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Three Essays on Immigrant Entrepreneurship

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THREE ESSAYS ON IMMIGRANT ENTREPRENEURSHIP

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ABSTRACT

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Despite the saliency of immigrant entrepreneurship, our understanding of the unique challenges of start-up processes confronting immigrant entrepreneurs is quite limited. While entrepreneurship as a field of study is growing rapidly, it is criticized for the lack of commonly accepted and well developed research paradigms. To address this theoretical gap in the entrepreneurship literature in general and in the immigrant entrepreneurship research in particular this dissertation addresses the following overarching question in a three essay format: What are the start-up processes and outcomes associated with immigrant entrepreneurship? The first essay suggests a theoretical framework which exhibits how the social embeddedness of transnational entrepreneurs (TEs) affects their firm performance through the mediating effect of TEs' dynamic capabilities and the moderating effect of institutional distance between countries of origin and residence. The second essay qualitatively explores similarities and differences of entrepreneurial start-up processes between immigrant and indigenous entrepreneurs. Using data from the Kauffman Firm Survey, the third essay employs the liability of foreignness theoretical framework to empirically examine immigrant start-up processes and outcomes.

This dissertation is dedicated to my parents for all their support and encouragement in pursuit of knowledge as a lifelong journey.

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CHAPTER 1

INTRODUCTION

Entrepreneurs play a significant role in the dynamic renewal of capitalist economies (Schumpeter, 1950). In the United States, approximately 13% of the workforce is individuals who establish and operate their own ventures (Kalnins & Chung, 2006). While the foreign-born population of the United States is only around 10% of the total, more than 40% of Fortune 500 companies were founded by immigrants (18%) or by their children (22%) with combined revenues of $4.2 trillion in 2010 (Anderson, 2011). Clearly, immigrants are proportionally more likely than indigenous individuals to launch an entrepreneurial venture.

Despite the saliency of immigrant entrepreneurship, our understanding of the unique challenges of start-up processes confronting immigrant entrepreneurs is quite limited. However, several special issues on immigrant entrepreneurship published in *Entrepreneurship: Theory and Practice* (Drori, Honig, & Wright, 2009), *Thunderbird International Business Review* (Teagarden, 2010), and *International Business Review* (Cavusgil, Nayir, Hellstern, Dalgic, & Cavusgil, 2011) show that the academic community has recently become more interested in examining immigrant entrepreneurship.

While entrepreneurship as a field of study is growing rapidly, it is criticized for the lack of commonly accepted and well developed research paradigms (Aldrich, 2000; Hitt, Ireland, Camp, & Sexton, 2001). As a field, "we know little about how to incorporate the different dimensions of entrepreneurial activities into theory building and testing" (Zahra & Wright, 2011:72). To address this theoretical gap in entrepreneurship literature in general and in immigrant entrepreneurship in particular this dissertation addresses the following overarching question in a three essay format: *What are the start-up processes and outcomes associated with immigrant entrepreneurship?*

Chapter Two examines transnational entrepreneurship which can be considered a new stream of research where migrant entrepreneurship and international business research fields intersect. Transnational entrepreneurs (TEs) are "individuals that migrate from one country to another, concurrently maintaining business related linkages with their former country of origin, and currently adopted countries and communities" (Drori et al., 2009: 1001). Riddle and Brinkerhoff (2011: 400) stated that the majority of scholarly studies of transnational entrepreneurship "has examined the phenomenon post hoc, exploring the social characteristics and business activities" of TEs. Therefore, this chapter is a response to several recent calls to develop a theoretical framework to examine transnational entrepreneurship as a new phenomenon, which scholars began studying in the past decade (e.g. Drori et al., 2009; Sequeira, Carr, & Rasheed, 2009). In particular, Chapter Two addresses the following question: How do TEs develop their competitive advantage to succeed in a global market?

Chapter Two reviews the evolution of transnational entrepreneurship over the past decade and suggests a theoretical framework to explain how TEs may develop their competitive advantages to succeed in a global market. This chapter argues that market knowledge and social networks are necessary but not sufficient factors in explaining the TEs' true competitive advantage and firm performance. The primary theoretical contribution of this chapter lies in the suggested theoretical framework which exhibits how the social embeddedness of TEs affects their firm performance through the mediating effects of TEs' dynamic capabilities (i.e., opportunity sensing and opportunity seizing) and the moderating effect of institutional distance between countries of origin and residence. Several propositions describing the mediating and moderating factors are developed for future empirical investigation.

Chapter Three expands our understanding of the unique challenges of start-up process confronting immigrant entrepreneurs. Following the recent recommendations for investigating the complexity of the entrepreneurial process through qualitative research approaches (Gartner & Birley, 2002), this chapter employs a qualitative research study to examine the start-up processes of five immigrant and five indigenous entrepreneurs. Using interviews conducted by the Kauffman Foundation, Chapter Three addresses the following question: Whether there is a significant difference between new venture start-up processes of successful immigrant and indigenous entrepreneurs? And if so how do those start-up processes differ?

The results in Chapter Three illustrate that successful immigrant entrepreneurs pursue a start-up process configuration different from that of successful indigenous entrepreneurs. Consistent with the equfinality argument in the organization studies, the findings suggest that immigrants may become as successful as indigenous entrepreneurs; however, immigrants may achieve the same level of success through a very different path. The results shed more light on our understanding about the entrepreneurial startup process, in general, and the unique experience of immigrant entrepreneurs in particular.

Using survey data from the Kauffman Firm Survey, Chapter Four employs the liability of foreignness (Zaheer, 1995) theoretical framework to empirically examine several hypotheses of immigrants' start-up processes including the employment of external institutional relationships and recruitment of indigenous cofounders. In particular, Chapter Four examines the following two research questions: First, what is the effect of an immigrant entrepreneur's liability of foreignness on an entrepreneurial venture's survival and profitability? Second, how might moderating mechanisms recommended by the international business literature (i.e., employment of external institutional partners and recruitment of internal indigenous partners) mitigate the likely negative effect of liability of foreignness on the immigrant entrepreneurs' firm survival and entrepreneurial profitability? The findings suggest that the employment of external institutional partners and recruitment of internal indigenous partners may not necessarily result in mitigating the liability of foreignness and may otherwise exacerbate the immigrants' situation.

Finally, Chapter Five concludes the findings in the three essays on immigrant entrepreneurship and highlights practice and policy implications. The overarching theme which emerged consistently from all three essays suggests that imitating successful indigenous entrepreneurs and copying their strategies may not always be an effective prescription for immigrant entrepreneurs. Immigrant entrepreneurs need to better evaluate their liabilities as well as assets of foreignness (Sethi & Judge, 2009) in order to devise their unique strategies and develop their unique competitive advantage based on their unique resources.

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CHAPTER 2

TRANSNATIONAL ENTREPRENEURSHIP: A STRATEGIC ENTREPRENEURSHIP APPROACH

Ten percent of the people living in developed countries are immigrants (Riddle, 2008: 30), and this figure rises to 12.5 percent in the United States (Sequeira, Carr, & Rasheed, 2009). In some industry sectors, immigrants play a particularly important role in the economy of the host country. For example, one third of the engineers and one quarter of the senior executives in Silicon Valley's technology businesses are immigrants (Saxenian, 2002a).

Immigrants' economic effects on the development of their country of residence (COR) and country of origin (COO) have been recognized in the literature through job creation, remittances, homeland direct investment, and return migration; however, transnational entrepreneurship which simultaneously contributes to both the COO and the COR is less studied. Transnational Entrepreneurs (TEs) are "individuals that migrate from one country to another, concurrently maintaining business related linkages with their former country of origin, and currently adopted countries and communities" (Drori, Honig, & Wright, 2009: 1001). Globalization, the prevalence of inexpensive communication methods (e.g., email, fax, the Internet, telephone services) and affordable transportation opportunities (e.g., air travel) are all significant driving forces of transnational entrepreneurship (Drori et al., 2009). One survey study shows that approximately one out of every five foreign-born professionals working in Silicon Valley is involved in start-ups or venture funds in their country of origin (Saxenian, 2002a).

Although both immigrant entrepreneurship literature (e.g. Portes, Guarnizo, & Haller, 2002) and international business literature (e.g. Buckley, Clegg, & Wang, 2002; Gillespie, Riddle, Sayre, & Sturges, 1999; Riddle, Hrivnak, & Nielsen, 2010) emphasize the importance of TEs, the literature lacks a theoretical framework explaining how TEs develop competitive advantages in their new ventures to succeed in a globally competitive environment. Riddle and Brinkerhoff (2011: 400) stated that the majority of scholarly studies of transnational entrepreneurship "has examined the phenomenon post hoc, exploring the social characteristics and business activities" of TEs. In the same vein, Lu, Zhou, & Bruton (2010: 420) pointed out that "despite the documented relationship between resources and international performance, little is known about how entrepreneurial firms can capitalize on those resources that relate to distinctive capabilities to achieve superior international performance".

In order to address this gap in the literature, this essay adopts a *strategic entrepreneurship approach* (Ireland, Hitt, & Sirmon, 2003) to better understand how TEs develop their competitive advantage to succeed in a global market. A strategic entrepreneurship approach is defined as "the integration of entrepreneurial (i.e., opportunity seeking) and strategic (i.e., advantage seeking) perspectives in developing and taking actions designed to create wealth" (Hitt, Ireland, Camp, & Sexton, 2001 :481). Based on a strategic entrepreneurship approach (Ireland et al., 2003), this essay employs the dynamic capability perspective (Teece, Pisano, & Shuen, 1997; Teece, 2007) and relational theory of social networks (Granovetter, 1973) to suggest a theoretical framework which integrates the currently fragmented transnational entrepreneurship literature.

This essay is a response to several recent calls to develop a theoretical framework to examine transnational entrepreneurship as a new phenomenon (e.g. Drori et al., 2009; Sequeira et al., 2009). The essay offers a theoretical framework which enhances our understanding of how TEs may recognize opportunities and take advantage of their exceptional social networks in both their COO and COR which may be institutionally very different. The theoretical framework also suggests how the ethnic ties of TEs affects their firm performance through the mediating effects of two dynamic capabilities - opportunity sensing and opportunity seizing (Teece, 2007; Winter, 2003) - and the moderating effect of institutional distance between the COO and the COR.

The contribution of this essay is threefold. First, based on the strategic entrepreneurship approach, this essay suggests a social tie based model of the dynamic capability to address the theoretical void in the transnational entrepreneurship literature. Second, the linkage between social tie and performance which has been in a black box (Lahiri, Kedia, & Mukherjee, 2012; Wu, 2007) is examined in terms of how strong and weak social ties (Granovetter, 1973) may affect different processes of the global dynamic capability differently. Third, this essay is a response to recent calls for including contextual factors (e.g., institutional distance) in understanding entrepreneurial activities (Yeung, 2002; Zahra & Wright, 2011). In contrast to the common conceptualization of institutional distance as a negative moderator in international business literature (Kostova & Zaheer, 1999; Xu & Shenkar, 2002), the contextual factor of institutional distance is theorized as a positive moderator in the suggested theoretical model of transnational entrepreneurship.

The remainder of this essay is structured as follows. The following section provides a brief literature review on immigrants' economic activities and transnational entrepreneurship. In the third section, the strategic entrepreneurship is discussed as an appropriate approach to address the main research question: *How do TEs develop their competitive advantage to succeed in a global market?* In section four, the effect of the TEs' social network on the dynamic capabilities is discussed. The role of institutional distance as a contextual factor in transnational entrepreneurship is discussed in section five. The essay concludes with managerial and policy implications as well as suggestions for future research directions.

Immigrants' Transnational Economic Activities: A Literature Review

Globalization has not only accelerated the flow of goods and services but also the movement of people around the world. In today's world, immigrants and their descendants can easily and inexpensively travel to their COO, receive the latest news from virtual communities over internet, and socially connect not just with each other but also with family, friends, and other individuals in their home country (Riddle, 2008).

Immigrants, as important players of the economic development in their COO and COR, have not been thoroughly studied (Brinkerhoff, 2004). Immigrants' transnational economic activities can be categorized into four main activities namely: (1) remittances, (2) homeland direct investment, (3) return migration and knowledge transfer, and (4) transnational entrepreneurship. While there is some literature on the first three economic activities (e.g. Cohen, 2005; Nielsen & Riddle, 2009; Saxenian, 2002b; Vaaler, 2011), little is known about how the process of transnational entrepreneurship works and what, if any, the competitive advantages of TEs are (Sequeira et al., 2009; Yeung, 2009). Each of these four activities is briefly reviewed in this section and the rest of this essay focuses on transnational entrepreneurship (the fourth activity) since that is the area of research which is least developed.

Remittances

Remittances are the cash that immigrants send back, mostly to their families, in their COOs. In 2010 official remittances to the developing countries exceeded $330 billion (Vaaler, 2011), up from an estimated $200 billion in 2006 and $165 billion in 2004 (Ratha, 2006). India, China, Mexico, and the Philippines are among the world's largest recipients of remittances (Riddle, 2008). In some smaller countries, such as Moldova, Lebanon, and Haiti, remittances account for 20% of each country's GDP (Vaaler, 2011: 1113).

Immigrants' Homeland Direct Investment

The study of immigrant investment in Israel may have been one of the earliest examples of research examining immigrant homeland investment (Aharoni, 1966). Recently, scholars have discussed the importance of immigrants in promoting foreign direct investment especially in developing countries (e.g. Buckley et al., 2002; Huang & Khanna, 2003; Riddle, 2008). The stock of foreign direct investment in developing countries has increased dramatically in recent years (Ramamurti, 2004). In the late 1990s, some developing countries targeted their immigrant communities abroad to encourage them to increase homeland direct investment (Gillespie et al. 1999; Wei & Balasubramanyam, 2006). Examples are China and India which had disadvantages in attracting global investment capital due to the poor conditions of the traditional foreign direct investment determinants (e.g., institutional infrastructure).

Return Migration and Knowledge Transfer

Returning migrant entrepreneurship refers to the recent trend of reverse migration mainly from developed countries back to developing countries. Returning entrepreneurs are "migrants who return home after a period in education or business in another country" (Drori et al., 2009:1005). In comparison to indigenous entrepreneurs without international experience, returning entrepreneurs may have a substantial competitive advantage through exploiting their international social network and technological expertise achieved abroad (Wright, Liu, Buck, & Filatotchev, 2008). The international social and human capital that returning entrepreneurs have developed abroad may facilitate exporting the goods or services of their ventures established in their COO. In addition, returning entrepreneurs can bring about technological spillovers which indirectly helps other indigenous enterprises, therefore replacing "brain drain" with "brain circulation" (Drori et al., 2009:1005; Saxenian, 2007).

Immigrant Entrepreneurship

In general, immigrant entrepreneurship takes two main forms: (1) ethnic entrepreneurship and (2) transnational entrepreneurship. Ethnic entrepreneurship is mainly associated with small service and retail businesses in co-ethnic neighborhoods and middlemen who engage in import/export trade between their COR and COO (Drori et al., 2009:1004). For example, approximately seventy percent of Latin American and Caribbean immigrants in the United States purchase goods from their co-ethnic entrepreneurs (Lowell & Gerova, 2004).

Compared to ethnic entrepreneurship, transnational entrepreneurship includes more diversified product and clients. Transnational entrepreneurship encompasses an international scope and focuses on the opportunity of transnational business activities. TEs are migrants who take advantage of globalization, inexpensive travel costs, communication technology (e.g., Internet), and their social networks in their COR and COO to establish and manage cross-national businesses (Drori et al., 2009). Unlike traditional immigrants who have mostly been involved in entrepreneurship due to the scarcity of favorable jobs in the COR or insufficiency of their main source of income, TEs have a new approach to wealth creation (Portes et al., 2002) and significantly grew in number in the past decade.

The research on transnational entrepreneurship was originated by immigration scholars who defined TEs as a subset of migrant entrepreneurs "who travel abroad at least twice a year for business" and their business success "depends on regular contact with their country of origin" (Portes et al., 2002:284). Itzigsohn et al. (1999), Kyle (1999), and Landolt et al.(1999) are among the early scholars discussing transnational entrepreneurship as a new research stream in the migrant entrepreneurship literature; however, most of the research on TEs in the late 1990s was limited to case studies (Portes et al., 2002). In the last decade, entrepreneurship scholars also developed interest in studying TEs (Ilhan-Nas, Sahin, & Cilingir, 2011). Studying the Chinese Canadian community, Lin and Tao (2012:1) portray a typical TE as a "45-year-old or older man who is married with one child, has completed Master's or higher education programs, and does not have a full-time job".

The transnational entrepreneurship literature is still in its infancy. Most of the studies in the transnational entrepreneurship literature have focused on ethnic ties (e.g.,Chand & Ghorbani, 2011) and ethnic market knowledge (e.g.,Shinnar, Aguilera, & Lyons, 2011) as important success factors for TEs but the extant literature fails to provide theoretical insight on how these resources may affect firm performance. In particular, the process of TEs' competitive advantage creation is still a mystery (Lin & Tao, 2012). In other words, the literature currently lacks a theoretical model describing how TEs develop competitive advantages in their new ventures and succeed.

A Strategic Entrepreneurship Approach

The extant, fragmented literature emphasizes the importance of TEs' ethnic advantage in terms of market knowledge and ethnic ties and implies a direct link between these ethnic resources and TEs' firm performance. "Ethnic advantage" refers to the assumption that that TEs "possess relative knowledge and social capital advantages" compared to other competitors (Nielsen & Riddle, 2007: 5). In other words, the concept of ethnic advantage is associated with the belief that TEs face less risk because they better understand market preferences and the business environment in their COO as compared to other foreign competitors (Gillespie et al., 1999). Sequeira et al. (2009:1023) argue that TEs "are unique in that they are socially embedded in both their home and host environment...[a condition that] aid[s] these entrepreneurs in opportunity recognition, start-up, and maintenance of new ventures".

However, the empirical results of such a direct linkage between ethnic resources and firm performance remain mixed. While some studies report the importance of ethnic ties in TEs' success (Chand & Ghorbani, 2011), other studies found no significant relationship between ethnic ties and firm performance (Heilbrunn & Kushnirovich, 2007), and other studies reported a negative effect (Prashantham & Dhanaraj, 2010). In fact, not all immigrants with the same level of market knowledge and same level of density and strength of social ties are involved in transnational entrepreneurship and if they are, not all of them exhibit a sustainable successful outcome (Zafarullah, Ali, & Young, 1997).

Several researchers questioned the assumption of such a direct linkage between ethnic resources and firm performance (e.g. Lahiri et al., 2012; Wu, 2007) and called for better explanations of the transnational entrepreneurship process and how TEs develop their competitive advantage which is essential for firm performance (Drori et al., 2009). This essay argues that market knowledge and social networks are necessary but not sufficient factors in explaining the TEs' true competitive advantage and firm performance.

While entrepreneurship, as a field of study in general, and transnational entrepreneurship research, in particular, are growing rapidly, they are both criticized for the lack of commonly accepted and well developed research paradigms (Aldrich, 2000; Hitt et al., 2001). In order to address the theoretical void in transnational entrepreneurship literature, this essay employs the strategic entrepreneurship approach (Ireland et al., 2003) which calls for the integration of opportunity seeking behavior theorized in the entrepreneurship field and competitive advantage seeking behavior which is at the core of strategic management. The strategic entrepreneurship approach argues that both opportunity seeking and advantage seeking are simultaneously required to develop competitive advantage and firm performance. The strategic entrepreneurship approach also suggests that particular types of resources, such as market information, social networks and entrepreneurs' characteristics (e.g., ethnicity and experience) as well as opportunity seeking behavior are necessary but insufficient factors for wealth creation and success. In other words, "the firm's idiosyncratic resources are likely to produce sustainable competitive advantages only when they are managed strategically (Ireland et al., 2003: 973).

Based on the strategic entrepreneurship approach, this essay suggests that the *dynamic capability perspective* is a fruitful strategic management advantage seeking explanation which complements the opportunity seeking explanation of the ethnic advantage of TEs. In other words, TEs' dynamic capabilities of opportunity sensing (i.e., opportunity seeking) and opportunity seizing (i.e., advantage seeking) not the resources, per se, (Adner & Helfat, 2003) explain TEs' competitive advantage and firm performance. This strategic entrepreneurship approach describes the mixed finding in the literature and addresses the question of why some TEs succeed and some do not with the same level of access to market knowledge or social network privileges (Zafarullah et al., 1997). While the unit of analysis in most entrepreneurship literature is the entrepreneur, it is important to bear in mind that the strategic entrepreneurship approach calls for examining the entrepreneurial firm as the unit of analysis, yet it does not ignore the importance of entrepreneurs and their characteristics such as their experience, social networks, or cognition (Autio, George, & Alexy, 2011; Yang, Colarelli, Han, & Page, 2011).

This essay suggests that the dynamic capability perspective is suitable to examine TEs for three reasons. First, the dynamic capability perspective (Teece et al., 1997) was developed as an extension of the resource based view (RBV) of the firm (Barney, 1991; Rumelt, 1984; Wernerfelt, 1984) which is used by both strategic management and entrepreneurship scholars to explain firm performance and entrepreneurial success (Ireland et al., 2003; Kraaijenbrink, Spender, & Groen, 2010; Michael, Storey, & Thomas, 2002; Newbert, 2007; Sirmon & Hitt, 2003). As a complement view to Porter's (1980) industrial organization perspective which emphasizes recognizing and sustaining a market position as the base of competitive advantage (Porter, 1991), the RBV posits that those firm resources which are valuable, rare, non-substitutable, and costly to imitate serve as the true source of competitive advantage (Barney, 1991). The entrepreneurial resources such as social networks are considered valuable, rare, non-substitutable, and costly to imitate and are potential resources for competitive advantage creation. However, the RBV has been criticized as a static perspective that is largely tautological in nature (Priem & Butler, 2001) and particularly unsuitable for a fast changing environment (Teece et al., 1997) such as in international business (Teece, 2007). In dynamic environments, "simply examining relationships between start-up resources and performance can produce misleading conclusions when using RBV" (Wu, 2007: 549). Therefore, Teece et al. (1997) suggest the dynamic capability perspective as an extension of the RBV which is a superior perspective to deal with rapid environmental change such as international business . In other words, dynamic capabilities fit the entrepreneurial and

Schumpeterian perspectives better than the RBV which codifies the Ricardian perspective (Makadok, 2001). Therefore, the dynamic capability perspective may explain why TEs from the same country of origin (COO) who operate in the same country of residence (COR) may experience different entrepreneurial outcomes (Yeung, 2002).

Second, several scholars in the field of entrepreneurship (e.g. Arthurs & Busenitz, 2006; Newey & Zahra, 2009) support the notion that the dynamic capability perspective is an appropriate theoretical lens in describing entrepreneurial firms and call for capability-based theoretical lenses to examine drivers of successful internationalization in entrepreneurial firms (Autio et al., 2011). Studying Taiwanese high-tech start-up firms, Wu (2007) found that dynamic capabilities are a significant mediator between entrepreneurial resources (e.g., social network) and performance, but dynamic capability was broadly defined as resource integration and reconfiguration without further specification. With an emphasis on the entrepreneur, Zahra et al. (2006: 918) define dynamic capability as "the abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s)". Newbert (2005) suggests that although the dynamic capability framework was essentially developed at the firm level, it can also be considered at the individual level in entrepreneurial firms. In the same vein, Autio, George, and Alexy (2011) develop a cognition-based model of capability emergence in entrepreneurial firms. They describe how the cognitive model of entrepreneurs, at an individual level, may affect the organizational dynamic capability at the firm level.

Finally, it is important to bear in mind that transnational entrepreneurship is not only a research stream in entrepreneurship but also in international business. Several scholars in international business (e.g. Griffith & Harvey, 2001; Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 2005; Lu et al., 2010; Malik & Kotabe, 2009) also suggest that the dynamic capability is a fruitful perspective to better understand how firms create competitive advantages in an international environment. The emerging literature suggests that dynamic capabilities may encourage and facilitate internationalization and learning in international markets (Griffith & Harvey, 2001; Sapienza, Autio, George, & Zahra, 2006). Lu and Beamish (2001) point out that a firm perusing international expansion needs to equip itself with the necessary dynamic capabilities to offset the firm's liability of foreignness (Zaheer, 1995) and liability of newness (Oviatt & McDougall, 1994) in today's global market.

Based on a strategic entrepreneurship approach, this essay suggests a social network-based model of dynamic capability development which elucidates how TEs develop some organizational processes based on their social networks in both COO and COR to create their unique competitive advantage.

TEs' Dynamic Capabilities

Based on earlier studies (e.g. Hamel & Prahalad, 1990; Nelson & Winter, 1982), Teece et al. (1997:516) define a dynamic capability as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments". In other words, a dynamic capability represents firms' abilities to refine and renew their competitive advantage over time. Teece et al. (1997) argue that dynamic capabilities are difficult to imitate due to their path dependency (reliance on previous decisions, firm history, and organizational and managerial processes) as well as firm technological, financial, and social asset positions.

Some scholars criticize the dynamic capability perspective for being vague; however, this essay concurs with Eisenhardt and Martin (2000) that dynamic capabilities are not vague but specific and identifiable processes (such as product development) which have some commonalities (best practices) across firms and can be learned. Consistent with Winter (2003: 992), this essay posits dynamic capabilities are "higher level" organizational processes that "extend, modify or create ordinary" (zero-level) processes. Winter (2003: 991) defines an ordinary (zero-level) processes as "behavior that is learned, highly patterned, repetitious, or quasi-repetitious, founded in part in tacit knowledge".

This essay argues that TEs' success depends on developing unique organizational dynamic capabilities which allow them to compete against established firms (Arthurs & Busenitz, 2006; Sapienza et al., 2006). In order to examine TEs' dynamic capabilities, this essay mostly draws on Teece (2007:1319) argument that dynamic capabilities can be "disaggregated into the capacity to sense and shape opportunities and threats, to seize opportunities, and to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets." Drawing on Teece (2007), this essay suggests that TEs need to develop two key dynamic capabilities based on (1) the *opportunity sensing organizational process* to sense and shape opportunities and (2) the *opportunity seizing organizational process* to exploit opportunities.

Opportunity sensing. Entrepreneurial opportunities are potential situations for introducing new products or services to the target market or providing the extant product and services in new ways (Eckhardt & Shane, 2003). Opportunity recognition can be considered the core of entrepreneurship (Hitt et al., 2001) in the sense that it characterizes entrepreneurs as individuals who are capable of identifying opportunities not recognized by others (Shane, 2000; Shane & Venkataraman, 2000). In particular, the international business literature emphasizes the opportunity sensing process for foreign market opportunities exploration (Liesch & Knight, 1999; Lu et al., 2010; Yeoh, 2000).

Market information asymmetries often provide entrepreneurial opportunities which are not evenly recognizable to everyone (Ireland et al., 2003; Shane & Venkataraman, 2000). In the context of transnational entrepreneurship, TEs have a unique advantage of recognizing special opportunities associated with their unique information and knowledge of their COO and COR which is not readily available to other competitors and thus may serve as a source of competitive advantage.

Examining the entrepreneurial activities of former USSR immigrants in the Netherlands and Israel, Van Gelderen (2007) found the ways that COO knowledge may aid TEs to recognize unique opportunities. For example, TEs may start travel agencies providing tour services to people in their COO to visit the COR or take people from the COR to explore the COO. Importing and exporting businesses of hand-made products (e.g., Persian hand-woven carpets) that may be idiosyncratic to the TE's COO are also another example of opportunities for TEs.

Teece (2007:1323) points out that while one individual in a firm may have the "necessary cognitive and creative skills" to sense some opportunities, the more desirable approach is to embed scanning, interpretative, and creative processes inside the enterprise itself". In other words, he suggests that the firm will be "vulnerable" if the opportunity sensing is "left to the cognitive traits of a few individuals". Therefore, with a strategic entrepreneurship approach, this essay argues that TEs need to develop opportunity sensing processes such as internal research and development activities, customer feedback, and supplier relations (Teece, 2007) to sense opportunities systematically and relate those to the opportunity seizing process which in turn may lead to firm performance.

Opportunity seizing. Based on a strategic entrepreneurship approach, transnational opportunity sensing is necessary but not sufficient for competitive advantage creation (Hitt et al., 2001). In addition to the opportunity sensing process development, TEs need to also enhance their opportunity seizing process. In fact, engaging in cross border activities "could be considered an act of opportunity seizing" which requires the development of related dynamic capabilities (Jantunen, Nummela, Puumalainen, & Saarenketo, 2008:158). For example, the marketing process, the "capacity to formulate effective marketing mix strategies", can be considered as an opportunity seizing ability (Weerawardena, Mort, Liesch, & Knight, 2007: 301) which may significantly contribute to sustainable competitive advantage development (Kor & Mahoney, 2005) and thus positively affect entrepreneurial performance (Knight, Madsen, & Servais, 2004). Using Panel Study of Entrepreneurial Dynamics (PSED) data, Newbert (2005:67) points out that a set of gestation activities (opportunity seizing mechanisms) such as "developing a [business] model", "hiring committed employees", and "engaging in promotional efforts" significantly affect firm performance.

Consistent with the strategic entrepreneurship approach (Ireland et al., 2003), this essay considers opportunity seizing as a process of strategically managing tangible and intangible resources and leveraging organizational abilities. The opportunity seizing process includes business model development, establishing decision-making protocols, establishing control and monitoring mechanisms, and building loyalty and commitment (Teece, 2007).

In sum, the ability to access and make sense of the external knowledge and information is crucial to exploit entrepreneurial opportunities (Zahra & George, 2002). In other words, opportunity sensing when combined with advantage seeking behavior leads to growth and wealth creation (Ireland et al., 2003). Ineffective bundles of resources "lead to poorly coordinated and often chaotic attempts to create maximum value by using the firm's capabilities" (Ireland et al., 2003: 979). Therefore, with a strategic entrepreneurship approach, this essay posits that in order to assure firm performance, both organizational dynamic capabilities of opportunity sensing and opportunity seizing are required (Teece, 2007).

> ***Proposition 1:*** *In transnational entrepreneurial firms, the development of two interrelated dynamic capabilities of opportunity sensing and opportunity seizing is positively associated with firm performance.*

TEs' Dynamic Capabilities as a Mediator of Social Ties-Performance Linkage

Social networks have been recognized as an important resource for entrepreneurial firms in general (Aldrich & Kim, 2007; Greve & Salaff, 2003; Haugh,

2007) and immigrant start-ups in particular (Aldrich & Waldinger, 1990). Entrepreneurial firms have limited resources, and social networks affect the entrepreneurial process (Birley, 1985; Dubini & Aldrich, 1991; Haugh, 2007) and provide complementary resources essential to establish and run a new venture (Greve & Salaff, 2003).

Social networks can broadly be defined as "a web of personal connections and relationships for the purpose of securing favors in personal and/or organizational action" (Zhou, Wu, & Luo, 2007:674). Social networks and interorganizational relationships are important in the internationalization process of both large and small firms (Chetty & Blankenburg Holm, 2000; Mort & Weerawardena, 2006; Sonderegger & Täube, 2010). The advantages embedded in social network relationships are often referred to as social capital which can be considered TEs most effective resource (Acquaah, 2007; Prashantham, 2011).

In their study of immigrants from three Latin American countries in the USA, Portes et al. (2002) point out that the majority of TEs heavily rely on their ethnic ties in both their COO and COR. In addition, they point out that social networks act as a driving force that encourages immigrants to become involved in transnational entrepreneurship. Zaheer et al. (2008) found that ethnic ties, as unique resources, play a significant role in the location choice of new ventures. Drori et al. (2009:1011) emphasize the importance of social capital as being "instrumental for resource acquisition and eventual success". Therefore, firms with high levels of social embeddedness are expected to outperform their competitors (Acquaah, 2007; Nahapiet & Ghoshal, 1998). Social embeddedness can be defined as "the density and strength" of an immigrant's social ties within their local ethnic community and their homeland (Nielsen & Riddle, 2007:5). Zaheer et al. (2008:

953) argue that "social embeddedness not only helps in the founding of organizations, but also provides access to support during the entrepreneurial process."

Although a handful of studies examine the effect of social networks on entrepreneurship, "the concept is still in an emerging phase, comprising different uses and connotations from various scholarly perspectives"(De Carolis & Saparito, 2006). In fact, several studies found no significant effect of ethnic networks on firm performance (Chan & Cheung, 1985; Keefe, 1984; Prashantham & Dhanaraj, 2010; Zimmer & Aldrich, 1987). Even in the case of those studies in migrant entrepreneurship which emphasize the important effect of social networks and ethnic ties on firm performance (e.g. Chin, Yoon, & Smith, 1996; Kalnins & Chung, 2006; Siqueira, 2007), we still know little about the process through which social ties affect performance. In fact there are "very few papers on the genesis of ties and even fewer that consider the role of networks in the founding of new ventures" (Aldrich & Kim, 2007:2). In other words, the resource–performance relationship remains in a blackbox, and the literature lacks a rigorous theoretical explanation of this process (Yang et al., 2011).

In order to examine this social tie performance linkage in the context of transnational entrepreneurship, this essay posits that TEs' dynamic capabilities mediate the relationship between social ties and firm performance. To examine the effect of social ties on TEs' dynamic capabilities, this essay draws on the relational theory of social networks (Granovetter, 1973) to discuss the effect of social networks and ethnic ties on the opportunity sensing and opportunity seizing processes. The relational theory of social networks emphasizes the social network relationship characteristics in terms of strong or weak ties (Granovetter, 1973). Strong ties are more trustworthy but costly to establish and to maintain; on the other hand, weak ties are less expensive to maintain but associated with transferring more, better, and novel information (Sharma & Blomstermo, 2003; Uzzi, 1997). The strength of a tie can be defined in terms of a combination of "the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie" (Granovetter, 1973:1361).

Although the strategic entrepreneurship approach employed in this essay considers the firm as the unit of analysis, it is important to bear in mind that a network approach emphasizes "the threads of continuity linking actions across a field of action that includes individuals, organizations, and environments as a totality" (Dubini & Aldrich, 1991:306). Therefore, in this section, I explain how an entrepreneur's social networks may affect firm performance through organizational dynamic capabilities.

The effect of social ties on opportunity sensing process. Multiple empirical studies have established the significant effect of social networks on access to information and knowledge (e.g. Sharma & Blomstermo, 2003; Sonderegger & Täube, 2010; Yli-Renko, Autio, & Tontti, 2002; Zhou et al., 2007). Weerawardena et al. (2007:301) point out that networks often are "critical in providing the type of information that contributes to lowering risk and uncertainty inherent in international operations, and they facilitate the acquisition of knowledge and the discovery of opportunities". In particular, managerial ties (the managers' social relations, contacts, and networks across organizations) are an important means by which "entrepreneurial firms acquire the information needed for international operations" and "offer entrepreneurs fresh and timely information directly from a known source" (Lu et al., 2010:423).

In developing countries, the benefits of networks (e.g., efficient and on-time access to information) are especially important because of "the high level of uncertainty due to the ineffective nature of market-supporting institutions in facilitating economic exchange and access to information, resources, and knowledge" (Acquaah, 2007:1239). Due to such uncertainty in the business environment especially in developing countries, TEs' social embeddedness is of utmost importance to secure access to on-time information and knowledge.

In regard to the opportunity seeking process, the relational theory of social networks suggests that weak ties are "more likely to link members of different small groups than are strong ties, which tend to be concentrated within particular groups" (Granovetter, 1973:1376). On the other hand, strong ties "lead to overall fragmentation" (Granovetter, 1973:1378) and may isolate individuals from the novel information flow. In other words, weak ties are more important than strong ties in providing access to a variety of information and therefore positively reinforce the opportunity sensing process in entrepreneurial firms. TEs may utilize their weak ethnic ties to obtain information about "permits, laws, management practices, reliable suppliers, and promising business lines" (Aldrich & Waldinger, 1990:127) in both the COR and COO.

> ***Proposition 2a:*** *In transnational entrepreneurial firms, the level of TEs' weak ties in both the COO and the COR is positively associated with the development of the opportunity sensing dynamic capability.*

The effect of social ties on the opportunity seizing process. Several studies have confirmed the important effect of social networks on opportunity exploitation (e.g. Peng

& Luo, 2000; Portes & Sensenbrenner, 1993). Through case analysis of several small entrepreneurial firms, Mort and Weerawardena (2006) argue that new market entry does not occur unless networks are established a priori. Andersson and Wictor (2003) argue that the entrepreneur's social network is the key for strategy implementation. In the same vein, Lu et al. (2010:422) point out that managerial ties "represent a unique type of resource because they comprise essential social relations and networks between individual managers on which to build the firm's reputation and the trust from partner organizations". In other words, the entrepreneur's networks are crucial for acquiring the essential complementary resources and capabilities to seize opportunities (Blyler & Coff, 2003; Sonderegger & Täube, 2010; Wu, 2007).

In regard to the opportunity seizing process, the relational theory of social networks (Granovetter, 1973) suggests that TEs may benefit from relying on their strong social ties with top managers in buyer or supplier organizations, government officials, and even community leaders (Acquaah, 2007) to access the resources that are required to successfully seize opportunities (Mesquita & Lazzarini, 2008). The key differentiator between weak and strong ties is trust (Granovetter, 1973). When it comes to seizing opportunities, entrepreneurs who employ trustworthy strong ties instead of costly formal contracts are more likely to succeed (Uzzi, 1997). Formal interorganizational alliances are usually associated with the threat of opportunism (Williamson, 1975); therefore, TEs may prefer to develop a close personal network based on trust so that they can avoid opportunistic behaviors (Aulakh, Kotabe, & Sahay, 1996; McDougall, Shane, & Oviatt, 1994).

Strong social ties facilitate the creation of the human capital (Acquaah, 2007; Coleman, 1988; Leana & Van Buren, 1999) necessary to seize opportunities and manage the business in both the COO and the COR. Newbert (2005:67) describes hiring process as an important opportunity seizing process and Yang et al. (2011) emphasizes the importance of strong ethnic ties in hiring committed and trustworthy employees. Ethnic rotating credit associations are another example of strong ties TEs may employ to raise financial resources to seize opportunities (Aldrich & Waldinger, 1990).

TEs heavily depend on strong ties with their co-ethnic community and network relationships especially their ties to their COOs (Portes et al., 2002). In a study of Chinese TEs in Canada, Wong and Ng (2002) found family networks, including not only immediate but also extended family members, a critical contributor to TEs' success. Sequeira et al. (2009:1035) considered "degree of embeddedness in the home country" as an indication of a TEs' social tie strength within their COO. They argue that social activities such as participation in "hometown associations", "political activity", "sports clubs", and "charity organizations" within the COO tightly connect TEs to their COO and provide them with strategic ties for managing their transnational business. On the other hand, strong ties may provide TEs with the endorsement necessary to overcome the lack of legitimacy in the COR (Lin, 1999; Lin, Ensel, & Vaughn, 1981). Another recent empirical study reports that ethnic ties significantly affect location choice in new ventures (Zaheer et al., 2008) which supports the notion that strong ties positively contribute to the opportunity seizing process. Zaheer et al. (2008) argue that "ethnic ties serve as an important mechanism that ensures access to resources and key stakeholders, such as venture capitalists, the local government or local union leaders and employees" (P. 953).

Proposition 2b: *In transnational entrepreneurial firms, the level of TEs' strong ties in both the COO and the COR is positively associated with the development of the opportunity seizing dynamic capability.*

Institutional Distance as a Moderator of Social Ties-Dynamic Capabilities Linkage

Context is essential in understanding institutional forces affecting entrepreneurial activities especially when transnational activities across developed and developing countries are concerned (Welter, 2011). International management research is increasingly interested in understanding how "institutions affect business strategy, operations, and firm performance" (Riddle & Brinkerhoff, 2011: 398). Zahra and Wright (2011: 73) point out that institutional differences can "accentuate variations in the types and rates of the firms being created, why and how they are created, and how they evolve over time".

According to Scott (1995), institutions consist of three pillars: (1) the regulative pillar, which refers to the setting, monitoring, and enforcement of rules; (2) the normative pillar which describes a favorable code of conduct and the appropriate means to comply with it to gain legitimacy; and (3) the cognitive pillar which refers to the mindset and understanding schema of individuals. Kostova and Zaheer (1999: 71) define institutional distance as the extent of similarity or dissimilarity "between the regulatory, cognitive, and normative institutions of two countries". They suggest that in the case of high institutional distance, transnational enterprises encounter serious challenges to establish legitimacy in the target country and to transfer strategic routines to their foreign subsidiaries.

In contrast to the international business main stream literature which considers institutional distance as a barrier negatively affecting internationalization (Ghemawat, 2001; Xu & Shenkar, 2002), this essay argues that TEs may utilize their unique position of dual embeddedness in their COO and COR to explore opportunities unrealizable to other competitors (Drori et al., 2009) mostly due to institutional distance. Rather than considering institutional distance as a barrier or challenge, Zaheer et al. (2012: 26) pointed out that institutional distance can be "an opportunity for arbitrage, complementarity or creative diversity."

The effect of institutional distance on social ties-opportunity sensing linkage. Considering contextual factors in entrepreneurship research contributes to better understanding about "how entrepreneurs construct (or deconstruct) opportunities" (Zahra & Wright, 2011:73). Exposure to and understanding of the various institutions in both the COR and the COO facilitates the TEs' environmental analyses to recognize opportunities that may not be easily identifiable for other competitors. In particular, TEs are mostly immigrants coming from developing countries going to developed countries (Riddle, 2008) and thus the institutional distance between the COO and the COR is significant.

In developing countries with weak institutions, "the role of social ties in facilitating access to resources is likely to be even stronger" (Zaheer et al., 2008: 953). Griffith and Harvey (2001:600) mentioned the "market knowledge gap" (i.e., the knowledge difference between international partners related to the local market) sometimes facilitates the development of dynamic capabilities. Therefore, in the case of high institutional distance between the COO and the COR, TEs may have a better chance to develop their opportunity sensing dynamic capability upon their social network embeddedness and create a unique competitive advantage.

> ***Proposition 3a:*** *In transnational entrepreneurial firms, the level of institutional distance between the COO and the COR positively moderates the relationship between TEs' social embeddedness and the development of their opportunity sensing dynamic capability.*

The effect of institutional distance on social ties-opportunity seizing linkage. Considering context is not only fruitful for examining opportunity sensing but also may enrich our understanding of entrepreneurial actions (Clarysse, Bruneel, & Wright, 2011; Zahra & Wright, 2011). Entrepreneurial firms that engage in international business have to deal with two simultaneous challenges: liability of newness (Oviatt & McDougall, 1994) and liability of foreignness (Zaheer, 1995). The liability of newness refers to the fact that entrepreneurial firms have to compete against other already established competitors with more slack resources. The liability of foreignness is associated with the notion that when a firm expands abroad it may have a weaker competitive position in comparison to a well established domestic firm in a target country due to cultural and institutional distance between countries.

In order to successfully exploit an opportunity, a firm needs resources such as access to low-cost distribution networks, financial resources, and competent personnel; however, in many developing countries these resources are not "readily available because of the underdeveloped nature of the institutional structures" (Acquaah, 2007:2141). Most developing countries suffer from poor business infrastructure and even a non-transparent legal and governance climate (Li, Park, & Li, 2004); however, TEs may have an advantage to utilize their social networks as a substitute for the institutional infrastructure (Mesquita & Lazzarini, 2008) and sometimes enjoy the benefits of first mover advantages (Hoskisson, Eden, Lau, & Wright, 2000) which is associated with superior performance.

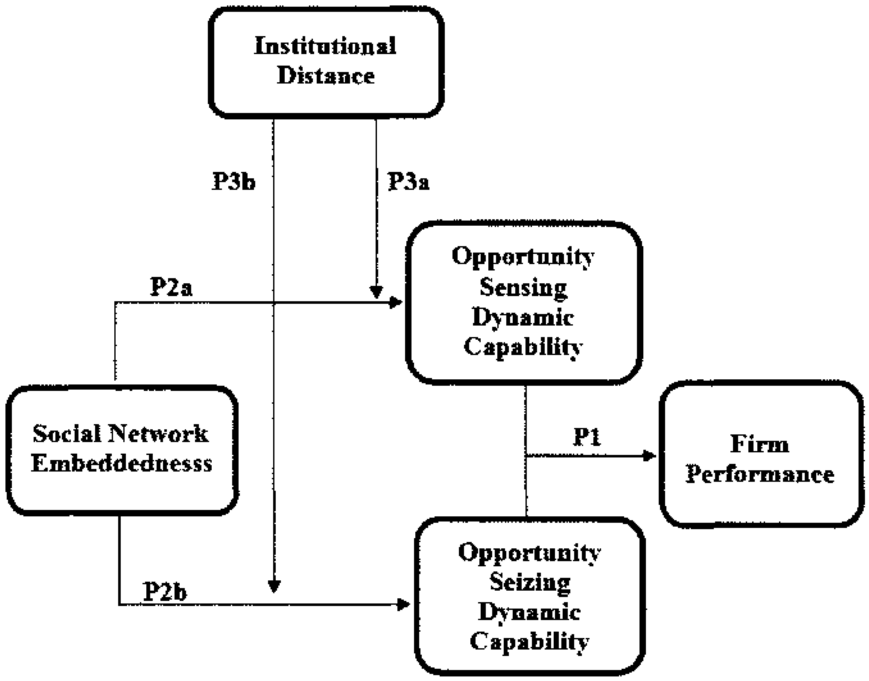
Proposition 3b: *In transnational entrepreneurial firms, the level of institutional distance between the COO and the COR positively moderates the relationship between TEs' social embeddedness and their opportunity seizing dynamic capability.*

Conclusion and Future Research

While entrepreneurship as a field of study is growing rapidly, it is criticized for the lack of commonly accepted and well developed research paradigms (Aldrich, 2000; Hitt et al., 2001). As a field, "we know little about how to incorporate the different dimensions of entrepreneurial activities into theory building and testing" (Zahra & Wright, 2011:72). Furthermore, entrepreneurship scholars have tended to examine complex constructs such as internationalization and capability development "without carefully recognizing their microfoundations" (Zahra & Wright, 2011:77). Transnational entrepreneurship literature is not an exception and is characterized as fragmented (Lin & Tao, 2012).

This essay briefly reviews the transnational entrepreneurship literature over the last decade and suggests a theoretical framework of TEs' competitive advantage development for future empirical investigation. Figure 1 summarizes how the social networks of TEs affect their firm performance through the mediating effect of the two dynamic capabilities of opportunity sensing and opportunity seizing and the moderating effect of institutional distance between the COO and the COR.

Figure 1: The Theoretical Model of Transnational Entrepreneurship



Theoretical Contribution

The contribution of this essay is threefold. First, this essay is a response to the recent calls (Aldrich, 2000; Hitt et al., 2001) to develop theoretical models in the entrepreneurship field and incorporation of "the different dimensions of entrepreneurial activities into theory building and testing" (Zahra & Wright, 2011: 72). Therefore, this essay employs the strategic entrepreneurship approach to suggest a social tie based model of global dynamic capabilities in order to address the theoretical void in transnational entrepreneurship literature. Based on Shakespeare's Romeo and Juliet, Venkataraman and Sarasvathy (2001) describe the relation between strategic management and entrepreneurship research and suggest that strategic management without an entrepreneurial perspective is like the balcony without Romeo. Alternatively, entrepreneurship research without a strategic perspective is like Romeo without a balcony.

Second, the social networks-performance linkage which has been in a black box (Lahiri et al., 2012; Wu, 2007) is examined in terms of how strong and weak social ties may affect different processes of dynamic capabilities differently. Based on the dynamic capability perspective, this essay explains how TEs may create their unique competitive advantage. The framework presented in Figure 1 exhibits how the social ties of TEs may affect their firms' performance through the mediating effect of TEs' dynamic capabilities (i.e., opportunity sensing and opportunity seizing). In other words, "without dynamic capabilities to transform entrepreneurial resources into future advantages, entrepreneurial resources do not translate into start-up performance" (Wu, 2007: 551). Therefore, this theoretical model is a response to recent calls for "explaining how processes underlying capabilities are created, modified, or combined can add to causal theories of organizational adaptation and strategic change" (Autio et al., 2011: 13).

Finally, this essay is a response to Zahra and Wright's (2011) recent call for the importance of engaging context in theoretical models in the entrepreneurship field. Despite the recognition of the importance of the context in entrepreneurial activities (Shane & Venkataraman, 2001), scholars are commonly in search of general rules of entrepreneurship which might ignore context (Zahra & Wright, 2011). However, context is essential to theory building and meaningful theory testing (Whetten, 1989). In other words, context is important for "understanding when, how, and why entrepreneurship happens and who becomes involved" (Welter, 2011:166). In the proposed theoretical model of transnational entrepreneurship in Figure 1, the contextual factor of institutional distance is theorized as a positive moderator of the social tie based dynamic capability development process. This conceptualization of institutional distance is in contrast to common application of institutional distance as a negative moderator in international business literature (Kostova & Zaheer, 1999; Xu & Shenkar, 2002).

Implications for Practitioners and Policy Makers

From a managerial point of view, TEs are important because they are new players in today's competitive global market. Transnational entrepreneurship literature emphasizes the importance of networks, and TEs can benefit from a better understanding of the impact of social networks on international market development (Chen & Tan, 2009). However, it is important to bear in mind that this essay does not suggest that TEs should solely focus on their social ties. Several studies suggest that TEs who did not extend their social network beyond their ethnic communities experienced a lower growth rate or even failure (Prashantham & Dhanaraj, 2010). That is why this essay emphasizes that resources such as ethnic ties may lead to firm performance only if systematically used to develop the organizational dynamic capability. Furthermore, it is crucial for TEs to understand the importance of dynamic capabilities in developing and sustaining their competitive advantage. In addition, TEs may be able to utilize institutional resources such as governmental programs promoting international business in both their COO and COR (Lu et al., 2010; Riddle, Brinkerhoff, & Nielsen, 2008; Soh, 2003).

From a policy making standpoint, COO governments may recognize the importance of the TE phenomenon in their economic development and provide their immigrants with the necessary aids and incentives to engage in transnational entrepreneurship. In particular, TEs significantly contribute to the economy of their home country by taking the role of the "first movers" who succeed and attract the attention of other immigrants or even foreign investors to the economic potentials of their COO (Lowell & Gerova, 2004 :20). Riddle et al.(2008) argue that COO governments should target, encourage, and support TEs through "investment promotion agencies".

Future Research Directions

This essay suggests a theoretical framework to integrate social network theory, institutional theory, and the dynamic capability perspective in order to understand how TEs create their unique competitive advantage. However, this essay does not downplay the importance of other theoretical frameworks such as psychological or cultural perspectives. While a large body of entrepreneurship literature proposes that psychological variables and personality traits may predict entrepreneurial behavior, the empirical findings are mixed (De Carolis & Saparito, 2006; Shaver & Scott, 1991) and more research is needed.

Considering the fact that immigrants from different countries may have varied cultural heritage and backgrounds, a cultural approach in particular may look into the effect of immigrant nationality on how they may engage in transnational entrepreneurship (Portes et al., 2002). Clark (1990) mentioned that national character not only affects the behavior of customers in different countries but also influences the decision making of business managers with different nationalities. Therefore, future research may address questions such as: Do TEs from different countries behave differently or not? And if they do so, how?

It is important to bear in mind that context simultaneously provides individuals with entrepreneurial opportunities and limitations (Welter, 2011) and we need more context–based theorizing of entrepreneurial activities. Entrepreneurship scholars need to investigate how different dimensions of context such as the "spatial" dimension (e.g., the new firm-creating activities concentration, their networks, and geographic mobility), the "temporal" dimension (e.g., emergence and change of venture over time), the "social" dimension (e.g., relationships with other firms), and the "institutional" dimension (e.g., institutional distance) affect the entrepreneurial process (Zahra & Wright, 2011:75). While this essay discusses the institutional dimension, future studies need to investigate how other different dimensions of context may affect transnational entrepreneurship.

Overall, the rapid globalization process, international business, and soaring immigration trends promise an increasing population of immigrants especially from developing countries in developed countries. This trend in turn indicates an upward trend in transnational entrepreneurship. Therefore, both theoretical and empirical research is required to clearly and thoroughly unveil different aspects of transnational entrepreneurship.

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CHAPTER 3

EFFECTIVE START-UP PROCESS CONFIGURATIONS: AN INDUCTIVE STUDY OF INDIGENOUS AND IMMIGRANT ENTREPRENEURS

Approximately 13% of the U.S. workforce is individuals who establish and operate their own ventures (Kalnins & Chung, 2006) and play a significant role in the dynamic renewal of capitalist economies (Schumpeter, 1950). While the foreign-born population of the United States is only around 10% of the total, more than 40% of Fortune 500 companies were founded by immigrants (18%) or by their children (22%) with combined revenues of $4.2 trillion in 2010 (Anderson, 2011). Clearly, immigrants are proportionally more likely than indigenous citizens to launch an entrepreneurial venture.

In her seminal study of immigrants in Silicon Valley, Saxenian (2002) reports that one quarter of all senior executives within Silicon Valley's technology businesses are immigrants from China and India. In the same vein, a recent article in the *Economist* magazine points out the growing economic importance of immigrants and calls for paying more attention to immigrant entrepreneurs' contributions to a country's economic growth (*Economist*, 2011).

The academic community is now also beginning to recognize the importance of immigrant entrepreneurs. For example, there have recently been special issues on immigrant entrepreneurship published in *Entrepreneurship: Theory and Practice* (Drori, Honig, & Wright, 2009), *Thunderbird International Business Review* (Teagarden, 2010), and *International Business Review* (Çavuşgil, Nayir, Hellstern, Dalgic, & Cavusgil, 2011). Previous research has explored the growing prevalence and nature of immigrant entrepreneurship; however, little if any research has been conducted to understand how immigrant entrepreneurs pursue their new ventures as compared to indigenous entrepreneurs. In Chrysostome and Lin's words (2010:77), "there are many aspects of immigrant entrepreneurship that are still unknown and need to be addressed" in the management field.

While a few studies compare and contrast immigrant entrepreneurship with indigenous entrepreneurship, they are all based on quantitative survey data which generally ignores the context and processes utilized by entrepreneurs. In addition, the findings are mixed. While some studies suggest there is a significant difference in attitudes and behaviors between immigrant and indigenous entrepreneurs (e.g., Fertala, 2008; Shinnar, Cardon, Eisenman, Zuiker, & Lee, 2009), others suggest there is not any substantive differences between these two groups (e.g., Heilbrunn & Kushnirovich, 2007). At this point, it is an open question as to whether immigrant entrepreneurs have significantly different start-up processes than indigenous entrepreneurs do. Consequently, I seek to address the following research question: whether there is a significant difference between new venture start-up processes of successful immigrant and indigenous entrepreneurs? And if so, how do those start-up processes differ?

The remainder of this essay is structured as follows. The next section provides a brief review of the immigrant entrepreneurship literature. The third section explains the fruitfulness of the inductive methodology to develop new theoretical insights about start-up processes of immigrant entrepreneurs. The fourth section includes the results of the inductive study and provides a series of propositions about the start-up process differences between immigrant and indigenous entrepreneurs. Based on the *configuration approach* (Korunka, Frank, Lueger, & Mugler, 2003; Miller, 1987; Mintzberg, 1980), two distinct start-up process configurations are recognized which distinguish successful immigrants and indigenous entrepreneurs. Using the equifinality theoretical framework (Gresov & Drazin, 1997) in the fifth section, the effect of different start-up process configurations on the firm performance of immigrant and indigenous entrepreneurs is discussed. The final section concludes with the findings and highlights the contributions and limitations of this study.

Immigrant Entrepreneurship

With the new immigrant population growth in Europe since 1945 as well as new waves of immigrants to the United States after the 1965 immigration reform, immigrant entrepreneurship becomes a topic of concern for policy makers as well as academic researchers (Aldrich & Waldinger, 1990). Since the early 1970s, researchers have shown interest in examining immigrant entrepreneurship (Armengot, Parellada, & Carbonell, 2010). Early studies (e.g., Aldrich & Waldinger, 1990; Bonacich & Modell, 1980; Light, 1984; Wilson & Martin, 1982) on immigrant entrepreneurs had a strong social orientation (e.g., settlement characteristics, culture and aspiration levels, social networks) with marginal attention to firm performance; however, later studies (e.g., Johnson, Muñoz, & Alon, 2007; Portes & Sensenbrenner, 1993; Razin & Light, 1998) started to examine the economic performance of immigrant entrepreneurs. Traditionally, immigrant entrepreneurs initially target the ethnic community (Light, 1984); however, if the target market remains limited to the ethnic market, the growth potential is sharply constrained (Aldrich & Waldinger, 1990).

Immigrant entrepreneurs traditionally face challenges such as "acquiring the training and skills needed to run a small business; recruiting and managing efficient, honest, and cheap workers; and managing relations with customers and suppliers, surviving strenuous business competition, and protecting themselves from political attacks" (Aldrich & Waldinger, 1990: 130). Therefore, immigrant entrepreneurs need to come up with special strategies to overcome start-up challenges and explore and exploit the opportunities in their target market. Using the empirical setting of Gujarati immigrant entrepreneurs from India in the lodging industry in the U.S., Kalnins and Chung (2006) find that the survival likelihood of an immigrant entrepreneur's hotel increases when surrounded by higher counts of branded hotels owned by co-ethnic individuals. This result accentuates the importance of immigrant entrepreneurs' local social capital in maintaining their businesses.

Several recent studies examine immigrant entrepreneurship from different theoretical perspectives, including but not limited to social networks (e.g. Mustafa & Chen, 2010) and knowledge spillovers (e.g., Filatotchev, Liu, Lu, & Wright, 2011; Liu, Lu, Filatotchev, Buck, & Wright, 2009). Notably, almost all of the immigrant entrepreneurship research so far has investigated ethnic communities in a host country without including any control group (i.e., indigenous entrepreneurs) in the research design (e.g., Achidi Ndofor & Priem, 2011; Armengot et al., 2010; Bates, 1997; Chand & Ghorbani, 2011; Kalnins & Chung, 2006; Min & Myungduk, 2010). While these studies enhance our understanding about immigrant entrepreneurship, the literature currently lacks the comparative studies illustrating whether there is a significant difference between immigrant and indigenous entrepreneurs in regard to start up possesses.

A few recent studies compare and contrast immigrant with indigenous entrepreneurs (e.g., Shinnar et al., 2009; Tan, 2002). In a sample of 55 Mexican immigrant and 101 US-born Mexican entrepreneurs, Shinnar and her colleagues (2009) examined the differences between the entrepreneurial experiences of the two groups. Results suggest that "US-born Mexican entrepreneurs are more motivated by the individualistic financial benefits of being an entrepreneur, while Mexican immigrant entrepreneurs are more motivated by serving society and their co-ethnic community" (Shinnar et al., 2009: 273). Shinnar et al.(2009) also find that while US-born entrepreneurs of Mexican descent use governmental financial programs (18 %) more than their rely on family members and friend for start-up funds (14 %), Mexican immigrant entrepreneurs use family and friends (15 %) more than they use financial institutions (12 %); however, the differences for each category were not statistically significant.

In sum, the limited number of previous studies which compared and contrasted immigrant entrepreneurship with indigenous entrepreneurship are based on quantitative survey data which provided limited knowledge on the processes utilized by entrepreneurs. Furthermore, the findings are mixed. While some studies suggest there is a significant difference in start-up processes between immigrant and indigenous entrepreneurs (e.g. Fertala, 2008; Shinnar et al., 2009), others suggest there is not (e.g., Heilbrunn & Kushnirovich, 2007). In the next section, this study employs an inductive approach to examine whether immigrant entrepreneurs exhibit significantly different start-up processes than indigenous entrepreneurs do.

Research Design

While the few comparative studies of immigrant and indigenous entrepreneurs rely on quantitative analysis of surveys or archival data (e.g. Fertala, 2008; Hart & Acs, 2011), this study supports the notion that the complexity of the entrepreneurial process can be best understood through qualitative research approaches (Gartner & Birley, 2002). Therefore, this is the first qualitative study examining successful immigrant and indigenous entrepreneurs in order to explore possible differences in their new venture start-up processes.

Qualitative research is based on direct study of actual social actors in context which may yield important and interesting new theoretical insights (Bluhm, Harman, Lee, & Mitchell, 2011; Eisenhardt, 1989; Miles & Huberman, 1994). Since there is relatively little known about the start-up process (Schwienbacher, 2007) and even less known in the case of immigrant entrepreneurship, an inductive qualitative research study may generate valuable and interesting new theoretical insights. Therefore, this study rigorously analyzes the startup processes of these two groups of entrepreneurs (i.e., indigenous and immigrant entrepreneurs) to advance a series of new theoretical insights when differences emerge.

Sample

The sample of entrepreneurs in this study was drawn from a set of 25 semi-structured interviews of a diverse group of U.S. entrepreneurs conducted by a single interviewer at the Kauffman Foundation. The Kauffman Foundation is a well-regarded nonprofit organization dedicated to the promotion and understanding of the field of entrepreneurship, and scholars have utilized its survey data or set of narrative case studies in previous studies (e.g., Barringer, Jones, & Neubaum, 2005; Kourilsky & Walstad, 1998).

To the best of my knowledge, no prior researcher has attempted to use this set of interviews for a qualitative research. The interviews average 1,800 words (about three single-spaced, typewritten pages when transcribed). Out of the total of 25 entrepreneurs, 8 are immigrants and the rest are indigenous. The interviews were semi-structured and each included questions about entrepreneurs' (1) background, (2) business idea, (3) plans, (4) financing challenges, (5) employee relations, (6) organizational culture, and (7) success factors. For an interview to remain in the final sample for this study, it needed to cover at least five of the above seven topics. Five (out of eight) immigrant entrepreneurs met the criteria to be included in this study. Interestingly, all immigrants were originally from India. With a matching approach, I then selected five indigenous entrepreneurs to form the final sample. I matched the five immigrant entrepreneurs with five indigenous entrepreneurs based on industry and firm size (measured as 2007 revenue).

From the research design perspective, the single country of origin of the entrepreneurs in each group (immigrant and indigenous) controls for the ethnic diversity and provides the within group similarity necessary to compare entrepreneurs between groups. Furthermore, since these interviews were collected by another individual other than the author, there was a natural partition between data collection and data analysis – avoiding a common weakness associated with researcher bias in most qualitative research designs (Carter, Shaw, Lam, & Wilson, 2007).

Data Collection

The interviewees in the initial sample framework of this study were all included in the *Inc.* Magazine 2011 list of the fast growing entrepreneurs. Each year, *Inc.* Magazine publishes a list of the "fastest growing privately held companies in the United States, where firms are ranked by sales growth" (Markman & Gartner, 2002: 68). The *Inc.* dataset ranks entrepreneurial firms according to three year sales growth reports, and it is "checked and verified by certified public accountants" (Markman & Gartner, 2002: 67). Many companies apply to be listed on the *Inc.* 5000 due to the national publicity they receive. The entrepreneurial firms must be privately held and show a minimum of $200,000 in sales and a relatively dramatic sales increase record (Markman & Gartner, 2002). Overall, the *Inc.* dataset provides data on firms' age, industry and revenue growth available in the magazine and published online. Notably, the *Inc.* dataset has been used in several other research studies in the entrepreneurship literature (Ginn & Sexton, 1990; Markman & Gartner, 2002; Terpstra & Olson, 1993).

Table 1 provides descriptive data of the final sample. From the five groups of matched entrepreneurs, two of them are in the business products and services sector and the remaining three are active in the IT services, government services, and health sectors. The business establishment date varies between 1998 and 2006 for immigrant entrepreneurs and between 1997 and 2007 for indigenous entrepreneurs. The 2007 revenue was used as a proxy for firm size which varies between 0.1 and 5.1 million USD for immigrant entrepreneurs and between 0.3 and 3 million USD for indigenous entrepreneurs. The lowest and highest 2011 *Inc.5000* rankings are 145 and 1,706 respectively for immigrant entrepreneurs and 103 and 3,950 respectively for indigenous entrepreneurs.

Table 1: Overview of Entrepreneurs in the Sample

Matching Group	Entrepreneur Type and ID	Start up Year	Primary Industry	2011 Inc.com Ranking	2007 Size (MMs USD)
A	Indigenous 1	2004	Business Products and Services	848	3.0
	Immigrant 1	1998	Business Products and Services	1,706	5.1
B	Indigenous 2	2006	Business Products and Services	656	1.4
	Immigrant 2	2006	Business Products and Services	145	0.1
C	Indigenous 3	1999	IT Services	3,950	1.5
	Immigrant 3	2005	IT Services	1,445	1.2
D	Indigenous 4	1997	Government Services	1,422	3.9
	Immigrant 4	2004	Government Services	1,365	2.6
E	Indigenous 5	2007	Health	103	0.3
	Immigrant 5	2006	Health	364	1.7

Source: www.Inc.com

Data Analysis

NVivo10 software was utilized to qualitatively analyze the sample to explore whether there is any difference between start-up processes of immigrant and indigenous entrepreneurs. NVivo is a computer-based qualitative analysis program which has been used in several qualitative studies (e.g., Judge & Douglas, 2013) and enables researchers to code patterns that emerge from the data in a rigorous and transparent fashion. Two coders separately analyzed the interviews. Both coders are PhD candidates with several years of industry experience. The first coder was an engineer with an MBA who had startup experience prior to pursuing a PhD degree and the second coder was a CPA accountant, also with an MBA who was unfamiliar with the purpose of this study.

For each and every coded segment of the interview, NVivo provides an interrater reliability measure called the kappa coefficient. A kappa coefficient of 1.0, indicates that two coders highlighted exactly the same segments of the text; while a kappa coefficient of 0 means the two coders had no overlapping coding at all (Judge & Douglas, 2013). In this study the kappa coefficient was 0.85 comparable to those of similar studies (Judge & Douglas, 2013; Nag, Corley, & Gioia, 2007) and above the 0.75 threshold (Anand & Watson, 2004) which generally indicates an acceptable level of interrater reliability.

This study follows the analytical approach described by Dacin, Munir, and Tracey (2010) along with Nag, Corley, and Gioia (2007). In the first step, all interviews were transcribed and entered into NVivo. Interview transcripts were coded separately under terms or phrases offered by interviewees. These terms and phrases are called first-order codes. During this step, coders constantly discussed possible conceptual patterns in search of an exhaustive list of first-order codes.

In the second step, the coders looked for codes across interviews that could be clustered under what is called first-order nodes. The coders continued coding interviews in this manner until they could not distinguish any more distinct conceptual patterns shared by the interviewees. In the third step, the coders looked for possible links among first-order nodes to categorize them into theoretically distinct clusters, or second-order themes. This is a recursive process in which the coders went through several iterations between first-order nodes and second-order themes until adequate conceptual themes emerge (Eisenhardt, 1989).

The fourth step of the analysis involved categorizing the second-order themes into overarching dimensions which subsequently would provide opportunities for theorizing. Overarching dimensions provide the basis for a final theoretical framework that links the various patterns emerged from the data.

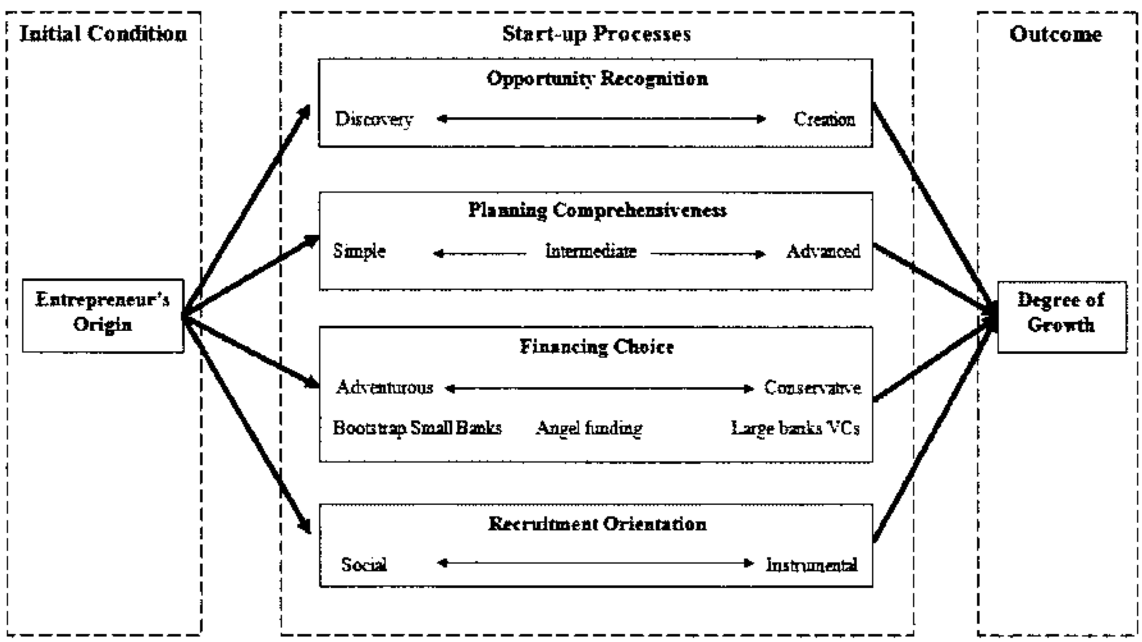
Theoretical Results

Through the qualitative data analysis in NVivo, four overarching dimensions of start-up processes differentiated immigrant from indigenous entrepreneurs. As shown in Figure 2, these four processes were: (1) the opportunity recognition dimension which includes two second-order themes: (a) opportunity discovery and (b) opportunity creation; (2) the planning comprehensiveness dimension with three levels: (a) simple, (b) intermediate, and (c) advanced; (3) the financing choice dimension which includes two second-order themes: (a) adventurous choice (i.e., seeking bootstrapping, small loans, and angels) and (b) conservative choice (i.e., seeking large banks and venture capitalists); and (4) the recruitment orientation dimension which includes two second-order themes: (a) orientation based on passion for a common vision and (b) orientation based on expertise.

These four dimensions are consistent with the major start-up process constructs advanced by Shane and Venkatramen (2000) and employed by other scholars (e.g., Judge

& Douglas, 2013) in the entrepreneurship; namely, the entrepreneurial opportunities existence (i.e., opportunity recognition dimension), entrepreneurial opportunities recognition and evaluation (i.e., planning comprehensiveness dimension), and entrepreneurial opportunities exploitation (i.e., financing choice dimension and recruitment orientation dimension). However, no prior study has identified these dimensions as factors differentiating immigrant from indigenous entrepreneurs. Each of these four dimensions is explained in detail as follows.

Figure 2: Start-up Processes in Immigrant and Indigenous Entrepreneurship



Opportunity Recognition Dimension

Opportunity can be defined as a "means of generating economic value (i.e., profit) that previously has not been exploited and is not currently being exploited by others" (Baron, 2006: 107). What makes entrepreneurs distinct from nonentrepreneurs is their ability to recognize and exploit an opportunity. Opportunity recognition is "the cognitive process (or processes) through which individuals conclude that they have perceived an opportunity" (Baron, 2006: 107).

Several scholars (e.g., Alvarez & Barney, 2007; Alvarez, Barney, & Anderson, 2013) have recently emphasized the fruitfulness of distinctions between *opportunity creation* and *opportunity discovery* and their relationship with the entrepreneur's prior knowledge and background. While opportunity discovery is associated with recognizing an unsatisfied demand for a product or service in an existing industry or market, opportunity creation is associated with developing new products or services which do not necessarily exist in a market but rather is socially constructed based on an entrepreneur's perceptions (Alvarez & Barney, 2007). In other words, the opportunity discovery perspective emphasizes that "opportunities are formed by exogenous shocks to preexisting markets or industries that entrepreneurs then discover"; but the opportunity creation perspective highlights the point that opportunities "are formed endogenously by the entrepreneurs who created them" (Alvarez et al., 2013: 302).

As shown in Table 2, the data suggest that all immigrant entrepreneurs exclusively exhibit opportunity discovery behavior. For example, immigrant entrepreneur 2 stated:

Table 2: Opportunity Recognition

Entrepreneur ID and Type	Opportunity Recognition	Representative Statements
Indigenous 1	Creation	Of course, our industry is in infancy so we had to kind of create what is global payroll consolidation, because there wasn't anyone out there doing it.
Indigenous 2	Discovery	I had a cable company and we were doing very well in supporting our big bulk sells and not doing a good job supporting individual subscribers, and I realized that there really wasn't anybody to outsource who was good at that function… we are not making revolutionary change in the actual work itself
Indigenous 3	Creation	I want to start a technology company and ... [partners] agreed. They were very entrepreneurial. The three of us started. They had their own thing. I just ran the company. Never thinking that it would explode to where it is today I have to say I love what I do. I'd do it for nothing. I swear to God I would. It's just great that I get paid, but I would do it for nothing.
Indigenous 4	Discovery	I saw some technology that was coming to the military… I thought that airports and other folks could [also] use it …and I realize that …the Department of Defense was the perfect place to repurpose that and we got our first contract.
Indigenous 5	Creation	We create a platform company that just carries a very broad portfolio, whereas previously were really many widget companies, one by one.
Immigrant 1	Discovery	…do good market research so to pursue opportunities that are emerging, high growth potential
Immigrant 2	Discovery	The way I approach opportunities is, I look at where my strengths are. Where can I add value and my team add value to the particular gap in the market?
Immigrant 3	Discovery	I think all the big companies, especially the technology companies whom I work with, they all focus on the Fortune 500 or 1000. And nobody goes to a company which is an SME market because SME people think they can't afford the services and the technology companies think they can't get the big bucks out of these guys. So I thought to focus on the SME market from day 1. Don't go after the big guys for big money. So you need to limit yourself in terms of your market ...Where there is less competition and which can be done for a decent amount of money...
Immigrant 4	Discovery	I started working for a large defense contractor and learned the aviation side of the business…and I was frustrated because the customer was frustrated. They would ask me to provide certain resources or a certain way of doing things and because of the red tape, there was a bottleneck. Things were not happening, so I thought I could do a much better job … I could provide my customer with great service, with great people, on a timely fashion, and I started my venture.
Immigrant 5	Discovery	I started Pharmacare which is a retail pharmacy just like Rite-Aid or Walgreens

The way I approach opportunities is, I look at where my strengths are; where I can add value and my team add value to the particular gap in the market.

On the other hand, indigenous entrepreneurs show an orientation towards *both* opportunity discovery and opportunity creation. Out of five indigenous entrepreneurs, three of them are found to be associated with opportunity creation. For example, indigenous entrepreneur 1 who was associated with opportunity creation by the two coders said:

Of course, our industry is in infancy so we had to kind of create what is global payroll consolidation, because there wasn't anyone out there doing it.

In sum, Table 2 suggests that while indigenous entrepreneurs were found to pursue both opportunity discovery and creation, all immigrant entrepreneurs exhibited opportunity discovery behavior.

Proposition 1: *Compared to indigenous entrepreneurs, immigrant entrepreneurs exhibit a higher tendency towards identifying entrepreneurial opportunities through opportunity discovery than through opportunity creation.*

Planning Comprehensiveness Dimension

The planning process is considered to be an important process which may significantly affect firm success (Ansoff, 1965; Hutzschenreuter & Kleindienst, 2006; Mintzberg, 1994). Planning can be considered as *information gathering* concerned with "environmental scanning, competitor analysis, and the retrieval of some internal information" and *programming* to "assist in the implementation of strategic decisions through information dissemination and integration"(Rogers, Miller, & Judge, 1999: 568).

One key aspect of planning design is the degree of comprehensiveness (Atuahene-Gima & Haiyang, 2004; Cyert & March 1963; Fredrickson, 1985). While traditionally the literature suggests a positive relationship between planning comprehensiveness and firm success mostly in stable environments, several scholars argue that comprehensiveness is not always fruitful and call for further research (e.g., Atuahene-Gima & Haiyang, 2004; Hutzschenreuter & Kleindienst, 2006; Mintzberg, 1994).

Many scholars (e.g., Hiller & Hambrick, 2005; Nutt, 1998; Wright & Goodwin, 2002) emphasize that individual characteristics may play a major role in the planning process. In particular, personal characteristics derived from one's country of origin (e.g., Hitt, Dacin, Tyler, & Park, 1997) may affect entrepreneurs' cognitive models and consequently may impact planning activities (Hutzschenreuter & Kleindienst, 2006).

As shown in Table 3, the data suggest that three of the five immigrant entrepreneurs exhibit an intermediate level of planning comprehensiveness, while the other two show a relatively simple level. For example, immigrant entrepreneur 2 who exhibits a relatively simple level of planning comprehensiveness stated:

[Start-up] came about through an iterative process of talking to people, but quite frankly it's not that we did lots of research or planning on that idea. So we just thought this is a good idea, and we ran with it. So if we did a lot of planning, perhaps we would not have started the company. So I think we did limited planning and more staying the course, being passionate about it, and making it happen.

On the other hand, three of the five indigenous entrepreneurs show a relatively advanced level of planning comprehensiveness, and the other two exhibit an intermediate level. For example, indigenous entrepreneur 5 who exhibits high levels of planning comprehensiveness stated that:

We are pretty quantitative. We are metrics driven. We do a lot of research. We aren't just jumping out, you know, because we love risk. We actually try to mitigate risk, as we pursue an opportunity.

In sum, Table 3 suggests that while most of indigenous entrepreneurs were found to pursue an advanced level of planning comprehensiveness, most immigrant entrepreneurs exhibited an intermediate level of planning comprehensiveness.

***Proposition** 2: Compared to indigenous entrepreneurs, immigrant entrepreneurs exhibit a tendency towards lower levels of planning comprehensiveness.*

Table 3: Planning Comprehensiveness

Entrepreneur ID and Type	Planning Comprehensiveness	Representative Statements
Indigenous 1	Intermediate	We just started with one at the time… We just kept perpetuating the model… Figure it out as you go
Indigenous 2	Advanced	We align our team on this is our five year vision, this is where we're headed. This is our one year vision, what we're trying to do this year… and this is our quarter vision. And then I put what are my objectives this quarter, and then every employee in our entire organization puts their objectives for the quarter. We publish what's achieved and not achieved up and down the organization so everyone can see it
Indigenous 3	Intermediate	Over the past two years I've changed my business model to moving more into recurring revenues… that was a very complicated process to put into place: pricing, break even analysis.
Indigenous 4	Advanced	Having the talent and the team to match products, markets, and opportunities is a bit of an art and I think you need to create --and I think what we've tried to create-- is some healthy tension within the organization, challenge one another, and push one another, until we find that best fit…For us to go ahead and get to that next level we have to bring our cost structure down we have to scale out. We've been fortunate enough that we've been in a growing federal government market, but now that markets been shrinking. We've built technologies that we thought to be used by local and state governments. That market is shrinking. We have products to be used by medical but the medical budget area is up in the air and so we're looking international.
Indigenous 5	Advanced	We are pretty quantitative. We are metrics driven. We do a lot of research. We aren't just jumping out, you know, because we love risk. We actually try to mitigate risk, as we pursue an opportunity
Immigrant 1	Simple	… early on when I started, I didn't focus on market research…. [when the firm] got into the size, …
Immigrant 2	Simple	It came about through an iterative process of talking to people, but quite frankly it's not that we did lots of research or planning on that idea. So we just thought this is a good idea, and we ran with it. So if we did a lot of planning, perhaps we would not have started the company. So I think we did limited planning and more staying the course, being passionate about it, and making it happen.
Immigrant 3	Intermediate	I would analyze the market. Don't go after the big guys for big money. So you need to limit yourself in terms of your market and where your clients are. Where there is less competition and which can be done for a decent amount of money for these guys.
Immigrant 4	Intermediate	We keep training employees as soon as things happen … For that, it takes time and money to look for what's happening in the industry, what's happening in the world around you.
Immigrant 5	Intermediate	Today we have 10 pharmacies in four different states: Maryland, Pennsylvania, D.C., and North Carolina. We hope to grow to every state on the east coast all the way from Maine to Florida by the end of next year. We are approximately a 40 million dollar company in 2011. We want to be at 100 million dollars minimum next year, so we made sure we have the right team to take us to 100 million dollars.

Financing Choice Dimension

While scholars agree that "how business start-ups are financed is one of the most fundamental questions" of entrepreneurship research (Cassar, 2004: 261), "there is little academic understanding regarding the economic and behavioral factors which motivate an entrepreneur's choice of financier" (Fairchild, 2011:359). Consistent with the previous literature, the qualitative analysis of the data in this study revealed five funding choices, namely (a) bootstrapping funding, (b) small local bank funding, (c) angel funding, (d) large bank funding, and (e) venture capital (VC) funding. Each of these five funding choices is explained in more detail below.

The bootstrapping funding includes using personal funding or raising funds through a network of family and friends (Chua, Chrisman, Kellermanns, & Wu, 2011). Bootstrapping is a fruitful financing choice especially when entrepreneurs prefer to protect their ownership control. Small local bank funding provides entrepreneurs with small loans. Angel funding refers to raising funds from so called angel investors who "tend to enjoy a more informal and relational partnership with their entrepreneurs, based on trust and empathy, compared to the more formal and distant relationships existing between entrepreneurs and venture capitalists" (Fairchild, 2011:360). The large bank funding provides larger loans especially for start-ups with aggressive growth intentions (Cassar, 2004). The VC funding is difficult to gain but when present, it provides access to large funding and management expertise.

Schwienbacher (2007:754) suggests that entrepreneurs may lean towards either an "adventurous" choice of financing (i.e., seeking bootstrapping, small loans, and angels) or a "conservative" choice (i.e., seeking large banks and VCs). While entrepreneurs with an adventurous funding choice "use limited resources to achieve some intermediate milestone before contacting large outside investors, such as venture capitalists, entrepreneurs with a conservative funding choice actively seek large banks and VCs to raise the funding necessary for firm growth (Schwienbacher, 2007:754).

While some studies downplay the importance of entrepreneurs' characteristics, such as age and background, on financing choice in favor of economic factors, such as firm size and tangible resources (e.g., Cassar, 2004), some studies suggest that entrepreneurs' characteristics, such as behavioral factors (Fairchild, 2011; Schwienbacher, 2007) and background (Beckman, Burton, & O'Reilly, 2007), may significantly affect the financing choice beyond economic factors.

As shown in Table 4, the data suggest that four of the five immigrant entrepreneurs exhibit an "adventurous" choice of financing (i.e., immigrant entrepreneurs 1, 2, and 4 are seeking bootstrapping; immigrant entrepreneur 5 is seeking small loans from local banks) while immigrant entrepreneur 3 is the only one pursuing a conservative financing strategy (i.e., seeking large banks). For example, immigrant entrepreneur 2 stated:

I always look for finance from a small group of friends and family.

On the other hand, three of the five indigenous entrepreneurs (2, 4, and 5) showed a conservative financing strategy (i.e,. seeking large banks and VCs). For example, indigenous entrepreneur 5 stated:

Table 4: Financing Choice

Entrepreneur ID and Type	Financing Choice	Representative Statements
Indigenous 1	Bootstrapping	Try to get something out of the box as far as you can get on bootstrapping it's really a good way to go.
Indigenous 2	Large Bank	We recently took on some additional funding to go get an acquisition and really grow the business to the next stage. It was difficult because we were debt free and profitable, but did not have enough money to do the acquisition. So it was a choice of do we really want to go through the answering-to process that a mezzanine lender brings to the experience. At the same time, we said we are a process driven company; we are a number driven company and having to report to a board including some bankers is not the end of the world.
Indigenous 3	Angel funding	The three of us started. They had their own thing. I just ran the company.
Indigenous 4	Angel funding but actively seeking VC	we've got several angels who stood by us…We were looking to do a private equity deal earlier this year that unfortunately fell through, and so it's fluid.
Indigenous 5	VC	we are still venture funded…There are 3 venture capitalists on the board who contribute in a meaningful way…
Immigrant 1	Bootstrapping	All I was doing was tapping into the 401K I got from the previous company, credit cards
	Avoiding Banks	…because you are not bankable. You gotta show growth before they give you the loan but you need money to get the growth so it's kind of a chicken and egg problem
Immigrant 2	Bootstrapping	I always look for finance from a small group of friends and family
	Avoiding VCs	I actually did make a few attempts to go to VC, but I realized that it's too cumbersome of a process. You need to have a business plan. And the funny thing is that they don't like to give a million dollars; they want to give us 10 million dollars, which doesn't make sense to me.
	Avoiding Bank	Even with a record of 2-3 years, you go to a bank, the bank is hesitant to give you a loan or fund it. … the officer dealing with the loan is not connected with the reality of business.
Immigrant 3	Large Bank	I was chasing big banks like Bank of America, Chase, …
Immigrant 4	Bootstrapping	Finance is just personal finance.
	Avoiding Banks	I have great ideas now. I want to grow. Banks are not ready to take that risk, especially in this economy now [2011].
	Avoiding VCs	I don't want to give my business to venture capitalists…because I have integrity…some venture capitalists have wanted …to come invest in my business, but they want to take the control which I'm not ready for. I know I can run this business in an ethical way with high integrity and I have great employees to back me up.
Immigrant 5	Local Bank/SBA	…my bank didn't think I was crazy and they gave me a loan… at my local bank…[the bank] gave me an $80,000 loan, I still remember that day. Today, that 80 thousand has become 2 million dollars and … [the bank] is working on a 5 million dollar loan

We are still venture funded...There are 3 venture capitalists on the board who contribute in a meaningful way.

In sum, Table 4 suggests that while indigenous entrepreneurs were found to favor a conservative financing choice, most immigrant entrepreneurs exhibited a higher tendency towards an adventurous financing choice.

***Proposition 3**: Compared to indigenous entrepreneurs, immigrant entrepreneurs exhibit a higher tendency towards an adventurous choice of financing (i.e., bootstrapping from friends and family or small banks) as compared to a conservative choice of financing (i.e., seeking bank loans or venture capital).*

Recruitment Orientation Dimension

Recruitment refers to those "activities designed to either increase the number or to change the characteristics of individuals who are willing to consider applying for or accepting a job" (Rynes & Barber, 1990:287). Employee recruitment is "one of the biggest challenges facing small businesses" (Williamson, 2000:27). Furthermore, employee recruitment is an important start-up process for obtaining the human capital necessary for firm success (Forbes, Borchert, Zellmer-Bruhn, & Sapienza, 2006; Leung, Zhang, Wong, & Foo, 2006; Shrader & Siegel, 2007; Unger, Rauch, Frese, & Rosenbusch, 2011; Wright, Hmieleski, Siegel, & Ensley, 2007).

Several scholars point out that the ethnicity of an entrepreneur may play an important role in the recruitment process (Sanders & Nee, 1996; Yang, Colarelli, Han, &

Page, 2011). In the qualitative analysis of the data in this study, two patterns of recruitment emerged: (a) recruitment based on passion for a common vision, value, and/or goal and (b) recruitment based on expertise. As shown in Table 5, four of the immigrant entrepreneurs were found to follow the recruitment approach based on passion for a common vision, value, and/or goal. For example, immigrant entrepreneur 4 stated:

> *My strategy is that I'm not going to be a master of everything, and I cannot be. So, I have great people working for me who believe in my vision.*

On the other hand, four indigenous entrepreneurs (2, 3, 4, and 5) followed the recruitment approach based on expertise. For example, indigenous entrepreneur 5 stated:

> *So it is really our challenge to step up and meet those [customer] needs...Clearly that is a bumpy road at times, but it goes back to having the right people in place.*

The two recruitment patterns that emerged in the data are consistent with prior studies particularly the one by Forbes et al. (2006: 228) who introduced two types of recruitment approaches in entrepreneurial ventures: (1) the *instrumental* approach (resource seeking based recruitment) and (2) the *social* approach (interpersonal attraction based recruitment). Based on the human capital theory (Becker, 1994), social

Table 5: Recruitment Approach

Entrepreneur ID and Type	Recruitment Approach	Representative Statements
Indigenous 1	Passion for common vision/value/goal	One of the biggest things that we hire on is not capability but passion
Indigenous 2	Expertise	we spent a lot of our time…trying to find educated, hardworking people
Indigenous 3	Expertise	…my goal is, I just try to hire people that are better than me [in getting the job done]…These guys [i.e., employees] work probably 12 hours a day, but when they go home, ….they're putting their own networks together, or they're training themselves.
Indigenous 4	Expertise	I've got a great person on the operations. I've been able to let go of the finances, for them to give me the reports to maintain it.
Indigenous 5	Expertise	So it is really our challenge to step up and meet those [customer] needs…Clearly that is a bumpy road at times, but it goes back to having the right people in place. For me it just goes back to people. We blame things on products, we blame things on markets, but typically people with good insight can match those up. Having the talent and the team to match products, markets, and opportunities is a bit of an art…
Immigrant 1	Passion for common vision/value/goal	I am trying to surround myself with proper management team, the executive team so that they could also have the vision, the passion at the same time
Immigrant 2	Passion for common vision/value/goal	I went to a small group of people whom I knew, who trusted me and for them the business plan was not what was important, [it's] the fact that you are running the company. The trust factor [in firm's vision] is what was really key. …when I have my staff meetings, the assumption is that we are all owners, and therefore the responsibility to execute a decision is collective…
Immigrant 3	Expertise	We do not find people with right skills that is why a lot of IT work has been done abroad, outsourced
Immigrant 4	Passion for common vision/value/goal	My strategy is that I'm not going to be a master of everything, and I cannot be. So, I have great people working for me who believe in my vision.
Immigrant 5	Passion for common vision/value/goal	It's good to have a great team who you can trust. we are having all kinds of employee programs where we energize employees. You having a passion is different and all of your employees to have it is something different

capital theory (Burt, 1997), and the resource-dependence perspective (Pfeffer & Salancik, 1978), the *instrumental* approach emphasizes "identifying the candidate with the best access to resources critical to moving the firm forward" (Forbes et al., 2006: 228) and selecting a candidate who may fill a gap in the new venture skill set (Ucbasaran, Lockett, Wright, & Westhead, 2003). On the other hand, the *social* approach based on attraction theory (Byrne, 1971) suggests that "individuals are attracted to other similar individuals and will tend to form groups with people who share similar values, approaches to problem solving, backgrounds, education, personality, and other identifiable characteristics"; furthermore, these "motivations based on similarity may or may not be aligned with the resource needs of the new venture"(Forbes et al., 2006: 231).

In sum, Table 5 suggests that while indigenous entrepreneurs were found to favor a recruitment approach based on expertise, most of immigrant entrepreneurs exhibited a higher tendency towards recruitment approach based on passion for a common vision, value, and/or goal.

> ***Proposition 4:*** *Compared to indigenous entrepreneurs, immigrant entrepreneurs place a higher emphasis on the candidates' passion for a common vision, value, and/or goal in the recruitment process (i.e., social approach) as compared to emphasis on the candidate's expertise (i.e., instrumental approach).*

The Effect of Start-Up Configurations on Firm Growth

In order to understand the collective effect of all aforementioned four dimensions of the start-up process, this study relies on the *configuration approach* (Miller, 1987; Mintzberg, 1980) which is initially developed in organizational studies to overcome the shortcomings of analysis associated with the unidirectional influences of an environmental factor on organizations (Korunka et al., 2003). In entrepreneurship literature, several researchers employed the configuration approach to understand the behavior of entrepreneurial ventures (Covin & Slevin, 1991; Korunka et al., 2003).

Configurations refer to "inherently multidimensional entities in which key attributes are tightly interrelated and mutually reinforcing" (Dess, Newport, & Rasheed, 1993: 784). Korunka et al. (2003) suggest that a start-up process configuration may include the following four interrelated areas: (1) characteristics of the entrepreneurs (e.g., entrepreneur's origin), (2) resources (e.g., Financial and Human capital), (3) environment (e.g., opportunity recognition and personal network), and (4) organizing activities (e.g., planning activities). Korunka et al. (2003: 25) argue that "configurations are unique, but similarities may allow us to create typologies or taxonomies of configurations" and examining such configurations may help researchers "to identify the configurations associated with successful and unsuccessful new ventures".

Through the qualitative analysis reflected in Tables 2 through 5 and based on start-up process differences between immigrant entrepreneurs and indigenous entrepreneurs, two relatively distinct start-up process configurations emerged. As indicated in Table 6, indigenous entrepreneurs exhibit a start-up process configuration associated with (1) the opportunity recognition either through discovery or creation, (2) a high level of planning comprehensiveness, (3) a high tendency towards conservative financing choice (i.e., seeking bootstrapping and small banks), and (4) the instrumental recruitment approach with emphasis on expertise. On the other hand, immigrant entrepreneurs exhibit a start-up process configuration associated with (1) the opportunity recognition through discovery, (2) an intermediate level of planning comprehensiveness, (3) a high tendency towards adventurous financing choice (i.e., seeking bootstrapping and small banks), and (4) the social recruitment approach with emphasis on the passion for a common vision, value, and/or goal.

As shown in Table 6, a misalignment can be measured based on the deviation of an entrepreneur's start-up process configuration from the general start-up process configuration which emerged for each group of immigrant and indigenous entrepreneurs. In order to measure the misalignment, this study employs a fuzzy logic approach (Fiss, 2011; Ragin, 2000). Öz (2004: 166) pointed out that "analysis of multiple-case study evidence is drastically improved with the help of fuzzy-set method". Based on the fuzzy logic (Fiss, 2007; Öz, 2004), an observation may be considered as not belonging to a group (usually coded as 0), fully belonging to a group (usually coded as 1), or partially belonging to a group (coded between 0 and 1 such as 0.5).

Using the fuzzy logic, the misalignment measure in this study ranges from 0, indicating no misalignment to -1 indicating the full misalignment. I used -0.5 to capture a partial misalignment as shown in Table 6. Table 7 shows the misalignment score of each of the entrepreneurs in the sample. The within group misalignment (WGM) in table 7 is calculated from the sum of misalignments in all four dimensions of the start-

Table 6: General Start-up Process Configurations and Misalignment Measurement

Indigenous Entrepreneurship

Dimensions	**Opportunity Recognition***		**Planning Comprehensiveness**		**Financing Choice**		**Recruitment Approach**	
General Indigenous Start-up Process Configuration	D & C		Advanced		VC/ Large Banks		Instrumental Approach	
Indigenous Entrepreneurship Misalignment Measurement	D	0	Advanced	0	Bootstrapping / Small bank	-1	Social Approach	-1
			Intermediate	-0.5	Angel funding	-0.5		
	C	0	Simple	-1	VC / Large bank	0	Instrumental Approach	0

Immigrant Entrepreneurship

Dimensions	**Opportunity Recognition***		**Planning Comprehensiveness**		**Financing Choice**		**Recruitment Orientation**	
General Immigrant Start-up Process Configuration	D		Intermediate		Bootstrapping / Small bank		Social Approach	
Immigrant Entrepreneurship Misalignment Measurement	D	0	Advanced	-1	Bootstrapping / Small bank	0	Social Approach	0
			Intermediate	0	Angel funding	-0.5		
	C	-1	Simple	-0.5	VC / Large bank	-1	Instrumental Approach	-1

*D: Discovery, C: Creation

Table 7: Start-Up process Configuration Misalignment and Firm Growth

Entrepreneur Type and ID	WGM*	Alignment	Growth**	Alignment-Growth Relationship
Indigenous 1	-2.5	Low	High	X
Indigenous 2	0	High	High	√
Indigenous 3	-1	Low	Low	√
Indigenous 4	-0.5	Medium	Medium	√
Indigenous 5	0	High	High	√
Immigrant 1	-0.5	Medium	Medium	√
Immigrant 2	-0.5	Medium	High	X
Immigrant 3	-2	low	Medium	X
Immigrant 4	0	High	High	√
Immigrant 5	0	High	High	√

* Within Group Misalignment
** % 3 year growth: low (<100%), Medium (100% - 200%), High (>200%)
√ Support for positive relationship between alignment and firm growth
X No support for positive relationship between alignment and firm growth

up process as explained in table 6. The WGM varies from 0 to -2.5 in the indigenous group and from 0 to -2 in the immigrant group.

Consistent with previous fuzzy set studies (Fiss, 2011) and in order to make the comparison more clear in table 7, those entrepreneurs with 0 and -0.5 misalignment measures were labeled as *high* and *medium* alignment respectively and those entrepreneurs with misalignment measures less than -0.5 were labeled as *low* alignment. In the same vein, the growth rate of each entrepreneur was labeled *high*, *medium,* and *low* if the growth rate was more than 200%, between 100% and 200%, and less than 100% respectively. The last column in Table 7 shows that in 70% of all

Table 8: Different Start-up process Configurations and Firm Growth

Matching Group	Entrepreneur Type and ID	Startup Year	Primary Industry	WGM*	BGM**	Growth***
A	Indigenous 1(√)	2004	Business	-2.5	-1	365
	Immigrant 1	1998	Business	-0.5	-2.5	157
B	Indigenous 2	2006	Business	0	-3	486
	Immigrant 2(√)	2006	Business	-0.5	-2.5	1,933
C	Indigenous 3	1999	IT Services	-1	-1.5	33
	Immigrant 3 (√)	2005	IT Services	-2	-0.5	194
D	Indigenous 4	1997	Government Services	-1	-2	198
	Immigrant 4 (√)	2004	Government Services	0	-2	209
E	Indigenous 5(√)	2007	Health	0	-3.5	2,646
	Immigrant 5	2006	Health	0	-2	937

(√) indicates the higher performer in each matching group
* Within Group Misalignment
** Between Group Misalignment
*** % Growth in 3 year

cases, firm growth is positively related to the degree of alignment (between an entrepreneur's start-up process configuration and the general configuration that emerged in the related group).

In addition to the WGM, the between group misalignment (BGM) score for each entrepreneur is also shown in table 8. The BGM indicates the level of misalignment of an entrepreneur's start-up process configuration in one group when the general configuration of the other group is considered. Notably, successful immigrant entrepreneurs (2, 4, and 5) with a high growth rate exhibit not only low WGM scores but also high BGM scores. This suggests that those successful immigrant entrepreneurs purposefully chose a start-up process configuration different from that of successful indigenous entrepreneurs. For example, immigrant entrepreneur 2 not only favors bootstrapping but also suggests avoiding large banks. Immigrant entrepreneur 2 said:

> *Even with a record of 2-3 years, you go to a bank, the bank is hesitant to give you a loan or fund it. I've had this rather funny story, where I went for my established business which has over 100 employees and it's been in business for 10 years. We wanted a line of credit a couple of years ago, and this was in 2010 so we were just coming out of recession. And I showed the numbers to the bank and the officer dealing with a loan, asked, "How come your revenue was decreasing from 2007 to '08 to '09?" So I was tempted to tell the person that your bank almost went out of business. It is one of those big banks which almost went broke...The fact that there was a drop in revenue was because of economic reasons... What the banker should have asked me is what the pipeline of business is. Whom are you talking to now? So that they could see what is happening in the next 12 months, and this is a frustration that a lot of new entrepreneurs constantly have.*

Proposition 5: *In each group of entrepreneurs (immigrant and indigenous), the fit between the entrepreneur's origin and the general start-up process configuration (which emerged in each group) positively affects the firm's subsequent growth.*

Discussion

As shown in Table 8, in three (out of five) matched pairs (B, C, and D) of entrepreneurs, immigrant entrepreneurs outperform indigenous entrepreneurs, while in the other two matched pairs (A and E), indigenous entrepreneurs show higher growth rates. These results from Table 7 and 8 in general suggest that immigrant and indigenous entrepreneurs are almost equally prone to exhibit a high degree of success while they may pursue very different start-up process configurations. In other words, the sample in this inductive study suggests an equifinality phenomenon.

Eqifinality

Originally defined by biologist Ludwig von Bertalanffy (1950: 25) as a feature of open systems attaining a steady state, equifinality is associated with the notion that "the final state [of a system such as a firm] may be reached from different initial conditions and in different ways". Among the early scholars who used the equifinality concept in organization theory, Katz and Kahn (1978: 30) state that "a system can reach the same final state [e.g., the same performance level] from differing initial conditions and by a variety of paths". Later other organization theory researchers used the concept of equifinality to describe the organizational performance which "can be achieved through multiple different organizational structures even if the contingencies the organization faces are the same" (Gresov & Drazin, 1997: 404).

Within the management literature, the notion of equifinality has been studied under two theoretical approaches (Jennings, Rajaratnam, & Lawrence, 2003: 209). First, the *strategy-structure fit approach* which argues that a "feasible set of equally effective, internally consistent patterns of strategy and structure" exist (Jennings & Seaman, 1994: 470). Second, the *strategy approach* which argues that an organization can attain an outcome by a variety of strategic actions (e.g., Miles & Snow, 1978). Eisenhardt (1988) provides an example of equifinality in her study of retail sales compensation, namely (1) highly programmed jobs and salaries, (2) less programmed jobs and low span of control with salaries, and (3) less programmed jobs and high span of control with commissions—all of which she reported to be a theoretically efficient method of reaching organizational effectiveness; therefore, she argues that in contradiction to agency theory and efficiency theory perspectives, "several patterns of structures and processes are equally viable" to achieve success (P. 505).

Doty, Glick, and Huber (1993) empirically applied the concept of equifinality to test Mintzberg's (1979) and Miles and Snow's (1978) configurational theories of strategy and found support for equifinality in their study. In explaining Doty et al.'s (1993) study, Gresov and Drazin (1997) argue that contingency factors determine special functions to be performed in order to achieve success and these functions may be performed within different structures therefore a direct one-to-one link between contingency factors and organizational structure did not receive strong support. In a later study, Jennings et al. (2003) examined organizations in six different service industries with defender, prospector, or analyzer strategies and found that all three strategies exhibit an equal performance level measured by earnings growth rate, sales growth rate, return on investment, and return on sales.

In sum, equifinality suggests that "regulated or controlled ends can be attained in different ways, most notably, with different inputs, strategies, or activities and with various initial states or condition" (Hrebiniak & Joyce, 1985: 345). Based on the equifinality assumption, this study argues that entrepreneurial firms may reach the same performance level with different start-up process configurations. In other words, equifinality is the premise that different organizational processes can be equally effective; however, contingency factors (e.g., environment, access to resources, individual experience or background) may constrain the strategic choices of a firm seeking maximum effectiveness (Doty et al., 1993).

This study supports the notion that in the case of mixed findings such as in the immigrant entrepreneurship literature, equifinality may be considered as an alternative to "provide justification" for inconsistent results (Gresov & Drazin, 1997: 404). This study suggests that examining equifinality and its implications extends previous research and expands our understanding about possible different strategies between immigrant and indigenous entrepreneurs. The findings of this study support earlier insights in the literature that "specific entrepreneurial characteristics may ultimately affect the shape of firms as they may pursue different strategies to achieve similar goals"(Schwienbacher, 2007:753).

Determinants of Entrepreneurs' Choice

The results of the qualitative studies suggest that immigrant entrepreneurs and indigenous entrepreneurs may pursue different start-up process configurations. In regards to four start-up process dimensions of opportunity recognition, planning comprehensiveness, financing choice, and recruitment orientations, possible determinants of entrepreneurs' choice are discussed further as follows.In order to understand why successful immigrant entrepreneurs may decide to pursue opportunity discovery rather than opportunity creation, it is important to bear in mind the differences in these two perspectives of opportunity identification. The opportunity discovery perspective is rooted in the traditional entrepreneurship literature based on the entrepreneur's *alertness* (Kirzner, 1973, 1997) about the market imperfections; on the other hand, opportunity creation is rooted in *social constructionism* (Berger & Luckmann, 1967; Weick, 1977) emphasizing that "opportunities become meaningful for entrepreneurs once they become part of the socially constructed reality of the society in which the entrepreneur lives" (Alvarez et al., 2013: 307). Considering that opportunity creation is path dependent and requires a history of an entrepreneur's small decisions and enactment with the environment (Alvarez & Barney, 2007), it seems that the low tendency of immigrant entrepreneurs towards opportunity creation is due to immigrant entrepreneurs' limited history and enactment experience in the host country environment.

In order to understand why immigrant entrepreneurs may pursue an adventurous financing choice instead of a more conservative choice (chosen mostly by indigenous entrepreneurs), it is important to recognize that "venture capitalists bring capital and management expertise to young companies, but this comes only at the price of giving up a large share of the company"(Bruno & Tyebjee, 1985:74). Several researchers highlight the degree of an entrepreneur's desire to keep full control over the new venture as the main determinant of the financing choice (Brophy & Shulman, 1992; Denis, 2004; Korunka et al., 2003). Immigrant entrepreneurs may have a strong preference to keep full control over the new venture and use their co-ethnic and community funds to pursue bootstrapping and angel funding choices (Basu & Altinay, 2002; Bates, 1997; Kushnirovich & Heilbrunn, 2008). Notably, several immigrant entrepreneurs in this study strongly rejected the conservative choice of financing (e.g., VC funding) emphasizing their preference to keep the full control over their ventures. For example immigrant entrepreneur 4 said:

> *I don't want to give my business to venture capitalists…because I have integrity…some venture capitalists have wanted …to come invest in my business, but they want to take the control which I'm not ready for. I know I can run this business in an ethical way with high integrity and I have great employees to back me up.*

In order to understand why immigrant entrepreneurs exhibit a social recruitment approach instead of an instrumental approach (chosen mostly by indigenous entrepreneurs), it is important to recognize that there is a high tendency towards altruism among immigrant entrepreneurs (Yang et al., 2011). In other words, it seems that immigrant entrepreneurs pursue economic benefit (similar to indigenous entrepreneurs); however, economic benefit is not the sole ultimate goal for immigrant entrepreneurs. If not more, noneconomic motives such as altruism are as equally important for immigrant entrepreneurs as economic outcomes. For example, immigrant 5 stated that:

> *When you have financial freedom you can do a lot of good things. For example, I am building a free hospital and doing a lot of things back home in India.*

Based on a social recruitment approach, immigrant entrepreneurs not only provide job opportunities for other individuals, particularly within the co-ethnic community as well as immigrant entrepreneurs' family and social networks (e.g., Elliott, 2001; Yang et al., 2011) to fulfill their altruism aspiration, but also benefit from trustworthiness as well as the sense of passion and dedication from their employees which ultimately would decrease agency costs for immigrant entrepreneurs and contribute to their economic outcome.

In order to understand why entrepreneurs may chose different levels of planning comprehensiveness, it is important to bear in mind that the planning comprehensiveness may be determined by three other start-up dimension choices. Rogers et al. (1999:568) suggest that "firms pursuing different strategies should have different planning system designs supporting the information needs of strategic decision-makers". It seems that indigenous and immigrant entrepreneurs choose a planning comprehensiveness level which supports the other three start-up process dimensions particularly the financing choice. For example, Mintzberg and Waters (1982) argue that a desire for an *initial public offering* as a financing choice may determine the degree of the planning comprehensiveness in entrepreneurial firms.

Conclusion

The four dimensions of a start-up process configuration are shown in Figure 2 with two extremes for each dimension. The data show that while indigenous entrepreneurs exhibited a tendency to the extreme right of each dimension, immigrant entrepreneurs showed a tendency to the extreme left, signifying two relatively distinct general start-up process configurations as shown in Table 6. Indigenous entrepreneurs exhibit a start-up process configuration associated with (1) the opportunity recognition either through discovery or creation, (2) a high level of planning comprehensiveness, (3) a high tendency towards conservative financing choice (i.e., seeking bootstrapping and small banks), and (4) the instrumental recruitment approach with emphasis on expertise. On the other hand, immigrant entrepreneurs exhibit a start-up process configuration associated with (1) the opportunity recognition through discovery, (2) an intermediate level of planning comprehensiveness, (3) a higher tendency towards adventurous financing choice (i.e., seeking bootstrapping and small banks), and (4) the social recruitment approach with emphasis on the passion for a common vision, value, and/or goal.

Contributions and Implications

This study contributes to the immigrant entrepreneurship literature in at least three ways. First, it is important to note that a tendency to study immigrant entrepreneurs in "isolation from mainstream entrepreneurs" has produced numerous "rather misleading accounts of their origins, behavior and business performance" (Jones & Ram, 2010:163). This study advances our understanding about immigrant entrepreneurs by examining their behavioral similarities and differences as compared to indigenous entrepreneurs. A better understanding of such similarities and differences may help immigrant entrepreneurs to exercise extra caution in copying the successful indigenous entrepreneurs' start-up processes and instead choose a start- up process configuration which fits their unique characteristics and motives. In other words, "understanding the various factors affecting the fit dynamics of organizational practices may help entrepreneurs and managers in formulating strategies and making decisions"(Leung et al., 2006: 665).

Second, this study employs the equifinality framework to explain two different start-up process configurations for immigrant and indigenous entrepreneurs and argues that immigrant and indigenous entrepreneurs both may exhibit a high degree of success and growth yet through different start-up process configurations. In fact this study is a response to several researchers' (Jennings et al., 2003; Marlin, Ketchen Jr, & Lamont, 2007; Payne, 2006; Venkataraman, Sarasvathy, Dew, & Forster, 2012) call for more studies on equifinality and its implications.

Finally, this study contributes to and is an advocate for the employment of the qualitative approach as a unique window into the world of entrepreneurs. Most of the previous qualitative studies suffer from mono-method bias and researcher bias (Carter et al., 2007); however, the research design in this study avoids these two problems by collecting the archival data on firm growth from a second source (i.e., *Inc* database) and by using the interviews conducted by an outside interviewer (i.e., The Kaufmann Foundation representative) entirely separate from the researcher. Ultimately, the field of entrepreneurship needs a wide variety of theoretical perspectives and methodologies to advance our understanding of this critically important phenomenon (Edmondson & McManus, 2007). This qualitative study complements other important studies in the field of entrepreneurship with the quantitative approach using Global Entrepreneurship Monitor (GEM) survey data (e.g., Autio & Acs, 2010; Langowitz & Minniti, 2007; Wong, Ho, & Autio, 2005), Panel Study of Entrepreneurial Dynamics data (Reynolds, 2011), and Kaufman Firm Survey data (Robb & Reynolds, 2009; Robb & Watson, 2011).

Limitations and Future Research

Similar to the most important limitation of other qualitative studies, generalizability of findings in this study depends on future qualitative research testing of the above suggested propositions. Furthermore, we still know "very little about what drives individuals to become entrepreneurs and the strategies they adopt to achieve their goals"(Schwienbacher, 2007:754). Future studies may further investigate the causal relationships behind an entrepreneur's particular choice in any of the above four dimensions of a start-up process configuration. Some of the mixed findings associated with each of the four dimensions are highlighted in more details as follows.

In regards to the opportunity recognition process, while some scholars argue that national culture (e.g., Ma, Huang, & Shenkar, 2011) and personal background may shape an entrepreneur's cognitive framework (Baron, 2006; Marvel, 2013) which in turn may affect the opportunity recognition process, some other researchers (e.g., Kloosterman & Rath, 2001) highlighted the importance of social imbeddedness as well as national, regional, and community environments on the opportunity recognition process. In regards to planning comprehensiveness, while Mintzberg and Waters (1982) argue that forces such as firm size or environmental context (e.g., initial public offering) mostly determine the degree of the planning comprehensiveness, Atuahene-Gima and Haiyang (2004) pointed out that the planning comprehensiveness literature findings are mixed and call for examining the moderating role of environmental factors such as demand and technology uncertainty.

In regards to the financing choice, while some scholars emphasize the role of co-ethnic and community funds for immigrant entrepreneurs to pursue bootstrapping and angel funding choices (Basu & Altinay, 2002; Bates, 1997; Kushnirovich & Heilbrunn, 2008), other researchers highlight the degree of an entrepreneur's desire to keep full control over the new venture as the main determinant of the financing choice (Brophy & Shulman, 1992; Denis, 2004; Korunka et al., 2003). Developing contingency models (e.g., Zhang, Souitaris, Soh, & Wong, 2008) in future studies may shed more light on determinants of financing choice.

Finally, entrepreneurs may choose different employment approaches in pursuit of different motives. While several studies highlight the importance of ethnic ties and altruism in the immigrant entrepreneurs' recruitment process (Yang et al., 2011), some other researchers emphasize that entrepreneurs may employ normative recruitment and human resource practices to increase the new venture's institutional legitimacy (Williamson, 2000). Furthermore, entrepreneurial firms may adopt different recruitment approaches at different stages of a new venture life cycle (Leung et al., 2006). Further research is needed to enhance our understanding about entrepreneurs' recruitment approach adoption.

Revealing such casual relationships sometimes is only possible through in depth longitudinal case studies (Mintzberg & Waters, 1982; Tan, 2002). Therefore, this study calls for future qualitative research to further expand our understanding about entrepreneurs' start-up process configuration choice.

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CHAPTER 4

IMMIGRANT ENTREPRENEURS' LIABILITY OF FOREIGNNESS: MYTH OR REALITY

The 10 largest U.S. publicly held companies (Intel, Solectron, Sanmina-SCI, Sun Microsystems, eBay, Yahoo!, Life Time Fitness, Tetra Tech, UTStarcom, and Google) have one thing in common: they all have at least one immigrant founder (Achidi Ndofor & Priem, 2011). While immigrants constitute only 14% of the United States' population, they owned 18% of U.S. small businesses in 2010, employing 4.7 million people (Fiscal Policy Institute, 2012). In fact, immigrants exhibit a higher entrepreneurship rate than that of the citizens born in the United States (Borjas, 1986; Min & Bozorgmehr, 2000; Yang, Colarelli, Han, & Page, 2011). For example, there are more than 1.5 million Hispanic-owned businesses in the U.S., growing at a rate three times faster than the U.S. national average (Curci & Mackoy, 2010: 108). Particularly, in popular immigrant destinations such as New York almost 50% of small businesses are owned by immigrant entrepreneurs (Fiscal Policy Institute, 2012).

Immigrant entrepreneurs are playing important economic and social roles in many countries (Achidi Ndofor & Priem, 2011; Chrysostome & Lin, 2010). In the United States, the scope of ethnic entrepreneurship is "no longer limited to the traditional occupations of shopkeepers, petty traders, or peddlers. It includes businesses operating in high-technology industries, professional services, and transnational corporations" (Chrysostome & Lin, 2010: 80). In a study of Silicon Valley's technology businesses, Saxenian (2002) reported that skilled immigrants accounted for one third of the engineering workforce. In particular, Chinese and Indian immigrants were senior executives at one quarter of Silicon Valley's technology businesses which "accounted for more than $26.8 billion in sales and 58,282 jobs" (Saxenian, 2002: 20) .

Despite the saliency of immigrant entrepreneurship, our understanding of its unique challenges is quite limited. The extant literature on immigrant entrepreneurs mostly examines the characteristics of owners such as experience and education or ethnic- oriented market segmentation and their effect on the new venture performance (Bates & Robb, 2012). However, from the management perspective, "there are many aspects of immigrant entrepreneurship that are still unknown and need to be addressed" and in fact, "the existing literature has not addressed the survival factors of immigrant entrepreneurs"(Chrysostome & Lin, 2010: 77-78).

Rath and Kloosterman (2000: 657) pointed out although immigrant entrepreneurship is an ethnocultural phenomenon, it does not exist within an "economic and institutional vacuum," and they called for future research seeking linkages with the latest developments in "international theory-building". Several recent researchers (e.g., Cucculelli & Morettini, 2012) considered the liability of foreignness (LOF) as a fruitful theoretical concept to examine immigrant entrepreneurship. In the same vein, this study draws on a well-established international business and management theoretical framework of LOF to examine immigrant entrepreneurs' survival and profitability.

In particular, little is known about how entrepreneur's LOF may affect entrepreneurial venture's survival and profitability. More importantly, we do not know whether employment of external instructional partners such as equity investors or internal partners such an indigenous cofounder may mitigate any possible effect of an entrepreneur's LOF on the entrepreneurial ventures' survival and profitability. Therefore, this essay examines the following two research questions: First, what is the effect of an immigrant entrepreneur's LOF on an entrepreneurial venture's survival and profitability? Second, how might moderating mechanisms recommended by the international business literature (i.e., employment of external institutional partners and recruitment of internal indigenous partners) mitigate the likely negative effect of LOF on immigrant entrepreneurs' firm survival and entrepreneurial profitability?

This study contributes to the immigrant entrepreneurship literature at least in two ways. First, it is one of the first studies to compare the survival and entrepreneurial profitability of immigrant entrepreneurs and indigenous entrepreneurs. Second, this is the first study which applies the LOF theoretical framework to the immigrant entrepreneurship literature.

The remainder of this study is structured as follows. The next section provides a review of the immigrant entrepreneurship literature. In the third section, several hypotheses are developed to examine the effect of the LOF on firm survival and entrepreneurial profitability. The moderating effects of the external institutional partner adoption and the internal indigenous partner recruitment on immigrant entrepreneurship are also investigated. In the fourth section, the Kauffman Firm Survey (KFS) is employed to quantitatively examine the hypotheses. The last section provides discussions and conclusions along with practice and policy implications.

Immigrant Entrepreneurship: A Literature Review

Early immigrant entrepreneurship literature predominantly focused on self-employment as an adaptation mechanism to the host-country environment, in particular among immigrants facing difficulty in finding well-paid jobs (e.g., Aldrich & Waldinger, 1990; Bonacich & Modell, 1980; Light & Bonacich, 1988). In the past decade, new research themes such as immigrants' social network, social embeddedness, and transnational entrepreneurship (Drori, Honig, & Wright, 2009) also received some attention. In general, the immigrant entrepreneurship literature can be categorized in six major research themes (Hart & Acs, 2011; Ma, Zhao, Wang, & Lee, 2013). In order to recognize the gap in the literature, each of these research themes is briefly mentioned here as follows.

The first research theme includes studies on ethnic enclave economies with a focus on business entry motives (determinants) and whether ethnic enclaves help improve the poor socioeconomic situations of immigrants (e.g., Aldrich & Waldinger, 1990; Basu, 1998; Brenner, Menzies, Dionne, & Filion, 2010; Constant & Zimmermann, 2006; Hout & Rosen, 2000; Ibrahim & Galt, 2011; Sanders & Nee, 1996). The second research theme includes demographic studies of ethnic entrepreneurs (Basu & Altinay, 2002; Chrysostome, 2010; Light, 1979; Min & Bozorgmehr, 2000; Raijman & Tienda, 2000, 2003; Razin & Light, 1998); For example, Fairlie and Meyer (1996) reported that the more advantaged immigrants, but not the disadvantaged ones, had the highest self-employment rates.

The third research theme includes studies on ethnic enterprise constraints such as limited access to financial resources and choice of target markets (Curci & Mackoy, 2010; Deakins, Majmudar, & Paddison, 1997). For example, Achidi Ndofor and Priem (2011) examined 103 immigrant entrepreneurs in a U.S. Midwest state and found that their capital endowments and social identities significantly affect their target market choice (limited choice of enclave market versus general market). The fourth research theme includes studies on immigrant social networks, social embeddedness, and transnational entrepreneurship (e.g., Drori et al., 2009; Jones, Ram, & Theodorakopoulos, 2010; Kloosterman, Van Der Leun, & Rath, 1999; Portes, Guarnizo, & Haller, 2002; Portes & Sensenbrenner, 1993; Schotter & Abdelzaher, 2013; Sequeira & Rasheed, 2006). For example, Mustafa and Chen (2010) examined how immigrant entrepreneurs in Malaysia and Singapore engaged in transnational entrepreneurship utilizing their transnational family networks to access resources and develop business connections.

The fifth research theme includes studies on self-employment rate differences between immigrants and indigenous individuals. The majority of studies in this research theme consistently reports that immigrants exhibit a higher rate of entrepreneurship than indigenous individuals (Borjas, 1986; Light, 1979; Sanders & Nee, 1996). The sixth and final research theme includes studies on the survival, performance, and growth rate difference between ethnic enterprises and indigenous entrepreneurs (Brüderl & Preisendörfer, 1998; Hart & Acs, 2011; Persson, 2004; Vinogradov & Isaksen, 2008). While the first five research themes received considerable attention in the past three decades, there is a dearth of research on the last research theme, survival rate and performance differences (Chrysostome & Lin, 2010; Ma et al., 2013).

While there is no U.S. study on immigrant entrepreneurs' survival rate and only limited studies on their performance (e.g., Hart & Acs, 2011), a few non-US studies in the extant literature reported mixed results. On one hand, some studies reported that firms started by immigrants exhibited lower survival rates in Sweden (Persson, 2004) and Norway (Vinogradov & Isaksen, 2008); on the other hand, some studies did not find any significant differences (Brüderl & Preisendörfer, 1998). Therefore, this study attempts to contribute to this gap in the immigrant entrepreneurship literature.

To the best of my knowledge, there has not been any comparative study on the survival rate of immigrant and indigenous entrepreneurs in the U.S. However, several studies examined the survival rate differences between minority (Asian, Black, and Hispanic) and nonminority (White) entrepreneurs. Yet, the results of these minority immigrant studies were also mixed (McEvoy & Aldrich, 1986). While Lowrey (2005) reported that the survival rates of four minority entrepreneur groups namely, Asian-Pacific Islander (72.1%), Hispanic (68.6 %), and Black (61.0 %) were all lower than that of nonminority entrepreneurs (72.6%). Robb (2002) reported that Asian entrepreneurs had a higher survival rate (51.7 %) than Whites (48.7 %) followed by Hispanics (43.7 %) and Blacks (34.8 %).

Regarding the theory development in immigrant entrepreneurship, the literature suffers from the scarcity of systematic employment of management theories (Ma et al., 2013). Rath and Kloosterman (2000: 657) pointed out that immigrant entrepreneurship literature has been dominated by social scientists, who "reduce immigrant entrepreneurship to an ethnocultural phenomenon existing within an economic and institutional vacuum," and they called for future research seeking linkages with the latest developments in "international theory-building". As a response to such research calls, this study applies the well-established international business and management theoretical framework of LOF to examine immigrant entrepreneurship.

Founder's LOF and Entrepreneurial Performance

In an unpublished Ph.D. dissertation in 1960, Hymer argued that foreign firms may suffer from a lack of host country institutional knowledge, limited local networks, language barriers, and incompatible management styles; therefore, foreign firms are at a disadvantage as compared to indigenous firms due to higher costs associated with doing business abroad (Hymer, 1976).

As the international business literature developed later in the 1980s and 1990s, Zaheer (1995: 342) refined the aforementioned argument and defined the concept of LOF as ''costs of doing business abroad that result in a competitive disadvantage for a multinational enterprise's subunit'' or in other words, "all additional costs a firm operating in a market overseas incurs that a local firm would not incur''(p. 343). In particular, Zaheer (2002: 351) pointed out that the LOF concept was introduced to "focus attention away from market-driven costs, to structural, relational, and institutional costs of foreign business.''

Recently, Sethi and Judge (2009) raised the attention of scholars to both costs and benefits of doing business aboard by introducing the concept of assets of the foreignness as the understudied component of the construct of doing business abroad and a complementary concept to the LOF concept. Several empirical studies provided consistent support for the negative effect of the LOF on foreign subsidiaries (e.g., Miller & Parkhe, 2002; Miller & Richards, 2002). In the immigrant entrepreneurship literature, several recent researchers (e.g., Cucculelli & Morettini, 2012) suggested that the LOF offers a fruitful theoretical framework to examine immigrant entrepreneurship. As a response to such calls, this study applies LOF to immigrant entrepreneurship.

In particular, the LOF concept (Zaheer, 1995: 345) is associated with (1) spatial distance specific costs (travel, transportation, distance, and time zones coordination); (2) firm-specific costs (unfamiliarity with local business environment); (3) host country environment specific costs (lack of institutional legitimacy in the local environment); and (4) home country environment specific costs (restrictions on high-technology transfer). While the first and last sources of LOF may not be directly applicable to immigrant entrepreneurship, unfamiliarity with local business environment and the lack of institutional legitimacy in the local environment are quite relevant to immigrant entrepreneurship. Therefore, applying LOF to immigrant entrepreneurship suggests that, all else being equal, the lack of business environment familiarity and institutional legitimacy may lead to lower performance of immigrant entrepreneurs compared to indigenous entrepreneurs.

> ***Hypothesis 1a:*** *The founder's LOF is negatively associated with the firm's survival. That is to say: compared to indigenous entrepreneurs' firms, immigrant entrepreneurs' firms exhibit a lower survival rate.*
>
> ***Hypothesis 1b:*** *The founder's LOF is negatively associated with the firm's entrepreneurial profitability. That is to say: compared to indigenous entrepreneurs' firms, immigrant entrepreneurs' firms exhibit lower entrepreneurial profitability.*

The Moderating Effect of the External Institutional Partners

According to Zaheer (1995: 343) one of the LOF sources is the host country environment specific costs associated with the lack of legitimacy in the local environment. The international business literature suggests that higher institutional distance between the home country and host country may lead to a greater disadvantage of a foreign firm due to a lack of isomorphism with the host-country's environment which in turn results in lower institutional legitimacy (Kostova & Zaheer, 1999; Xu & Shenkar, 2002).

Several international business researchers (e.g., Chen, 2006; Luo, Shenkar, & Nyaw, 2002; Sethi & Judge, 2009) pointed out that foreign firms usually utilize joint ventures and alliances to become more isomorphic with the local institutional environment and mitigate the costs of LOF due to the lack of institutional legitimacy. Foreign firms suffer from the lack of institutional legitimacy in the host country mainly due to the limited information available to the host country environment to judge those foreign firms (Kostova & Zaheer, 1999).

The importance of building institutional legitimacy also received attention in the entrepreneurship literature (Zimmerman & Zeitz, 2002). One approach to build institutional legitimacy is the pursuit of endorsements from other established firms in the host country (Stuart, 2000; Stuart, Hoang, & Hybels, 1999) such as independent ranking firms (Elango, 2009) or venture capitalists (Moghaddam, Provance, & Bosse, 2011). Therefore, applying the international business LOF argument to immigrant entrepreneurship suggests that, adoption of an external institutional partner such as venture capitalists may provide endorsement, improve institutional legitimacy, and in turn mitigate the likely negative effect of LOF on immigrant entrepreneurs' performance.

> ***Hypothesis 2a:*** *The existence of external institutional partners negatively moderates the relationship between the founder's LOF and the firm's survival (weakens the negative effect). In particular, compared to firms established by immigrant entrepreneurs without external equity investors, firms established by immigrant entrepreneurs with external equity investors, exhibit a higher survival rate.*

> ***Hypothesis 2b:*** *The existence of external institutional partners negatively moderates the relationship between the founder's LOF and the firm's entrepreneurial profitability (weakens the negative effect). In particular, compared to firms established by immigrant entrepreneurs without external equity investors, firms established by immigrant entrepreneurs with external equity investors, exhibit a higher entrepreneurial profitability.*

The Moderating Effect of the Internal Indigenous Partners

Local business environment and institutional familiarity refers to "experiential knowledge of government, institutional framework, rules, norms, and values"(Eriksson, Johanson, Majkgard, & Sharma, 1997: 343). Zaheer and Mosakowski (1997) argued that one major source of LOF is associated with the lack of embeddedness in the host-country's information networks. In the same vein, several other international business scholars (e.g., Eriksson et al., 1997; Johanson & Vahlne, 1977; Johanson & Vahlne,

1990) point out the foreign firms usually face constraints in the host country environment due to insufficient knowledge and psychic distance; however, those foreign firms may mitigate the negative effect of their LOF by acquiring knowledge through indigenous partners. In other words, adoption of a host country (local) partner provides access to the local knowledge (Makino & Delios, 1996; Yan & Gray, 1994). Lu and Beamish (2006: 467) argue that a local partner is "familiar with the needs and tastes of the local consumers," "has information about local competitors," and has local networks which can provide an immediate alleviation of a foreign firm's "local knowledge deficiencies and help overcome its liability of foreignness".

Examining the LOF effect on 486 British, German, and Japanese subsidiaries operating in the U.S., Mezias (2002) found that foreign firms received significantly higher labor lawsuits than a matched sample of U.S. owned firms; however, the negative effect of the LOF was mitigated by recruitment of indigenous top managers. In particular, foreign subsidiaries run by indigenous top officers faced significantly fewer labor lawsuits. Mezias (2002) argued that indigenous managers have a better and deeper understanding of the local culture and norms which may mitigate the negative effects of the LOF for foreign firms. In the same vein, Luo et al., (2002) argue that foreign firms may mitigate the LOF via recruitment of local managers.

Similar to the international business literature, the immigrant entrepreneurship literature emphasizes the importance of local partners to access the local knowledge (Van den Bergh & Du Plessis, 2012; Vance, 2005); therefore, employment of an indigenous partner may provide immigrant entrepreneurs with better business and institutional familiarity and in turn may mitigate the negative effect of LOF on immigrant entrepreneurs' performance.

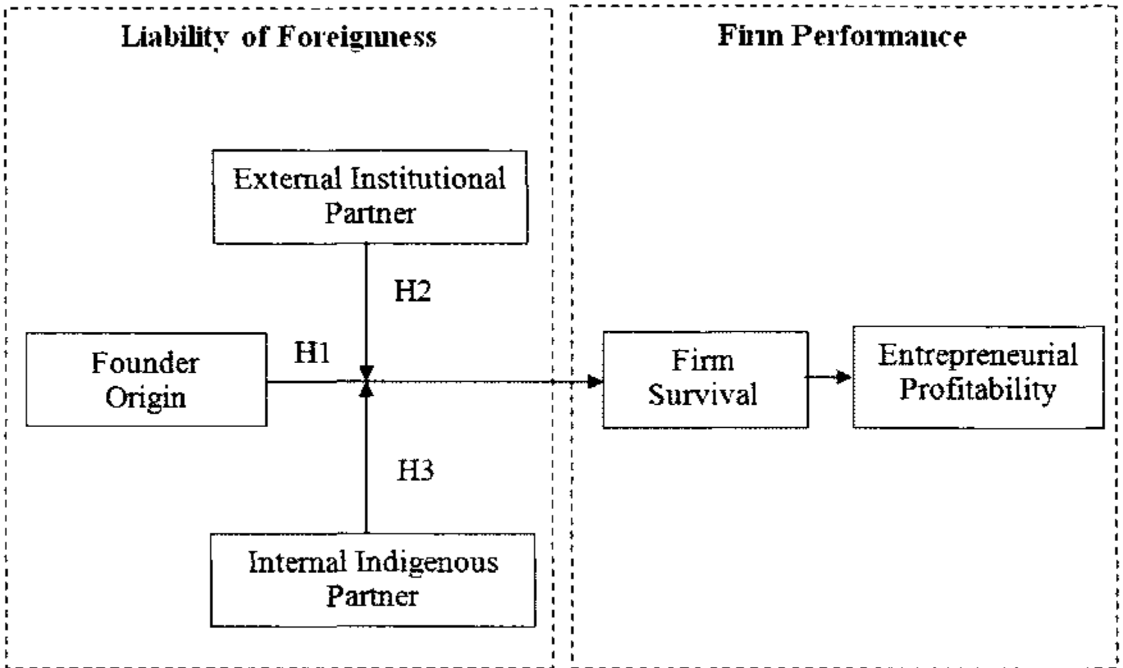
Hypothesis 3a: *The existence of internal indigenous partners negatively moderates the relationship between the founder's LOF and the firm's survival (weakens the negative effect). In particular, compared to firms established by immigrant entrepreneurs without indigenous partners in the founding team, firms established by immigrant entrepreneurs with indigenous partners in the founding team exhibit a higher survival rate.*

Hypothesis 3b: *The existence of internal indigenous partners negatively moderates the relationship between the founder's LOF and the firm's entrepreneurial profitability (weakens the negative effect). In particular, compared to firms established by immigrant entrepreneurs without indigenous cofounder(s), firms established by immigrant entrepreneurs with indigenous cofounder(s) exhibit a higher entrepreneurial profitability.*

Research Methodology

Logistic regression was employed to test hypotheses associated with the first dependent variable, firm survival. In regards to the second dependent variable, entrepreneurial profitability, multiple OLS regression analysis was employed to test those hypotheses. A summary of the hypothesized relationships is shown in Figure 3.

Figure 3: The Effect of LOF on Immigrant Entrepreneurship



Data Source

This study employs the Kauffman Firm Survey (KFS) data for the period 2004–2010. The KFS is the first longitudinal large national sample of startups and contains detailed information on the nature of new business formation activity such as financial and organizational arrangements as well as characteristics of their owners such as industry experience and ethnicity. Public access to the KFS dataset is available from the Kauffman Foundation's website and a more detailed confidential dataset is available to researchers by applying to the NORC (National Opinion Research Center) for access to the database (Robb & Watson, 2011; Robb & Coleman, 2010).

Several studies in recent years used KFS data in the entrepreneurship literature to investigate diverse factors affecting entrepreneurship such as sources of new venture financing (e.g. Coleman & Robb, 2011; Coleman & Robb, 2012; Zaleski, 2011), entrepreneurs' characteristics such as education and experience (e.g. Doms, Lewis, & Robb, 2010), and gender differences (e.g. Robb & Watson, 2010; Robb & Coleman, 2010).

Since there is no publicly available registry of startups, the sampling frame for the KFS is based on the Dun & Bradstreet (D&B) database which consists of data from various sources such as credit bureaus. The initial target population for data collection included all new ventures established in 2004 in the U.S. The initial sample frame included 32,469 new ventures. Businesses with an Employer ID Number (EIN), Schedule C income, records of either state unemployment insurance, or federal social security tax payments were excluded from the survey (Robb & Watson, 2011) to limit the sample to purely nascent entrepreneurial firms. After eligibility screening, the firms in the final sample were contacted and 4,928 surveys were completed mainly by Computer Assisted Telephone Interviewing (CATI) and by a website (77% and 23% respectively) resulting in a 43% response rate.

In order to increase the response rate, extensive interviewer training and a debriefing program, as well as a $50 post-pay incentive were implemented. Survey development began in May 2004 followed by a large scale pilot test conducted in early 2005. The baseline survey was conducted in 2005 followed by five follow-up surveys conducted in 2006, 2007, 2008, 2009, and 2010. The baseline survey data includes 4,928 start-ups which were resurveyed annually.

The baseline sample is dominated by white (81%) followed by black (9%) participants. The baseline sample approximately consisted of 70% males and 30%

females. The baseline questionnaire consisted of the following seven sections: (1) introduction, (2) eligibility screening, (3) business characteristics, (4) strategy and innovation, (5) business organization and human resource benefits, (6) business finances, and (7) work behaviors and demographics of the owners. A sample of the KFS questions is shown in appendix I.

Out of 4,928 firms, 20 were dropped due to missing data on the origin of the entrepreneurs. Furthermore, there were 20 firms with no sales after 7 years and they were also dropped from the sample. The literature suggests that sometimes individuals create firms as tax shelters to reduce individual taxes not to really start a business (e.g.,Åstebro & Bernhardt, 2003). From the remaining 4,888 firms, 3,810 firms had available data on their survival, and they were the starting sample for this study's analysis.

Variables

Dependent variables. The entrepreneurship literature suggests a wide range of indicators to measure entrepreneurial venture performance which can be categorized into two major groups (Chrysostome, 2010): (1) survival and profitability (Kalleberg & Leicht, 1991) and (2) growth indicators. Consistent with previous immigrant entrepreneurship studies (Chrysostome, 2010), this study focuses on survival and profitability. In particular, survival refers to the notion that an immigrant entrepreneur remains in business, and profitability means that the costs of the venture are covered by its income (Chrysostome, 2010).

The first dependent variable is the firm survival; coded as 1 if the firm was in operation in 2010 and 0 if it was out of business. The literature suggests that for over 90% of entrepreneurs, it takes over 5 years to reach a decision to either continue with or abandon their nascent enterprises (Robb & Reynolds, 2009); therefore, examining the 2010 survival status of firms established in 2004 allows the necessary lag time suggested by the extant literature. The second dependent variable is the entrepreneurial profitability. Consistent with prior literature (George, Wiklund, & Zahra, 2005), the entrepreneurial profitability variable was operationalized as the sum of the profitable years between 2004 and 2010. Therefore, the entrepreneurial profitability variable varies between 0 and 7. Following the research design of Delios and Beamish (2001), the entrepreneurial profitability was measured only for those firms established in 2004 which survived till 2010.

Independent variable. The entrepreneur's origin is captured in the KFS questionnaire which allows differentiation between immigrant and indigenous entrepreneurs. In particular, respondents provided answers to the following question: Were you born in the United States? Consistent with previous studies, (e.g., Hart & Acs, 2011) those firms with at least one foreign born member in their founding team (who answered no to the above question) were coded as 1 (i.e., immigrant firm) and those who answered yes were coded as 0 (i.e., indigenous firm).

Moderating variables. Consistent with previous literature (Elango, 2009; Shan & Song, 1997) and in order to capture the effect of external institutional partners, firms were coded 1 if they received equity investments (funds in return for some percentage of firm ownership) from venture capitalists, established companies, or government agencies and coded 0 otherwise. Consistent with previous literature (Dikova, 2009; Mezias, 2002), the effect of internal local partners was captured by coding 1 for immigrant firms with at least one indigenous cofounder in their founding team and 0 otherwise.

Control variables. Consistent with prior studies (Molly, Laveren, & Jorissen, 2012; Persson, 2004), this study controlled for industry. As shown in Table 9, nine dummy variables were used to capture the effect of nine industry sectors based on the North American Industry Classification System (NAICS).

Similar to prior research (e.g., Jones, Makri, & Gomez-Mejia, 2008; Molly et al., 2012), firm size was captured by the logarithm of the total assets. Consistent with the entrepreneurship literature (Boden Jr & Nucci, 2000; Chrysostome, 2010; Packalen, 2007), the number of years of industry-related experience of the founder was used to capture the management quality. Similar to previous studies (Almer-Jarz, Schwarz, & Breitenecker, 2008), in those cases in which firms were established by more than one founder the maximum industry related experience of those founders was used to capture the firm's management quality.

Results

Table 10 illustrates that 3,340 (87.66%) out of the total of 3,810 firms in the sample, were established by indigenous entrepreneurs and 470 (12.34%) by immigrant entrepreneurs. Table 10 also shows that the survival rate of indigenous entrepreneurs (45.84%) was higher than that of immigrant entrepreneurs (41.70%) six years after venture launch in 2004.

Table 9: The 9 Sectors within the NAICS

Code	Sector #	Description
1	11	Agriculture, Forestry, Fishing and Hunting
	21	Mining, Quarrying, and Oil and Gas Extraction
2	22	Utilities
	23	Construction
3	31-33	Manufacturing
	42	Wholesale Trade
4	44-45	Retail Trade
	48-49	Transportation and Warehousing
	51	Information
	52	Finance and Insurance
5	53	Real Estate and Rental and Leasing
	54-55	Management of Companies and Enterprises
	56	Administrative and Support and Waste Management and Remediation Services
6	61	Educational Services
	62	Health Care and Social Assistance
7	71	Arts, Entertainment, and Recreation
	72	Accommodation and Food Services
8	81	Other Services (except Public Administration)
9	92	Public Administration

Table 11 includes the descriptive data and correlations among the variables in this study. Table 11 reports the mean and standard deviations for all variables. No major multicollinearity problem was detected in the data. Furthermore, the VIF statistics in all regression analyses were below 10 which indicates no problem of multicollinearity (Hair, Anderson, Tatham, & Black, 2006).

Table 10: Sample Descriptive Statistics

Firm	Established in 2004	Entrepreneurship rate by origin	Survived till 2010	Survival rate
Indigenous entrepreneurs	3,340	87.66%	1,531	45.84%
Immigrant entrepreneurs	470	12.34%	196	41.70%
All entrepreneurs	3,810	100%	1,727	45.33%

Hypothesis 1a states that compared to indigenous entrepreneurs' firms, immigrant entrepreneurs' firms exhibit a lower survival rate. Out of 3,810 firms in the sample, 2 firms (both established by indigenous entrepreneurs) were in the public administration industry (NAICS #9), 5 firms had missing values for the control variable of experience and 4 firms had missing values for the control variable of firm size and were excluded from the analysis. Therefore, the final sample included 3,799 to test Hypothesis 1a. As shown in Table 12, Hypothesis 1a was supported (β: -0.17, $p < .10$). The Exp (B) statistic is approximately 0.8 which can be interpreted as follows: the likelihood of survival for immigrant firms is 20% lower than the likelihood of survival for indigenous firms.

Table 11: Descriptive Statistics and Correlation Matrix

	Mean	S. D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.Survival	.45	.50														
2. Profit	5.33	2.39	.a													
3.Immigrant	.13	.34	-.03*	-.030												
4. IND_1	.01	.09	.03*	-.04*	-0.01											
5. IND_2	.08	.27	.00	-.00	-.04**	-.03*										
6. IND_3	.15	.35	.03*	-.08**	.03*	-.04**	-.12**									
7. IND_4	.17	.38	-.07**	-.05*	.00	-.04**	-.14**	-.19**								
8. IND_5	.43	.49	.04**	.11**	.01	-.08**	-.26**	-.36**	-.40**							
9. IND_6	.03	.17	.01	.02	.00	-.02	-.05**	-.07**	-.08**	-.15**						
10. IND_7	.04	.20	-.02	-.10**	.02	-.02	-.06**	-.09**	-.10**	-.18**	-.04**					
11.IND_8	.09	.29	-.01	.04	-.03*	-.03*	-.10**	-.13**	-.15**	-.28**	-.06**	-.07**				
12. Firm size	9.07	3.92	.09**	.06*	.03*	.00	.03*	.06**	.06**	-.07**	-.02	.02	-.06**			
13. Founder	13.67	10.62	.12**	.10**	-.03*	.02	.09**	.06**	-.13**	.05**	-.03**	-.04**	-.02	.06**		
14. External	.04	.20	-.01	-.07*	.01	-.02	-.04*	.13**	-.02	-.04**	.02	-.01	-.03*	.09**	.04*	
15. Internal	.28	.45	.06	-.18**	.a	.06	.02	.14**	-.12**	-.01	-.05	-.02	.00	.12**	.20**	.03

a. The profitability variable is considered only for those firms which survived till 2010

b. The Internal Partner variable is considered only for firms with immigrant entrepreneurs in their founding team

* $p < .05$, ** $p < .01$

c. Sample size: 3,799

Table 12: The Effect of Founder Origin on the Firm Survival

	B	S.E.	Exp(B)
Constant	-0.92***	.139	.399
Control Variables			
Industry_1_ Agriculture	0.69†	.40	1.98
Industry _2_ Construction	-0.08	.16	.92
Industry _3_ Manufacturing	0.15	.14	1.17
Industry _4_ Wholesale & Retail	-0.22†	.14	.80
Industry _5_ Management services	0.14	.12	1.15
Industry _6_ Educational & Health services	0.20	.22	1.22
Industry _7_ Entertainment	-0.11	.19	.89
Firm Size	0.05***	.01	1.05
Founder Experience	0.02***	0.00	1.02
Immigrant	-0.17†	.10	.84
-2 Log likelihood			5,124.46
Nagelkerke R Square			.04
N			3,799

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Hypothesis 1b states that compared to indigenous entrepreneurs' firms, immigrant entrepreneurs' firms exhibit a higher entrepreneurial profitability. As shown in Table 13, Hypothesis 1b did not receive support.

Table 13:The Effect of Founder Origin on the Entrepreneurial Profitability

	Model 1 (Base)			Model 2		
	Unstandardized B	Std. Error	Standardized Beta	Unstandardized B	Std. Error	Standardized Beta
Constant	4.18***	0.23		4.19***	0.23	
Control Variables						
Industry_1_ Agriculture	-1.17*	0.51	-0.06	-1.16*	0.51	-0.06
Industry _2_ Construction	-0.34	0.26	-0.04	-0.34	0.26	-0.04
Industry _3_ Manufacturing	-0.72**	0.22	-0.12	-0.71**	0.22	-0.12
Industry _4_ Wholesale & Retail	-0.52*	0.22	-0.09	-0.51*	0.22	-0.09
Industry _5_ Management services	-0.03	0.19	-0.01	-0.02	0.19	-0.01
Industry _6_ Educational & Health services	-0.08	0.34	-0.01	-0.08	0.34	-0.01
Industry _7_ Entertainment	-1.23***	0.32	-0.11	-1.22***	0.32	-0.11
Firm Size	0.04*	0.01	0.06	0.04**	0.01	0.07
Founder Experience	0.02**	0.00	0.08	0.02**	0.00	0.08
Immigrant				-.21	.16	-.03
R			.20			.20
R square			.04			.04
Adj. R square			.03			.03
R square Change						.00
N			1,630			1,630

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Hypothesis 2a states that compared to firms established by immigrant entrepreneurs without external equity investors, firms established by immigrant entrepreneurs with external equity investors, exhibit a higher survival rate. As shown in

Table 14, when the interaction effect was included in model 2, there was not any statistically significant support for the interaction effect as compared to the base model (model1); therefore, Hypothesis 2a did not receive support.

Table 14: The Moderating Effect of External Institutional Partner on the Firm Survival for all Entrepreneurs

	Model 1			Model 2		
	B	S.E.	Exp(B)	B	S.E.	Exp(B)
Constant	-.79***	.20	.45	-.79***	.20	.45
Control Variables						
Industry_1_ Agriculture	.70	.49	2.02	.70	.49	2.02
Industry _2_ Construction	-.26	.22	.77	-.26	.22	.77
Industry _3_ Manufacturing	.12	.19	1.12	.12	.19	1.12
Industry _4_ Wholesale & Retail	-.37†	.19	.69	-.37†	.19	.69
Industry _5_ Management services	-.04	.17	.96	-.04	.17	.96
Industry _6_ Educational & Health services	-.18	.29	.83	-.18	.29	.83
Industry _7_ Entertainment	-.38	.26	.68	-.38	.26	.68
Firm Size	.05***	.01	1.05	.05***	.01	1.05
Founder Experience	.02***	0.00	1.02	.02***	0.00	1.02
Immigrant	-.07	.12	.94	-.07	.12	.93
External Institution Partner	-.31	.21	.73	-.32	.23	.73
Immigrant X External Institution Partner				.04	.57	1.04
-2 Log likelihood			3,303.97			3,303.97
Nagelkerke R Square			.04			.04
N			2,499			2,499

† $p < .10$,* $p < .05$, ** $p < .01$, *** $p < .001$

Table 15: The Moderating Effect of External Institutional Partner on the Entrepreneurial Profitability for All Entrepreneurs

	Model 1			Model 2		
	Unstandardized		Standardized	Unstandardized		Standardized
	B	Std. Error	Beta	B	Std. Error	Beta
(Constant)	3.91***	0.31		3.90***	0.31	
Control Variables						
Industry_1_ Agriculture	-0.96	0.61	-0.05	-0.97	0.60	-0.05
Industry _2_ Construction	-0.57†	0.34	-0.07	-0.58†	0.34	-0.07
Industry _3_ Manufacturing	-0.22*	0.29	-0.04	-0.22	0.29	-0.04
Industry _4_ Wholesale & Retail	-0.01	0.30	0.00	-0.03	0.30	-0.01
Industry _5_ Management services	0.21	0.26	0.05	0.20	0.26	0.05
Industry _6_ Educational & Health services	0.49	0.46	0.04	0.47	0.46	0.04
Industry _7_ Entertainment	-1.39**	0.43	-0.12	-1.41**	0.43	-0.12
Firm Size	0.04†	0.02	0.06	0.04†	0.02	0.06
Founder Experience	0.01*	0.01	0.07	0.01*	0.01	0.07
Immigrant	-0.10	0.19	-0.02	0.01	0.19	0.00
External Institutional Partner	-0.78*	0.35	-0.07	-0.36	0.38	-0.03
Immigrant X External Institutional Partner				-2.64**	0.94	-0.09
R			.20			.23
R square			.04			.05
Adj. R square			.03			.04
R square Change						.007**
N			1,061			1,061

† p < .10,* p < .05, ** p < .01, *** p < .001

Table 16: The Effect of External Institutional Partner on the Indigenous Entrepreneurial Profitability

	Model 1			Model 2		
	Unstandardized		Standardized	Unstandardized		Standardized
	B	Std. Error	Beta	B	Std. Error	Beta
(Constant)	3.86***	0.32		3.85***	0.33	
Control Variables						
Industry_1_ Agriculture	-0.32	0.65	-0.02	-0.32	0.65	-0.02
Industry _2_ Construction	-0.47	0.36	-0.06	-0.46	0.36	-0.06
Industry _3_ Manufacturing	-0.13	0.31	-0.02	-0.10	0.31	-0.02
Industry _4_ Wholesale & Retail	-0.07	0.32	-0.01	-0.05	0.32	-0.01
Industry _5_ Management services	0.25	0.28	0.06	0.26	0.28	0.06
Industry _6_ Educational & Health services	0.59	0.48	0.05	0.61	0.48	0.05
Industry _7_ Entertainment	-1.24**	0.46	-0.10	-1.23	0.46**	-0.10
Firm Size	0.02	0.02	0.04	0.03	0.02	0.04
Founder Experience	0.02**	0.01	0.10	0.02	0.01**	0.09
External Institution Partner				-0.35	0.38	-0.03
R			0.19			0.19
R square			0.03			0.03
Adj. R square			0.03			0.03
R square Change						0.00
N			392			392

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 17: The Effect of External Institutional Partner on the Immigrant Entrepreneurial Profitability

	Model 1			Model 2		
	Unstandardized		Standardized	Unstandardized		Standardized
	B	Std. Error	Beta	B	Std. Error	Beta
(Constant)	4.34***	1.02		4.12***	0.98	
Control Variables						
Industry_1_ Agriculture	-5.24**	1.65	-0.29	-5.28**	1.58	-0.29
Industry _2_ Construction	-1.73	1.12	-0.17	-1.70	1.08	-0.17
Industry _3_ Manufacturing	-1.41	0.89	-0.29	-1.10	0.86	-0.22
Industry _4_ Wholesale & Retail	-0.27	0.95	-0.04	-0.30	0.91	-0.05
Industry _5_ Management services	-0.49	0.86	-0.12	-0.41	0.82	-0.10
Industry _6_ Educational & Health services	-2.35	2.18	-0.09	-2.36	2.09	-0.09
Industry _7_ Entertainment	-2.59*	1.23	-0.22	-2.62*	1.18	-0.22
Firm Size	0.09†	0.06	0.14	0.12*	0.05	0.17
Founder Experience	-0.01	0.02	-0.04	-0.01	0.02	-0.04
External Institution Partner				-2.98***	0.83	-0.28
R			0.40			0.49
R square			0.17			0.24
Adj. R square			0.11			0.18
R square Change						0.07***
N			145			145

† p < .10,* p < .05, ** p < .01, *** p < .001

Hypothesis 2b states that compared to firms established by immigrant entrepreneurs without external equity investors, firms established by immigrant entrepreneurs with external equity investors exhibit a higher entrepreneurial profitability. As shown in Table 15, when the interaction effect was included in model 2, there was statistically significant support (β: -2.64, $p < .01$) for the interaction effect as compared to the base model (model1).

Consistent with previous studies (Collewaert, 2012; Gohmann, 2012) and in order to interpret this interaction effect, two subsequent separate analyses were conducted on the indigenous entrepreneurs subsample (Table 16) and immigrant entrepreneurs subsample (Table 17). While the moderating effect of existence of external institutional partners was positive but statistically insignificant in the indigenous entrepreneurs subsample (Table 16), it was negative and statistically significant (β: -2.98, $p < .001$) in the immigrant entrepreneurs subsample (Table 17). The negative sign of the coefficient illustrates that the direction of the relationship is the reverse of what is suggested by Hypothesis 2b. In other words, the data suggest that the presence of external institutional partners negatively affects the entrepreneurial profitability for immigrant entrepreneurs. Figure 4 provides a graph which shows the negative effect of external institutional partnership for immigrant entrepreneurs, while a negligible positive effect is illustrated for indigenous entrepreneurs.

Figure 4: The Moderating Effect of External Institutional Partner on the Entrepreneurial Profitability

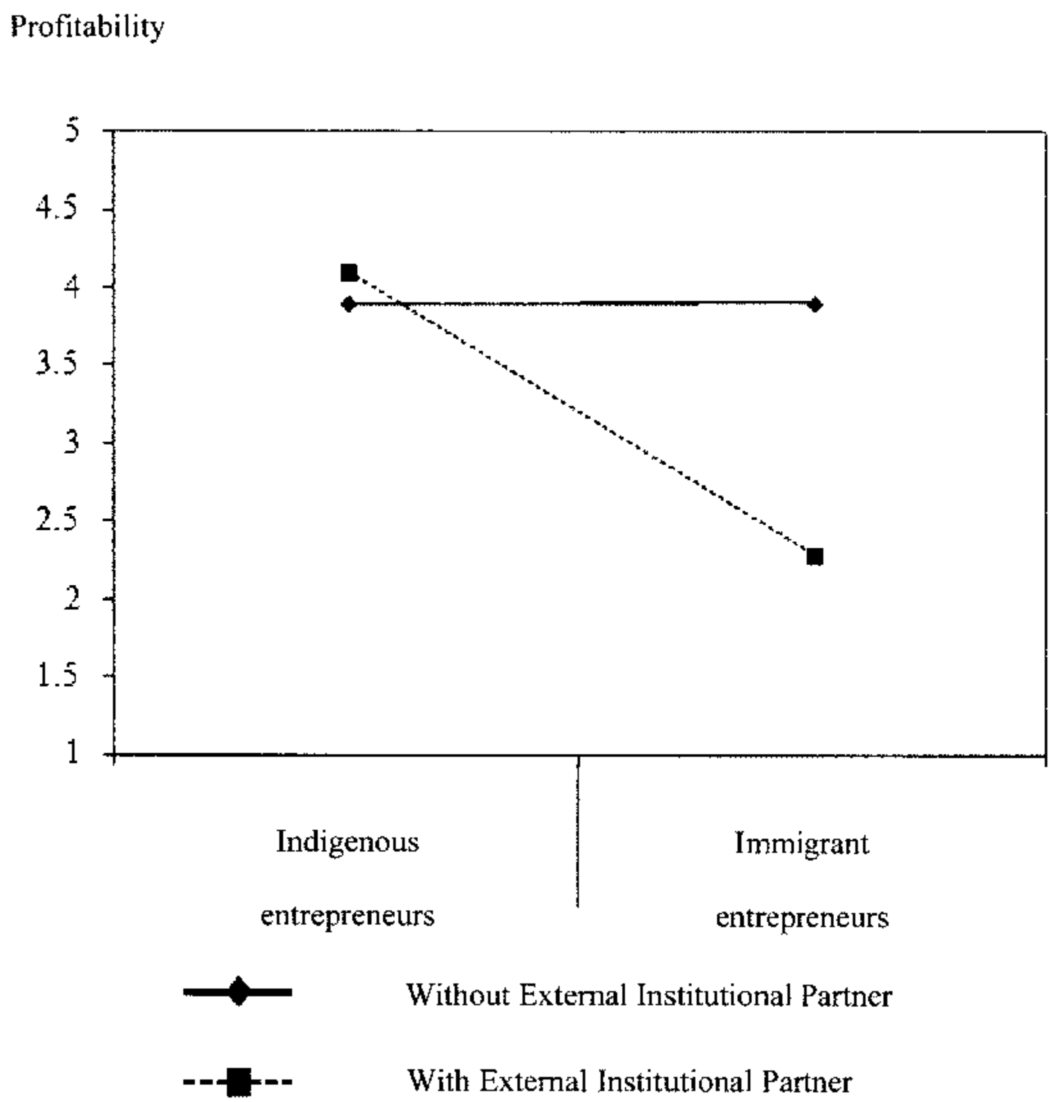


Table 18: The Effect of Internal Indigenous Partner on the Immigrant Firm Survival

	B	S.E.	Exp(B)
Constant	-1.54**	.46	.21
Control Variables			
Industry_1_ Agriculture	21.71a	28265.43	2.68E+09
Industry _2_ Construction	.20	.59	1.22
Industry _3_ Manufacturing	.62	.44	1.87
Industry _4_ Wholesale & Retail	.23	.44	1.26
Industry _5_ Management services	.43	.40	1.53
Industry _6_ Educational & Health services	-.09	.78	.91
Industry _7_ Entertainment	.08	.57	1.08
Firm Size	.07**	.03	1.07
Founder Experience	.02	.01	1.02
Internal Indigenous Partner	.03	.22	1.03
-2 Log likelihood			617.50
Nagelkerke R Square			.05
N			468

† $p < .10$,* $p < .05$, ** $p < .01$, *** $p < .001$

a. There were only 2 firms in Agriculture industry group and both of them survived.

Table 19: The Effect of Internal Indigenous Partner on the Immigrant Entrepreneurial Profitability

	Model 1			Model 2		
	Unstandardized		Standardized	Unstandardized		Standardized
	B	Std. Error	Beta	B	Std. Error	Beta
(Constant)	4.06***	0.83		3.90***	0.83	
Control Variables						
Industry_1_ Agriculture	-5.30**	1.58	-0.26	-4.81**	1.59	-0.23
Industry _2_ Construction	-1.28	0.97	-0.12	-1.16	0.96	-0.11
Industry _3_ Manufacturing	-1.51*	0.73	-0.29	-1.41*	0.72	-0.27
Industry _4_ Wholesale & Retail	-0.62	0.75	-0.11	-0.61	0.74	-0.10
Industry _5_ Management services	-0.53	0.68	-0.12	-0.49	0.68	-0.12
Industry _6_ Educational & Health services	-1.30	1.35	-0.08	-1.17	1.34	-0.07
Industry _7_ Entertainment	-2.76*	1.08	-0.23	-2.68*	1.07	-0.22
Firm Size	0.11*	0.05	0.17	0.13**	0.05	0.20
Founder Experience	0.00	0.01	0.00	0.01	0.02	0.05
Internal Indigenous Partner				-0.71*	0.35	-0.15
R			0.37			0.40
R square			0.14			0.16
Adj. R square			0.09			0.11
R square Change						0.02***
N			186			186

† p < .10,* p < .05, ** p < .01, *** p < .001

Hypothesis 3a states that compared to firms established by immigrant entrepreneurs without indigenous partners in the founding team, firms established by immigrant entrepreneurs with indigenous partners in the founding team exhibit a higher survival rate. As shown in Table 18, the interaction effect coefficient was not statistically significant; therefore, Hypothesis 3a did not receive support.

Hypothesis 3b states that compared to firms established by immigrant entrepreneurs without indigenous cofounder(s), firms established by immigrant entrepreneurs with indigenous cofounder(s) exhibit a higher entrepreneurial profitability. As shown in Table 19, model 2 shows that the coefficient of the internal indigenous partner variable was negative and statistically significant (β: -0.71, $p < .05$). The negative sign of the coefficient illustrates that the direction of the relationship is the reverse of what is suggested by Hypothesis 3b. In other words, the data suggest that the presence of internal indigenous partners negatively affects the entrepreneurial profitability of immigrant entrepreneurs.

Discussion and Conclusion

The results of Hypothesis 1 indicate a minor difference in the survival rates between immigrant and indigenous entrepreneurs and no significant difference for the entrepreneurial profitability. While these results may seem to be at odds with the traditional LOF literature (Hymer, 1976; Zaheer, 1995), they are more consistent with the recent conceptual refinement of LOF offered by Sethi and Judge (2009) who more precisely delineated both the costs and benefits associated with doing business abroad. Confirming their propositions through a longitudinal case study on Ford Motor

Company in India over 80 years, Sethi and Judge (2009) introduced assets of foreignness as benefits of doing business abroad. In other words, one justification for minimal survival rate and no entrepreneurial profitability differences between indigenous and immigrant entrepreneurs may be that benefits from immigrant entrepreneurs' assets of foreignness neutralize the negative effects of immigrant entrepreneurs' LOF.

One example of such immigrants' assets of foreignness is the positive image for high quality products such as international foods offered by immigrants from all over the world or superior service such as technological and software services provided by Indian immigrants. The Fiscal Policy Institute report (2012) supports this notion of assets of foreignness by highlighting the following points: Mexican entrepreneurs in the United States tend to own restaurants, landscaping, and construction firms while Indian entrepreneurs are strongly present in medical services, computer services, and hotel industries. Korean entrepreneurs run dry cleaning businesses and restaurants. In other words, immigrant entrepreneurs leverage their assets of foreignness to create a competitive advantage to survive in the host country environment. Furthermore, the insignificant results of Hypothesis 1b, indicating no difference in the entrepreneurial profitability as a performance variable, are consistent with a limited number of similar studies (Hart & Acs, 2011).

In regards to the significant negative effect of external institutional equity investor partnership for immigrant entrepreneurs, it is important to bear in mind that international business literature also reports similar results associated with employment of international joint ventures in order to mitigate the LOF. An "estimated 37% to 70%

of international joint ventures are reported to suffer from performance problems leading to costly failures" (Pothukuchi, Damanpour, Choi, Chen, & Park, 2002:243).

Some studies emphasize cultural differences as a main reason for ambiguities in the partnership leading to conflicts and subsequent failures (e.g., Barkema & Vermeulen, 1997; Cartwright & Cooper, 1993). Using Hofstede's dimensions of national culture, Barkema and Vermeulen (1997) found that in particular, partner differences in two dimensions of uncertainty avoidance and long-term orientation strongly and negatively affected the partners' relationship. Other national culture dimensions (individualism, power distance, and masculinity) did not reveal a strong effect on partners' relationships (Avny & Anderson, 2008; Sirmon & Lane, 2004). In the same vein, some recent entrepreneurship studies point out that the main reason underlying unsuccessful partnerships may be associated with differences in management styles and organizational cultures stemming from different national cultures (Pothukuchi et al., 2002). Therefore, one justification for the significant negative effect of external institutional equity partnership for immigrant entrepreneurs may be associated with the notion that the costs of differences in management styles and organizational cultures between immigrant entrepreneurs and external institutional equity investors may exceed the benefits of such partnerships.

In regards to the significant negative effect of partnership with indigenous partners for immigrant entrepreneurs, it is important to bear in mind that several scholars in the international business literature argue that while foreign firms may initially benefit from the adoption of a local partner, in the long run and after overcoming the initial lack of local environment knowledge, they may find the role of a local partner redundant (Makino & Delios, 1996) and even a threat for the firm's longevity (Lu & Beamish, 2001). Several other previous studies (e.g., Pelled, Eisenhardt, & Xin, 1999; Tsui, Egan, & O'Reilly, 1992) also documented a negative effect of cultural and racial diversity on group performance. Interestingly, a recent study shows that similar cultural ethnicity is associated with higher trust among partners (Jiang, Chua, Kotabe, & Murray, 2011). Therefore, the results of Hypothesis 3b may suggest that the costs of diversity in the founding team may exceed the benefits of local partner's knowledge contributions.

This study contributes to the immigrant entrepreneurship literature in at least two ways. First, it is one of the first studies which compares the survival and profitability of immigrant entrepreneurs and indigenous entrepreneurs. Second, this is the first study which applies the LOF theoretical framework to examine immigrant entrepreneurship.

From the practice implication perspective, findings suggest that immigrant entrepreneurs needs to focus on both liability and asset of foreignness (Sethi & Judge, 2009). In regards to gaining the business environment and institutional familiarity, immigrant entrepreneurs needs to be aware of the costs and benefits of employing external equity investors or recruitment of indigenous partners. Immigrant entrepreneurs may benefit from alternative approaches such as employing advisors and mentors (Chrisman, 1989; Chrisman & Ed McMullan, 2000) rather than partners to overcome their lack of local knowledge. Recent studies in international business (e.g., Carraher, Sullivan, & Crocitto, 2008; Mezias & Scandura, 2005) emphasize the role of host country mentors in adjusting to the new environment and mitigating the LOF. In particular, Carraher et al. (2008) found that those expatriates who had a host-country mentor exhibited higher performance.

From the policy implication perspective, it is important that policy makers in different countries pay more attention to the increasing importance of immigrant entrepreneurship. In the last few decades, several Western countries, which are main immigration destinations, such as the United Kingdom, the United States, Canada, and Australia, established government programs to support immigrant entrepreneurship (Chrysostome, 2010). Government programs to promote immigrant entrepreneurship may be categorized in three groups (Chrysostome, 2010; Minniti, 2008): (1) Counseling programs including business planning or training regarding regulations, business networks, and business environment; (2) A system of tax incentives aimed at alleviating the burden of the start-up expenses; and (3) Credit assistance programs tailored to meet the specific needs of immigrant entrepreneurs (Kushnirovich & Heilbrunn, 2008).

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CHAPTER 5

CONCLUSION

With the new immigrant population growth in Europe since 1945 as well as new waves of immigrants to the United States after the 1965 immigration reform, immigrant entrepreneurship became a topic of concern for policy makers as well as academic researchers (Aldrich & Waldinger, 1990a). Since the early 1970s, researchers have shown interest in examining immigrant entrepreneurship (Armengot, Parellada, & Carbonell, 2010). Early immigrant entrepreneurship literature predominantly focused on self-employment as an adaptation mechanism to the host-country environment (e.g., Aldrich & Waldinger, 1990b; Bonacich & Modell, 1980; Light & Bonacich, 1988). While entrepreneurship as a field of study is growing rapidly, it is criticized for the lack of commonly accepted and well developed research paradigms (Aldrich, 2000; Hitt, Ireland, Camp, & Sexton, 2001) and immigrant entrepreneurship literature is not an exception.

In order to understand the international activities of immigrant entrepreneurs, Chapter Two suggest a theoretical framework in order to explain how the social networks of TEs affect their firm performance through the mediating effect of two dynamic capabilities (i.e., opportunity sensing and opportunity seizing) and the moderating effect of institutional distance between the country of origin and the country of residence.

The contribution of the suggested theoretical framework of transnational entrepreneurship in Chapter Two is threefold. First, the strategic entrepreneurship approach was employed to suggest a social tie based model of dynamic capabilities in order to address the theoretical void in transnational entrepreneurship literature. Second, the social networks performance linkage which has been in a black box (Lahiri, Kedia, & Mukherjee, 2012; Wu, 2007) is examined in terms of how strong and weak social ties may affect different processes of dynamic capabilities differently. Finally, this theoretical framework is a response to Zahra and Wright's (2011) recent call for the importance of engaging context in theoretical models in the entrepreneurship field. In contrast to common application of institutional distance as a negative moderator in international business literature (Kostova & Zaheer, 1999; Xu & Shenkar, 2002), Chapter Two explains the likely positive moderation of institutional distance in the suggested theoretical framework of transnational entrepreneurship.

Chapter Three adopts a qualitative approach to examine the differences in the start-up process configurations of immigrant and indigenous entrepreneurs. The qualitative analysis of 5 immigrant and 5 indigenous entrepreneurs revealed four start-up process dimensions and two distinct start-up process configurations. Indigenous entrepreneurs exhibit a start-up process configuration associated with (1) the opportunity recognition either through discovery or creation, (2) a high level of planning comprehensiveness, (3) a high tendency towards conservative financing choice (i.e., seeking bootstrapping and small banks), and (4) the instrumental recruitment approach emphasizing expertise. On the other hand, immigrant entrepreneurs exhibit a start-up process configuration associated with (1) the opportunity recognition through discovery, (2) an intermediate level of planning comprehensiveness, (3) a higher tendency towards adventurous financing choice (i.e., seeking bootstrapping and small banks), and (4) the social recruitment approach emphasizing the passion for a common vision, value, and/or goal.

The qualitative study in Chapter Three contributes to the immigrant entrepreneurship literature in at least three ways. First, this study advances our understanding about immigrant entrepreneurs by examining their behavioral similarities and differences as compared to indigenous entrepreneurs. Second, this study employs the equifinality framework to explain the two different start-up process configurations for immigrant and indigenous entrepreneurs and argues that immigrant and indigenous entrepreneurs both may exhibit a high degree of success and growth yet through different start-up process configurations. Finally, this study contributes to and is an advocate for the employment of the qualitative approach as a unique window into the world of entrepreneurs.

The quantitative study in Chapter Four employs the liability of foreignness theoretical framework from international business (Zaheer, 1995) to examine immigrant entrepreneurs. The results show a minor difference in the survival rates between immigrant and indigenous entrepreneurs and no significant difference of the entrepreneurial profitability. Surprisingly, the results show a significant negative effect of external institutional equity investor partnership for immigrant entrepreneurs. One justification for such a significant negative effect of external institutional equity partnership for immigrant entrepreneurs may be associated with the notion that the costs of differences in management styles and organizational cultures between immigrant entrepreneurs and external institutional equity investors may exceed the benefits of such partnerships. Furthermore, the results show a significant negative effect of partnership with indigenous partners for immigrant entrepreneurs suggesting that the costs of diversity in the founding team may exceed the benefits of a local partner's knowledge contributions.

Chapter Four contributes to the immigrant entrepreneurship literature in at least two ways. First, it is one of the first studies which compares the survival and profitability of immigrant entrepreneurs and indigenous entrepreneurs. Second, this is the first study which applies the liability of foreignness theoretical framework to examine immigrant entrepreneurship.

From the practice implication perspective, all three studies in this dissertation suggest that immigrant entrepreneurs needs to focus on both liability and asset of foreignness (Sethi & Judge, 2009). Furthermore, a better understanding of similarities and differences between immigrant and indigenous entrepreneurs may help immigrant entrepreneurs to exercise extra caution in copying successful indigenous entrepreneurs' start-up processes and instead choose a start- up process configuration which fits their unique characteristics and motives.

From the policy implication perspective, it is important that policy makers in different countries pay more attention to the increasing importance of immigrant entrepreneurship. In the last few decades, several Western countries, which are main immigration destinations, such as the United Kingdom, the United States, Canada, and Australia, established government programs to support immigrant entrepreneurship (Chrysostome, 2010). Government programs to promote immigrant entrepreneurship may be categorized in three groups (Chrysostome, 2010; Minniti, 2008): (1) Counseling programs including business planning or training regarding regulations, business networks, and business environment; (2) Tax incentives aiming at alleviating the burden of the start-up expenses; and (3) Credit assistance programs tailored to meet the specific needs of immigrant entrepreneurs (Kushnirovich & Heilbrunn, 2008). Policy makers in immigrants' countries of origin also may need to pay extra attention to transnational entrepreneurship as a mechanism for knowledge and technology transfer.

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Appendix I: Sample Questions of the KFS Baseline Questionnaire

A. INTRODUCTION

INTRO: Hello, my name is _____________. I'm calling from Mathematica Policy Research in Princeton, New Jersey on behalf of the Kauffman Foundation of Kansas City.
A4. We are conducting a study for the Kauffman Foundation about new businesses. Your business has been selected to participate in the interview and represent new businesses across the country. If your business is eligible for the study, you will receive $50 for completing the interview. Your answers will be kept confidential.
A5. First, are you actively involved in running [NAME BUSINESS]? (Yes, No)

B. ELIGIBILITY SCREENING

B2a. Business legal status (e.g., Sole Proprietorship, Limited Liability Company)

C. BUSINESS CHARACTERISTICS

C4. Can you tell me the first and last name of the other owner(s) of [NAME BUSINESS]?

D. STRATEGY AND INNOVATION

D1. Does [NAME BUSINESS] provide Service or Product?
D7. During calendar year 2004, what percentage of the business' sales were to A) private, B) businesses, C) government)

E. BUSINESS ORGANIZATION AND HR BENEFITS

E2a. As of December 31, 2004, did [NAME BUSINESS] offer full-time employees or owners HR benefits (e.g., health insurance, retirement plan)

F. BUSINESS FINANCES

F3. During calendar year 2004, did the business obtain equity financing from any of the following sources? (e.g., Spouses, Government agencies)
F23. Profit is the business' income after all expenses and taxes have been deducted. What was [NAME BUSINESS]'s total profit or loss for calendar year 2004?

G. WORK BEHAVIORS AND DEMOGRAPHICS OF OWNER(S)

G2. How many years of work experience (have/has) (you/OWNER]) had in this industry—the one in which [NAME BUSINESS] com-petes?
G7. (Were/Was) (you/OWNER) born in the United States?
G8. (Are/Is) (you/OWNER) a U.S. citizen?

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