coethnic social capital moderates (weakens) the relationship between coethnic social capital and location decision likelihood.

Costs of Doing Business, Ethnic Financial Capital and Location Decision Likelihood

According to location theory's predictions, immigrant entrepreneurs are less likely to locate where costs of doing business are high. We argue that not every immigrant entrepreneur perceives costs of doing business the same. Immigrants who can find ways to reduce these costs, may still locate at locations with relatively higher costs of doing business. For immigrant entrepreneurs, one way to do so is to rely on ethnic financial capital (e.g., family wealth, ethnic rotating credit associations' low-interest loans, money borrowed from coethnic social capital, etc.), the access to which is relatively easy (e.g., does not require high credit scores) and cost-effective (e.g., low interest loans, etc.); therefore, we predict that,

Hypothesis 5. Reliance on ethnic financial capital moderates (weakens) the relationship between costs of doing business and the likelihood to choose a location.

METHODS

Experiment Design and Sample

We used conjoint analysis with an orthogonal fractional factorial design. We provided each research participant with 21 location profiles that involved various theoretically-driven decision attributes at high vs. low levels of each attribute and asked them to rate their preference on each location profile. In a post-experiment questionnaire, participants self-reported on variables such as their sources of financial capital. We used multilevel modeling (MLM) to analyze the nested data.

Our research sample consisted of 79 first-generation international graduate students with entrepreneurial intention at a university in the U.S. south. Although the use of student samples is associated with limited generalizability, use of this sampling frame benefited our study in different ways. First, international graduate students are more likely than natives to start successful start-ups in the U.S. (Hunt, 2010). Second, “52.3 percent of immigrant entrepreneurs initially came to the U.S. as students, stayed there after graduation and founded companies an average of thirteen years after their arrival” (Wadhwa, Rissing, Saxenian, & Gereffi, 2007, p. 3). Third, studying aspiring immigrant entrepreneurs’ start-up location decisions, rather than immigrant entrepreneurs who had already made their start-up location decisions, enabled us to capture their real-time decisions free from self-reporting and retrospective biases.

Variables and Measures

The dependent variable in this study was participants’ likelihood to choose a start-up location, measured on a 7-point scale (from 1 = “Very unlikely” to 7 = “Strongly likely.”) Independent variables included location-specific costs of doing business, government support for immigrant entrepreneurs, participants’ coethnic social capital, and their non-coethnic social capital. To measure financial capital (moderating variable), we asked participants via a post-experiment questionnaire and on a 7-point scale, ranging from (1 = “Not at all” to 7 = “This is the main financial resource that I will use for my future business” about the extent to which they were likely to use various ethnic financial resources (e.g., family wealth in the U.S., borrowing money from coethnic friends in the U.S., taking loans from ethnic credit rotating associations, etc.) to pay their start-up expenses.

RESULTS

Multilevel modeling results (Table 1) revealed that there was a significant negative relationship between location specific costs of doing business and the likelihood to choose a location (Model 2, $b = -1.07$, $p \leq 0.000$). This supported hypothesis 1. Furthermore, results showed a significant and positive relationship between government support and the likelihood to choose a location (Model 2, $b = 1.28$, $p \leq 0.000$). Therefore, hypothesis 2 was also supported. In addition, both the relationships between coethnic social capital and location decision likelihood (Model 2, $b = 0.48$, $p \leq 0.000$) and the relationship between non-coethnic social capital and the likelihood to choose a location were significant and positive (Model 2, $b = 0.32$, $p \leq 0.000$). This demonstrated support for both hypothesis 3a and 3b. Hypothesis 4 was not supported as the moderating effect of non-coethnic social capital on the relationship between coethnic social capital and location decision likelihood was not significant (Model 3, $b = -0.18$, n.s.). Finally, the moderating effects of reliance on ethnic financial capital on the relationship between costs of doing business and

location decision likelihood was supported, such that the negative relationship was weaker when reliance on ethnic financial capital was high vs. low (Model 4, $b = 0.14$, $p < 0.05$).

DISCUSSION & IMPLICATIONS

Because of highly-educated immigrant entrepreneurs' start-up growth potential, they are in great demand (Degraff, 2015). Yet, we know very little about how they go about making start-up location decisions and what factors matter to them. Our study contributes to both theory and practice by developing and testing a model of highly-educated immigrant entrepreneurs' start-up location decisions. Our study contributes to entrepreneurship literature by reconciling competing predictions of ethnic enclave theory and heterolocalism theory. In so doing, our research is one of the very few that distinguishes between immigrant entrepreneurs' coethnic vs. their non-coethnic social capital. This distinction provides the impetus for richer theory that more accurately models immigrant entrepreneurs' location decisions.

In addition, by drawing on location theory, we explore beyond the influence of immigrant entrepreneurs' social capital to include other factors, such as costs of doing business and government support that can explain immigrant entrepreneurs' start-up location decisions. As a result, our research integrates theories from across disciplines (e.g., entrepreneurship, economics, sociology, and economic geography) to provide a comprehensive knowledge about such key decisions. In sum, we offer the beginnings of a modern location theory for immigrant entrepreneurs.

From a practical stand point, our research enlightens public policy with regards to attracting immigrant entrepreneurs to economically-distressed regions as a means of facilitating economic recovery or to high-growth cities that seek higher growth. Recent efforts in attracting immigrant entrepreneurs in cities such as Detroit, Cleveland, Dayton ("Welcoming America"), St. Louis ("The Mosaic Project"), and Nashville support policy makers' attempts to attract such entrepreneurs ("Rolling out the Welcome", 2015; Wiens, Jackson, & Fetsch, 2015).

Finally, our research informs immigrant entrepreneurs who are in the process of choosing a start-up location or those who tend to relocate their businesses in the host country. Beyond highly-educated immigrant entrepreneurs, our findings are generalizable to transnational entrepreneurs who seek to expand their companies across borders.

CONTACT: Nastaran Simarasl; nsimaras@vols.utk.edu; (T): 865-742-3383; (F): 865-974-2048; University of Tennessee, 406 Stokely Management Center, Knoxville, TN, 37996.

Table 1. Multi-Level Modeling for Location Decision Likelihood

	Model 1: Control Variables		Model 2: Independent Variables		Model 3: Moderating Variables (1)		Model 4: Moderating Variables (2)	
	b	s.e.	b	s.e.	b	s.e.	b	s.e.
Intercept	6.68**	2.42	5.39**	0.36	6.53**	2.42	5.53*	2.20
<i>Control Variables:</i>								
Gender								
Male	-0.003	0.16	-0.003	0.16	-0.003	0.16	-0.003	0.16
<i>Industry</i>								
Agriculture	0.13	0.32	0.13	0.32	0.13	0.32	0.13	0.32
Trade	-0.29	0.46	-0.29	0.46	-0.29	0.46	-0.29	0.46
Service	-0.03	0.18	-0.03	0.18	-0.03	0.18	-0.03	0.18
Manufacture	-0.88	0.66	-0.88	0.66	-0.88	0.66	-0.88	0.66
<i>Major</i>								
Agriculture	-0.30	0.47	-0.30	0.47	-0.30	0.47	-0.30	0.47
Engineering	0.10	0.24	0.10	0.24	0.10	0.24	0.10	0.24
Architecture & Design	0.60	0.66	0.60	0.66	0.60	0.66	0.60	0.66
Business	-0.28	0.28	-0.28	0.28	-0.28	0.28	-0.28	0.28
Communication	-0.34	0.64	-0.34	0.64	-0.34	0.64	-0.34	0.64
Education	-0.12	0.49	-0.12	0.49	-0.12	0.49	-0.12	0.49
<i>Place of Birth</i>								
Africa	-1.08	0.41	-1.08	0.41	-1.08	0.41	-1.08	0.41
Asia	-0.31	0.32	-0.31	0.32	-0.31	0.32	-0.31	0.32
Central America	0.44	0.68	0.44	0.68	0.44	0.68	0.44	0.68
Middle East	-0.64	0.35	-0.64	0.35	-0.64	0.35	-0.64	0.35
Oceania	-0.60	0.79	-0.60	0.79	-0.60	0.79	-0.60	0.79
<i>Independent Variables</i>								
Costs			-1.07***	0.08	-1.11***	0.08	-1.11***	0.08
Government Support			1.28***	0.08	1.26***	0.08	1.26***	0.08
Coethnic SC			0.48***	0.08	0.57***	0.08	0.57***	0.08
Non-coethnic SC			0.32***	0.08	0.42***	0.08	0.42***	0.08
<i>Moderating Variables</i>								
Coethnic SC x Non-Coethnic SC					-0.18	0.16		
Ethnic Financial Capital							0.03	0.07
Ethnic Financial Capital x Costs							0.14*	0.06
-2 Log-likelihood	4902.02		4514.23		4444.9	4445.43	4574.42	4573.62
Δ -2 Log-likelihood			387.7			-0.47		0.80
Pseudo R ²	0		0.32		0.32	0	0	0.004
Δ Pseudo R ²			-0.32			0.32		-0.004

†p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.001
n = 1264 decisions nested within 79 respondents