



Do young firms owned by recent immigrants outperform other young firms?

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ABSTRACT

This study compares the performance of new businesses owned by recent immigrants with that of other new firms. It addresses an on-going unresolved discussion in the academic and professional literatures by drawing on a large sample of Canadian business owners whose firms began trading between 2000 and 2004 and using taxation data to track 2004 to 2008 performance. The results provide empirical evidence that young immigrant-owned exporter firms outperformed young domestically-founded firms whether or not they exported; however, immigrant-owned young enterprises that did not export underperformed other young firms. Owner-level factors such as gender, growth intentions and experience also influenced growth performance among young SMEs. The results provide evidence that suggests that immigrants have resources such as access to international networks that provide competitive advantage over non-immigrant owners that export or aspire to export. Not all immigrant business owners, however, are able to lever such advantages. The implications of the findings for research and policy are discussed.

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1. Executive summary

The current literature on immigrants and immigrant-owned enterprises has revealed a compelling research question with respect to the performance and growth of such firms: do firms owned by immigrants outperform those owned by autochthonous entrepreneurs? That many believe this to be true is witnessed by the immigration policies of more than 30 nations, policies that encourage immigration of individuals with business acumen. Yet evidence to this effect is both sparse and contradictory. Anecdotally, many successful enterprises seem to have been founded by immigrant entrepreneurs and there is research that appears to confirm that immigrants are disproportionately represented among the founders of successful businesses. However, other research finds that even those immigrant business owners selected on the basis of entrepreneurial predisposition, experience and ability self-report limited economic success.

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This work draws on the knowledge-based view of the firm to develop the conceptual argument that businesses founded by recent immigrants who lever their international ties are likely to outperform. The same argument suggests that firms founded by recent immigrants who do not exploit their international connections can be expected to perform relatively poorly. To test empirically these expectations, the research draws on unique data in the form of a large-scale 2004 survey of Canadian business owners whose firms began trading between 2000 and 2004, inclusively. By linking taxation data for the subsequent 2004 to 2008 period to the survey data, this work derives empirical models of firm performance that seek to measure the impact on performance of immigrant status and export propensity. Performance is estimated by a variety of measures: sales growth, growth in employment and salary mass and growth in profits.

The results provide empirical evidence to the effect that young immigrant-owned exporter firms outperform other young firms. However, immigrant-owned young enterprises that did not export underperformed other young firms. Hence, performance was moderated by export propensity. Owner-level factors such as gender, growth intentions and experience also influenced growth performance among young SMEs. The results provide evidence to suggest that immigrants do indeed have resources (for example, access to international networks) that can provide competitive advantage over non-immigrant owners that export or aspire to export. Not all immigrant business owners, however, are able to avail themselves of such resources. The implications of the findings for research and policy are considered.

Accordingly, this study was able to offer some measure of resolution to the research question. Although this study is not without limitations, it contributes toward: stimulating future research on immigrant entrepreneurs; improving our understanding of new venture growth and international entrepreneurship; refining public policies; and assisting practitioners. The findings might encourage policymakers to consider yet more effective ways to stimulate international trade among SMEs—and immigrant-owned enterprises in particular. Agencies tasked with supporting international trade might be encouraged to consider cross-border initiatives targeted to those immigrant entrepreneurs who are able to engage in internationalization. The study findings also suggest the need to understand further the process of acquisition and diffusion of social capital by entrepreneurs. Future research might usefully examine the barriers faced by immigrant business owners and to identify the means by which successful immigrant entrepreneurs overcame the challenges. Practitioners might well benefit from understanding how immigrant owners leverage social capital endowments in order to export products or services—leading to the superior levels of growth for their firms.

2. Introduction

Immigration is an important aspect of the global economy. Within this context, there appears to be disagreement in the research literature regarding the impact of newly immigrated entrepreneurs on the economies of their host countries. One school of thought contends that businesses founded by recent immigrants outperform other new firms. The media frequently propagates this belief, a rationale that forms the basis of public policy initiatives that provide business immigrants with accelerated entry to host countries, initiatives that have been adopted by more than 30 nations (Ley, 2006). While there is some research evidence in support of this “outperformance hypothesis,” there is also research evidence to the contrary: that new businesses founded by recent immigrants underperform other new firms. Therefore, immigration policies are frequently predicated on as-yet-unsubstantiated assumptions that entrepreneurial experience, relevant skills and competencies, and human capital endowments are transferable. The divergent findings prompt the research question that this work seeks to address: do young firms founded by recent immigrants outperform other, otherwise comparable, young firms? Primarily because of a lack of substantive data on immigrant-owned enterprises, resolution of this research question has been elusive (Fairlie, 2008). Few—if any—studies have investigated, conceptually or empirically, the comparative performance of immigrant-owned enterprises. This work seeks to inform this gap.

The findings of this work contribute to public policy formation in several ways. The importance of understanding the performance of immigrant-owned enterprises is highly relevant to policies that seek to attract immigrants with commercial acumen and pre-immigration intentions of starting businesses in the host country. In addition, research and public policy differ as to how “immigrants” are defined. To some, immigrants are people who were born in another country but who may have moved to a new country at any point in their lives; to others, immigrants are relative newcomers to their respective host countries. This study addresses this distinction and adopts the latter perspective.

Accordingly, this work compares the growth performance of young firms owned by recent immigrants with that of young firms owned by others. In doing so, this research adds to the existing literature in four ways. First, the knowledge-based view of the firm is used to develop a conceptual framework that provides a rationale for differential performance between immigrant-owned and other enterprises. This framework leads to hypotheses that:

- Young firms owned by recent immigrants are more likely to export than young firms owned by others.
- Young firms owned by recent immigrants that export outperform young firms owned by recent immigrants that do not export.
- Export-oriented immigrant-owned enterprises outperform other young firms, both exporters and non-exporters.
- Businesses that are not export-oriented and are owned by recent immigrants underperform, on average, export-oriented firms owned by others.
- Businesses that are not export-oriented owned by recent immigrants underperform, non-export-oriented firms owned by others.

Second, in order to address these hypotheses, the empirical analysis draws on a large representative sample of observations that links survey data to longitudinal taxation information. Third, analysis is based on performance data that employs a variety of

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