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The Home Field Advantage: Exploring Elements of  
Immigrant Entrepreneurship

Loren H. Rich

A thesis submitted to the faculty of  
Brigham Young University  
in partial fulfillment of the requirements for the degree of  
Master of Science

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## ABSTRACT

### The Home Field Advantage: Exploring Elements of Immigrant Entrepreneurship

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Immigrants participate in entrepreneurial activity more frequently than other groups, largely resulting from restricted access to traditional occupational advancement. Recent studies have reported that immigrant entrepreneurs focus on their abundance of human and social capital to obtain the financial resources necessary to fund their ventures. Lack of financial resources has been identified as a major barrier for immigrant entrepreneurs; however, as this study indicates, both native and immigrant entrepreneurs face similar financial hurdles in locating initial startup funding. Where major differences arise between native and immigrant entrepreneurs is that native entrepreneurs more frequently transition to business forms of debt, a key component to long-term success. Resulting from their lack of embeddedness in their host context, immigrant entrepreneurs are far more likely to rely on social network based resources to fund growth, which removes their businesses from the opportunities business forms that debt provides. Using the Kauffman public data, I investigated the relationship between financing strategies engaged by “immigrant” versus “native” entrepreneurs.

Keywords: immigrant entrepreneurship, social capital, business forms of debt, resource-based view of the firm

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## INTRODUCTION

Immigrant entrepreneurship has been identified as offering an ideal solution to unemployment, social exclusion and social mobility for an otherwise marginalized group (Kloosterman, 2003). Due, in part, to barriers that limit their access to full-time employment, immigrants are actually more likely than their native counterparts to engage in entrepreneurial ventures. While recent studies have shown that immigrant-founded startups can lead to the economic advancement for immigrant groups (Iyer & Shapiro, 1999; Sanders & Nee, 1996; Seueira & Rasheed, 2006), as well as positively impact the growth and regeneration of economies (Assudani, 2009; Iwata, 2007), the factors that contribute to immigrant entrepreneurs' long-term success in the financial market remains understudied. Thus, while finding ways to support the success rate of immigrant start-ups has importance to both researchers and lay business institutions, few scholars have identified the pathways that immigrant entrepreneurs need to follow in order to sustain their businesses. This thesis contributes to the literature on immigrant entrepreneurship by identifying how variations in financing strategies between native and immigrant entrepreneurs significantly impacts business outcomes.

According to the Kauffman Index of Entrepreneurial Activity (Fairlie, 2013), the immigrant rate of entrepreneurship has been on the rise in recent years. In fact, as the Index of Entrepreneurial Activity by Nativity illustrates, immigrant-operated businesses have been opening at a higher rate, compared to native-born business owners, at the rate of 490 out of 100,000 people for immigrants compared to 260 out of 100,000 people for natives. In 2012, immigrants were almost twice as likely to start a business during every month of the year. This shift is best illustrated by the changes in composition of new entrepreneurs by nativity: in 1996, 13.7% of all businesses were owned by immigrants. By 2012, this figure had effectively doubled



to 27.1%. Immigrants now own and operate more than a quarter of all businesses in the United States.

(Figure 1 about here)

Although immigrants start firms in larger numbers, immigrant-founded new ventures often perform worse relative to native-founded new ventures (Vinogradov & Isaksen, 2008). The Kauffman Index of Entrepreneurial Activity (Fairlie, 2008) shows that immigrant-founded new ventures substantially lag behind their native counterparts in average number of employees and annual sales, both of which are considered effective metrics in determining the health and strength of a startup during early stages (Drucker, 1986; Dyer & Furr, 2014). These data suggest that immigrant status matters when starting a business and making financing decisions regarding expansion.

(Figure 2 about here)

For immigrant entrepreneurs, starting a business is heavily influenced by what Portes and Rumbaut (2006) describe as a “context of reception.” Immigrants acceptance in the local community, the degree of openness or hostility toward immigrants, as well as the opportunity structure available to immigrants can either create positive or negative contexts of reception. For entrepreneurial activity, the opportunity structure available to immigrant entrepreneurs differs when compared to native entrepreneurs. For immigrants, the resources they are able to obtain to start and grow their businesses, as well as their knowledge of business strategies is limited to the resources and knowledge available within their immigrant communities. When compared to natives, immigrant entrepreneurs operate in a different manner when looking at resource generation and usage, which leads to generally less positive outcomes. As Cornell and Hartmann (2007) explain, contextual factors such as access to labor markets (opportunity for

advancement), and residential space (geographic concentration) shape the economic realities for immigrants. As immigrant entrepreneurs attempt to access larger markets, their probability of success is influenced by negative contexts of reception.

(Figure 3 about here)

Past research suggested that immigrant entrepreneurs have limited access to financial capital (Ram et al., 2003), which may lead to their higher failure rates. This occurrence, however, is not necessarily reflected in the more recently collected Kauffman data, which shows immigrant and native entrepreneurs having similar levels of financial capital available when initially starting their businesses. In some situations, immigrant entrepreneurs are actually more likely to have at least some financial capital during startup as compared to natives as seen in the graph above which illustrates the distribution of financial capital during startup for both groups. Another significant finding from the Kauffman data is the discovery that immigrants are actually more likely to start with higher total amounts of capital than native entrepreneurs. Increased amounts of startup capital among immigrant entrepreneurs, however, does not translate into the successful business outcomes that native entrepreneurs enjoy, as startups founded by immigrant entrepreneurs on average have lower revenues, employ fewer people and close more often than startups founded by natives (Farilie, 2008; Vingoradov & Isaksen, 2008; Robb, et. al, 2010).

(Figure 4 about here)

Prior research on immigrant entrepreneurship has focused primarily on the availability of capital, the source of that capital for start-ups and has centered around either detailing or comparing resource acquisition strategies and approaches of particular immigrant groups, usually within specific contexts. This research is most often focused on individual entrepreneurs or firms and the larger social context in which entrepreneurial activity takes place is only seen through

analysis of aggregate individuals. While immigrant entrepreneurship is an investigated topic, scholars have been unable to clearly isolate the influence of immigrant status on entrepreneurial behavior across the various contexts in which they exist. Moreover, scholars investigating immigrant entrepreneurs have failed to generate a generally accepted conceptual framework that guides empirical research.

As a study conducted in an emerging field of scholarship, this analysis identifies the empirical indicators that illustrate the achievement gap in successful outcomes between native and immigrant entrepreneurs. This exploratory study discusses some of the existing theoretical frameworks, specifically Neoclassical Economics Models, Resource Dependence Theory and the Resource-Based View of the Firm, each of which shed light on how immigrants differ in their approach to entrepreneurship. By distinguishing areas where each of these approaches fail to fully explain business outcomes for immigrant entrepreneurs, this study builds conceptual understanding of how the social embeddedness of immigrant entrepreneurs, as well as the interplay of different forms of social, human, and financial capital explain the differences in outcomes between native and immigrant business owners. This study explores concepts that detail what is happening when immigrants engage in entrepreneurship. Moreover, as the discussion of the literature will show, understanding immigrant entrepreneurship requires interdisciplinary study, and this research incorporates concepts from sociology, finance, entrepreneurship, and economics. Multiple perspectives inform the dynamic and complex processes that make immigrant entrepreneurs unique in how they make decisions about financing strategies.

In particular, this study considers the influence of immigrant status on behavior beyond other individual characteristics of an entrepreneur (including gender, level of education, and age)

indicating larger contextual forces that shape and direct immigrant entrepreneurs' behaviors.

While the existing literature examines important aspects of immigrant entrepreneurship, it does not disambiguate "immigrantness" as it is often confounded with the influence of communities and cultural contexts. Searching for any influences of "immigrantness" has important implications to how both economic development and entrepreneurship are studied.

As this research will show, immigrant entrepreneurs rely on social capital that is accumulated through group membership to either replace or augment other forms of capital. This process of obtaining financing through social relationships contrasts the process followed by native entrepreneurs, who rely primarily on more traditional business forms of debt as they start their businesses. As studies of immigrant financing decisions indicate, immigrant status shapes decisions of individual entrepreneurs and facilitates entrepreneurship participation differently in immigrant groups (Light 1972; Light and Bonacich 1988; Portes and Bach 1985; Portes and Rumbaut 1990; Sanders and Nee 1996; Waldinger et. al. 1990). Traditionally, social capital has not been assumed to affect economic outcomes (Sensenbrenner, 1993; Valdez, 2008), as the success of a firm has been theorized to rely much more on access to financial capital (Ram et al., 2003). For immigrant entrepreneurs, dependence on social capital to access other resources like financial and human capital to ensure start-up activity (Waldinger et. al. 1990; Werbner 1990; Light and Gold 2000) limits long term growth and access to resources (Hechavarria & Reynolds 2009). Thus, among entrepreneurs, it is not simply access to financing that matters; the process whereby financing is obtained has long-term consequences. In the case of immigrant entrepreneurs, the processes that steer them away from traditional forms of financial capital are driven by their immigrant status.

As this brief overview shows, while extensive research on immigrant entrepreneurship exists, it is often focused on explaining the higher rates of entrepreneurship and self-employment and exploring the various push or pull factors that contribute to the increased rate of entrepreneurial behavior among immigrant groups (Li, 2001; Shinnar & Young, 2008). Studies have also looked at immigrant entrepreneurship at a group level but often focus on group characteristics, such as race or country of origin (Froshauer, 2001; Shinnar & Young, 2008), the communities or ethnic enclaves these entrepreneurs exist within (Chaganti et al. 2008, Levie, 2007), or the cultural resources accessible to them (Kim & Hurh, 1985; Min & Bozorgmehr, 2000; Mora & Davila, 2005; Shinnar, Aguilera & Lyons, 2011). Although significant in that these studies focus on ethnic entrepreneurship, they do not clarify how immigrant status shapes and influences entrepreneurial behavior outcomes for immigrants compared to natives of a similar ethnic or cultural group (Achidi & Priem, 2011; Sasse & Tielemann, 2005). The limited research that does focus on entrepreneurial performance and outcomes usually focuses on individual attributes of immigrant entrepreneurs and fails to look at the macro-structures or institutions that shape the behaviors of these individuals. Importantly, however, these larger macro-institutional elements are necessary for understanding both the opportunities available to immigrant entrepreneurs as well as the resources available to them (Kloosterman, Leun & Rath, 1999; Kloosterman & Rath, 2001; Kloosterman 2010).

Understanding how macro-level institutions shape and influence immigrant entrepreneurial access to financial capital is of particular importance. Specifically, the institutional nature of capital markets that allocate these financial resources (Modigliani & Miller, 1958, Weber, 1961) makes financial capital and capitalization structures central to small business foundation, survival and growth (Ang, 1992; Audretch, 2006; Cassar, 2004, Van

Auken, 2001). For this reason, I use the Kauffman public data to conduct preliminary analyses that investigate the relationship between immigrant status and the use of business forms of debt.

As I am analyzing individual start-ups I rely heavily on both the Resource Dependence Theory (Pfeffer & Salancik, 1978) and the Resource-Based View of the Firm (Barney, 1991) to frame my analysis. The incorporation of the Resource-Based View maintains a focus on individual firms as a unique combination of resources to generate competitive advantage and is most effective for assessing difference in these resource combinations or allocations from one group to another. Although the Resource-Based View of the firm drives my analysis of entrepreneurship at the individual level, the analysis suggests the importance of incorporating theory that addresses context which would include the Resource Dependence Theory and other sociological and context driven perspectives, such as Institutional Theory (Scott, 2004), Transaction Cost Economics (Williamson, 2007) or other perspectives to incorporate the socially constructed environment in which these firms operate in the study of entrepreneurship and management strategy. Also relevant is the Mixed-Embeddedness perspective of Immigrant Entrepreneurship proposed by Kloosterman (2010) that incorporates micro-level analysis of individuals, mezzo-level analysis of networks and communities, and macro-level analysis of institutions and more general contexts. Findings showing the significance of immigrant status as a factor influencing individual behavior across contexts and circumstances and supports the relevance of both context and macro-level analysis.

In the following sections I provide an overview of the existing literature regarding immigrant entrepreneurship and begin exploring concepts that are important for understanding how immigrant status impacts business performance. Although directly incorporating each of the factors or concepts into my analysis is beyond the scope of this study, I have included them for

both context and to allow a discussion of indirect effects these factors may have on my findings. Following this review and background of the field, I outline my methodology for analysis and present my findings. Lastly, I discuss the implications of my findings for theory and practice, suggesting avenues for future research.

## LITERATURE REVIEW

In this section, I review multiple approaches that inform the field of immigrant entrepreneurship. I begin by discussing the social embeddedness of immigrant entrepreneurs, and how the degree of their embeddedness, on both a relational and structural level, influences their financing strategies when starting businesses. I then delineate how co-ethnic advantage limits immigrants' exposure to larger markets available to native entrepreneurs. An overview of the three types of resources important to firm survival, namely social, human, and financial capital follows. I then review Neoclassical Economics Models, Resource Dependency Theory, and the Resource-Based Theory of the Firm, theoretical perspectives that provide contextual understanding to immigrant entrepreneurs' behavior in financial contexts. I then present a new conceptual model that incorporates elements of the perspectives reviewed and contributes new understanding to the field by explaining the processes that make immigrant entrepreneurs unique in how they make decisions about financing strategies.

Table 1 summarizes the conceptual frameworks relevant to this study, provides a brief synopsis of how each framework explains the context of immigrant entrepreneurship, and identifies areas where each framework is limited.

(Table 1 about here)

### *Mixed-Embeddedness Perspective*

Individuals in search of more favorable social and economic conditions appropriately knew the United States as “The Land of Opportunity.” Historically, immigrants, particularly

those of European descent, were able to integrate and thrive, but the structure of economic opportunity that facilitated mobility has changed across generations and for different groups of immigrants (Cornell & Hartmann, 2007). Established pathways based upon moving up gradually to better-paid occupations, while remaining part of the working class, have in large part disappeared due to the rapid process of national deindustrialization and global industrial restructuring (Portes & Zhou, 1992). These changes in the economic conditions of the United States have led to the disappearance of occupational ladders for immigrants, which have significantly limited intergenerational mobility (Portes & Zhou, 1993). There is an increasing gap between menial jobs, commonly occupied by immigrants, and more professional or high-skill jobs that natives occupy. Shifting immigration policies and social receptivity to new groups, combined with the new realities of the workforce, has required immigrants to change economic circumstances for their family in a single generation rather than slowly over multiple generations as previously done (Portes & Rumbaut, 2006; Portes & Zhou, 1993).

Immigrant parents need to accumulate sufficient resources, such as training, experience, and human and financial capital to allow their children to overcome the gap between the labor-intensive jobs typically available to new immigrants and the types of skilled, professional opportunities that they desire (Portes & Zhou, 1992; Portes & Rumbaut, 2006). The limited opportunities available to immigrant groups and the drive to improve those opportunities for future generations requires immigrants to maximize resources that are readily available rather than strategically accumulating new ones, giving preference to strategies with an immediate benefit (Bailey & Waldinger, 1991; Zhou, 1992; Portes & Sensenbrenner, 1993; Portes, 1995; Light & Gold, 2000; Lin, 2001; Valdez, 2008). However, resources are not easily accessible for the newly arrived. Immigrants have little or no credit histories, and few assets or other



commonly accepted types of capital; thus they often rely on family and co-ethnic networks in the enclaves where they have a different kind of capital (Light, 1979; Light & Rosenstein, 1995; Light & Gold, 2000). By relying on co-ethnic networks, immigrants can start businesses, but that reliance may also doom their ventures (Lin, 2001). This bias toward the retention and deployment of existing resources rather than accumulation of additional ones allows immigrants to survive, but may prove to limit opportunities for long-term economic mobility. The strategies developed by immigrant entrepreneurs to address decreasing opportunity for economic mobility (primarily utilization of social and human capital resources embedded in co-ethnic enclaves) remain significant areas for investigation, as they are critical to understanding the trajectories of immigrant-owned business ventures.

Although immigrants start firms in larger numbers, immigrant-founded new ventures often perform worse relative to native-founded new ventures (Vinogradov & Isaksen, 2008). As evidence suggests, immigrant and native entrepreneurs do not compete on equal footing (Light, 1984). Immigrant entrepreneurs are largely disadvantaged in the mainstream economy relative to natives due to unfamiliarity with local economic, social, legal, and cultural circumstances, limited local information networks, and the absence of effective relations with local governments, nationalistic consumers and suppliers (Collins & Low, 2010). Immigrant entrepreneurs also have less experiential knowledge and “social embeddedness” in their adopted country relative to native entrepreneurs (Hart, Acs, & Tracy, 2009; Shane, 2007). Understood as an aspect of social capital, social embeddedness has been incorporated by scholars into research on entrepreneurship and have found it to be particularly effective for studying immigrant entrepreneurship (Kloosterman, 2010). Granovetter (1985) distinguished between relational embeddedness, or the individual economic actors and their personal relationships with one

another, and structural embeddedness, which relates to the broader network these actors are located within. The degree of social embeddedness on both a relational and structural level will influence the available opportunities for entrepreneurs as well as access to resources necessary to exploit those opportunities (Ibrahim & Galt, 2003; Thornton & Flynn, 2003). Incorporating both relational and structural embeddedness is necessary for understanding immigrant entrepreneurship as a phenomenon that involves not only the interaction among individual actors, but also the larger context in which those actors are involved (Kloosterman, Van der Leun & Rath, 1999; Engelen, 2001; Light, 2005; Rusinovic, 2006; Kloosterman, 2010).

The Mixed-Embeddedness perspective provides the first key component for understanding the significance of immigrant status on entrepreneurship. As Kloosterman (2010) and other scholars explain, the structural embeddedness immigrants experience limits their exposure to the broader networks natives enjoy, which ultimately affects their ability to interact with native institutions. As immigrants start their businesses, the opportunity structure of their context of reception restricts their financial resources to the forms of capital available within their enclave (Portes & Rumbaut, 2006). This perspective explains important differences in the startup resources available to immigrant and native entrepreneurs. While the networks of native entrepreneurs give them access to “native” financial institutions, immigrants are restricted to resources within their socially embedded ethnic network.

#### *Co-ethnic Advantage*

Ethnic solidarity has become an essential element to economic mobility and social integration for many immigrants groups (Light & Gold, 2000). The strong social identity within many immigrant communities has produced a “co-ethnic advantage” for immigrant entrepreneurs distinct from a specific “social identity” (Lee, 1999; Porter & Washington, 1993). This collective

association among immigrant groups often facilitates the formation of “ethnic capital” (Vallejo, 2009). In co-ethnic communities, ethnic capital often includes access to resources in the form of business skills, networks, and social capital, valuable commodities for immigrant business ventures. Although there is some attention to the effects of ethnic resources on economic attainment among salaried workers (e.g. Logan et al., 2003; Nee et al., 1994; Portes & Bach, 1985; Sanders & Nee, 1987; Waldinger, 1986), most of the literature focuses on the impacts of these networks on immigrant entrepreneurship (e.g. Light, 1972; Light & Bonacich, 1988; Yoon, 1991). Using available resources, such as networks and ethnic solidarity, immigrants are able to access better working conditions, higher wages (Portes & Bach, 1985; Zhou, 1992), and find opportunities for advancement through promotion to managerial positions or opportunities for entrepreneurship (Portes & Bach, 1985).

Past research has shown that ethnicity plays a significant role in the various push or pull factors toward self-employment for immigrants (Portes & Zhou, 1992; Saxenian, 2002; Wilson, 1999; Shinnar & Young, 2008). More recent data on the proportion of various groups that are self-employed from the U.S. Census Current Population Survey (September 2010-August 2011) confirms the importance of ethnicity for self-employment and entrepreneurship. As Table 2 shows, minority groups that are naturalized citizens or non-citizens represent a larger percentage of those self-employed than those within their same ethnic group who are native-born. Those naturalized citizens or non-citizens within the white majority, however, comprise a relatively smaller proportion of the self-employed than those that are native-born. This indicates that ethnicity plays a role in choosing to become self-employed relative to immigrant status. For immigrants, important influences on decisions about self-employment include contextual factors such as immigration policy at specific time periods that encourage or discourage entry into the

labor market, the conditions of the economy, and the social receptivity to specific immigrant groups in general and in different regions of the country (Cornell & Hartmann, 2007; Portes & Rumbaut, 2006). For this research I focus on the influence of immigrant status after one makes the initial decision to become self-employed. However, it is worth noting that race and ethnicity shape who decides to become self-employed and, therefore, indirectly influences the findings.

(Table 2 about here)

Studies have shown that immigrants highly involved with their ethnic communities may have a better chance for educational and economic mobility through the use of the material, ethnic, and social capital that their communities make available (Portes & Zhou, 1992; Portes & Rumbaut, 2006; Vallejo, 2009). Though this reliance on ethnic resources provides benefits to immigrants, sole employment within ethnic enclaves can also limit future prospects of economic progress among immigrants (Nee et al., 1994). Evidence shows that employment in ethnic niches is associated with lower occupational status and wages than employment in the general labor market (Wilson, 1999). Additionally, the use of strong or familial ties by immigrants in obtaining employment is associated with substantially lower earnings (Levanon, 2011).

Prior studies have suggested that while co-ethnic group involvement encourages economic activity, reliance on it may be limiting for immigrant entrepreneurs (Lin, 2001), though this has not been empirically tested. Sharing of resources within co-ethnic networks is based on an instrumental rather than a moral or normative obligation and, as such, is driven by an expectation of a return from the individual or group, which reflects a certain degree of enforceable trust (Portes, 1995). This trust leads to increased cooperation and exchange among group members, although the exchange leads to retention, not accumulation, of resources (Lin, 2001).

Co-ethnic advantage details the processes that encourage immigrants to enter entrepreneurial activity. Cornell and Hartmann (2007) explain that labor markets facilitate ethnic identity construction and that “ethnic identity” impacts occupational composition. As immigrants experience limitations in the larger labor market, co-ethnic advantage encourages immigrants to respond by utilizing their ethnic capital to start new businesses. This process explains the surge in immigrant entrepreneurial activity reported in the Kauffman data (Fairlie, 2008). Thus enters a complex interplay of forces for immigrants not experienced by natives. Limited access to labor markets encourages immigrants to utilize their co-ethnic advantage and engage in entrepreneurial activity to overcome this barrier to economic success, however, the co-ethnic pathway remains disconnected from broader, more advantageous native financial structures. In this process, immigrants experience a double bind: native labor markets restrict immigrant access to native occupations driving them to entrepreneurship, and once engaged as entrepreneurs, immigrant-owned businesses are restricted from the advantages provided by broader, more sustainable native financial institutions.

#### *Access to Resources*

As resources are one of the primary factors in understanding reasons for firm performance in immigrant entrepreneurship, this study will use the resource-based view of the firm as a theoretical framework. The resource-based view of the firm (Barney, 1991) depicts a firm as a unique collection of resources, which are identified, developed and deployed in order to create a competitive advantage (Clulow, Barry, & Gerstman, 2007; Goh, Prakash, & Yeo, 2007). The three types of resources deemed essential for firm survival are categorized as financial (Bates, 1990), knowledge (Autio, Sapienza & Almeida, 2000), and environmental (Venkataraman, Van de Ven, Buckeye, & Hudson, 1990). These three resources can also be

understood as forms of social, human and economic capital in the form of network support (Bourdieu, 1986). Though all three are necessary for long-term success, immigrant entrepreneurs rely more heavily on two types of resources – social and human capital – to successfully overcome the inability to access economic or financial capital (Bruderl & Preisendorfer, 1998).

Access to resources is a key component for understanding immigrant entrepreneurship. Therefore, the resource-based view of the firm (Barney, 1991) and resource dependency theory (Pfeffer & Salancik, 1978) are both relevant for framing my conceptual analysis. Although individual access to resources was not available given the data provided, I have used a more general perspective of the forms of capital as resources available. Below I provide a generalized description of the forms of human, social and financial capital immigrant entrepreneurs draw on to achieve a competitive advantage in the foundation of an enterprise.

### *Social Capital*

Social capital encompasses the processes of embedded, goal-directed social interactions between connected individuals that lead to constructive outcomes (Bankston & Zhou, 2002). While many social capital theorists delineate the complexity of reducing an abstract concept to operational measures, it is widely assumed that these dense sets of associations produce productive behavior (Narayan & Cassidy, 2001; Bankston & Zhou, 2002). While social capital provides important resources to immigrant entrepreneurs, particularly during the startup phase of their business ventures, the impact of reliance on social capital as a continual resource of business support requires further investigation.

Social capital and immigrant entrepreneurship are most often examined in terms of paternalistic relationships between employers and workers or financing based on social relations within a group. Most of the social capital literature is marked by a debate over the importance of

ethnic solidarity vs. the self-interested rational actions of individuals and families (Bailey & Waldinger, 1991; Jensen & Portes, 1992; Sanders & Nee, 1987, 1992; Zhou & Logan, 1989). There is an understanding of rational action within the ethnic basis of group solidarity with “Bounded Solidarity” and “Enforceable Trust” fostering the creation of social capital used by group members. Incentives to encourage rational action are structured by enforcement mechanisms so that individuals or small groups behave in individually rational ways while simultaneously advancing the larger group (Portes & Sensenbrenner, 1993; Portes & Zhou, 1992). This solidarity is difficult to maintain because of increased ethnic heterogeneity and institutional changes, which encourages a porous ethnic boundary and greater variation in individual and group identities (Light et al., 1995). Despite this waning degree of ethnic solidarity, there remains a high value placed on network-based social capital as an underlying success factor for various groups of immigrant entrepreneurs as it provides a degree of local experience before investing financial capital in a business (Granovetter, 1995). The strong social identity within many immigrant communities has also been seen to produce a “coethnic advantage” for immigrant entrepreneurs separate from a specific “social identity” (Lee, 1999; Porter & Washington, 1993).

Immigrant entrepreneurs rely on different elements of their group membership compared to natives in generating and providing means of accessing and mobilizing resources (Waldinger et al. 1990; Lee et al. 2009). Past research has suggested that natives have fewer barriers and rely more heavily on traditional forms of financing to both create and sustain their businesses while immigrant entrepreneurs more often rely on group resources (kinship, friendship, and community ties). While these resources are drivers in the formation, maintenance and success of

a business (Teixeira, 1998, 2001; Masurel et al., 2002), they also operate outside of the larger financial markets.

The social capital that is accumulated through group membership facilitates entrepreneurship participation differently in immigrant groups compared to native groups, illustrating the potential impact of immigrant status (Light 1972; Light & Bonacich 1988; Portes & Bach 1985; Portes & Rumbaut 1990; Sanders & Nee 1996; Waldinger et. al. 1990). Human and social capital have been determined to be the two factors most important in immigrant intergroup variation in business ownership (Archer, 1991; Bailey & Waldinger 1991; Bates, 1994; Bates & Dunham, 1993; Borjas, 1986, 1991; Boyd, 1990; Evans, 1989; Kim, Hurh, & Fernandez, 1989; Lee, 1988; Light, 1972; Min 1986; Waldinger, Aldrich, Ward & Associates, 1990; Yoon 1991). Despite the important role that human and social capital plays, the success of immigrant firms relies much more on access to financial capital (Ram et al., 2003).

As studies show, in general social capital does not affect economic outcomes (Portes & Sensenbrenner, 1993; Valdez, 2008). In immigrant groups, however, there is a far greater dependence on social capital to access other resources like financial and human capital to ensure start-up activity (Waldinger et. al. 1990; Werbner 1990; Light & Gold 2000); but this overreliance can limit long-term growth and access to resources (Hechavarria and Reynolds 2009). Chaganti and Greene (2002) found that immigrants who were highly involved with their ethnic communities start businesses that function in relative isolation from the mainstream economy and are smaller and have less positive cash flows, accordingly.

### *Human Capital*

Various types of human capital are important in immigrant entrepreneurship and have a significant association with intergroup variation in business ownership (Archer, 1991; Bailey &



Waldinger, 1991; Bates, 1994; Bates & Dunham, 1993; Borjas, 1986, 1991; Boyd, 1990; Evans, 1989; Kim, Hurh, & Fernandez, 1989; Lee, 1988; Light, 1972; Min, 1986; Waldinger et al., 1990; Yoon, 1991). Immigrant entrepreneurs may possess high levels of human capital in the form of education and experience, but their foreign earned human capital is not readily valued by U.S. employers and, as such, does not give them better access to labor markets. Native employers more often rely on educational credentials and work experience as proxies for direct measurement of skills (Stinchcombe, 1990), while immigrant employers, who may recognize the value of foreign earned human capital, are unable to reward it due to a small scale of businesses and an intense competitive environment (Light et al., 1994; Nee et al., 1994).

This inability to deploy human capital in traditional labor markets encourages immigrants to utilize their human capital resources via entrepreneurship, as evidenced by well-educated immigrants often owning businesses in the U.S. (Bates, 1994; Min, 1987; Yoon, 1991). In addition to employing the otherwise unrealized human capital of the individual immigrant, entrepreneurship allows access to large ethnic markets and linguistically isolated labor pools (Evans, 1989). Co-ethnic networks enhance the human capital elements of this labor pool by co-ethnic employees' acceptance of formidable work hours (Butler & Greene, 1997).

### *Financial Capital*

Despite the general reliance on social and human capital, there is substantial evidence citing the importance of financial capital in the establishment of firms by immigrant entrepreneurs (Ram et al., 2003). Marginalized populations, such as immigrants, have restricted access to financial markets (Ahiarah, 1993) and are more likely to utilize alternative unorthodox sources of financial capital (Portes & Zhou, 1992), rely on community sponsorship (Greene, 1997) or use internal equity, such as personal savings, to start businesses (Feldman et al., 1991;

Smith-Hunter & Boyd, 2004). Access to financial capital, above and beyond social or human capital, is particularly important as access to this type of capital has a strong positive association with firm outcomes, such as profitability, sales and growth, and a negative relation to the likelihood of business closure (Coleman, 2007; Fairlie & Robb, 2009). These means of overcoming the need for financial capital cause immigrant owned firms to be intensely concentrated in a very small range of overcrowded, hyper-competitive economic sectors in which returns are generally poor and survival is dependent on a very high degree of labor intensiveness (Jones et al., 2000). These firms are most often owned by low-skilled immigrants who are naturally restricted to low growth sectors, such as ethnic food or garments, and must rely on people within their marginalized ethnic networks for financing, advice, and customers (Wilson & Portes, 1980). Firm survival in these types of unskilled niches often rests on inferior returns on all forms of capital and self-exploitation of immigrant entrepreneurs is common with many staying afloat by substituting labor for financial capital to an inordinate degree (Jones et al., 1994).

The overreliance on informal methods of resourcing or engaging human and social capital in place of financial capital sets significant limits on immigrants firms' progress and will not usually support a shift to operating at a larger scale or in other sectors where heavier capital investment is required. This would require access to mainstream resources through improved access to formal market sources of finance, as financial capital is a major stumbling block for immigrant entrepreneurs (Watson et al., 1999).

Access to resources is a key component of competitive advantage in business markets. Manifested in the forms of social, human, and economic capital, resources largely determine both startup capacity and long-term sustainability of ventures for entrepreneurs. While immigrant

entrepreneurs primarily utilize social and human capital and other immigrant group resources to gain competitive advantage, native entrepreneurs enjoy an additional advantage as they engage in traditional forms of financing. Recent studies have shown that access to financial capital has been positively correlated with sustainability in business ventures (Coleman, 2007; Fairlie & Robb, 2009). This perspective sheds light on some of the recent findings in Kauffman data that immigrant owned-business lag behind native owned businesses in annual sales receipts and total number of employees (Fairlie, 2008). As this perspective illustrates, it is not only access to resources that create competitive advantage, but accessing specific types of resources creates significant advantages for native business owners.

### *Theoretical Perspectives*

Given the complexity of the phenomenon, there is no single theory that effectively explains the context of immigrant entrepreneurship. Therefore, I will briefly discuss several theories or conceptual approaches that inform this study. Each of these theoretical perspectives shed light on a particular aspect of immigrant entrepreneurship, but any perspective taken alone would be insufficient for the purpose of this research.

### *Neoclassical, Rational Choice & Transaction-cost Economic Perspectives*

Neoclassical economics models assert that human decision-making is based on the results of rational calculations of utility and cost, assuming each individual knows all the possible alternatives, costs, and utility functions accurately to make optimal decisions. This is understood to drive decisions of investors to provide financial capital to entrepreneurs as well as the efforts of entrepreneurs in accessing different forms of financial capital. Traditional finance theory draws from this framework of perfect capital markets where information is free and available to all investors and entrepreneurs (Modigliani & Miller, 1958). In this market based system of

allocating financial capital, wealth maximization is the ultimate goal of both investors/lenders and entrepreneurs, implying that all value-creating firms will have sufficient financial capital and utilize the best structures available (Brealey & Meyers, 2000).

Empirical research has challenged the assumption, however, that information is free and accessible to entrepreneurs starting small firms or entrepreneurs that lack the right exposure to networks or institutions, including those with immigrant status (Gibson, 1992; Van Auken, 2005). As such, using a model that relies on the individual rationality of those within a firm would be insufficient to adequately describe the behavior of immigrant entrepreneurs. Extensive studies have shown that use of ethnic resources facilitated business start-ups, but success in business was hindered by continued reliance on ethnic resources (Kim & Hurh, 1985; Yoon, 1991). Thus, firms continuing to rely on ethnic resources beyond when it was rational to do so suggest that the behaviors of immigrant entrepreneurs better fit within the behavioral theory of the firm.

The behavioral theory of the firm (Cyert & March, 1963) asserts that people are not always capable of calculating utility and cost accurately in order to make decisions rationally. Behavioral theory of the firm maintains that people:

- Have bounded rationality: having limited attention, information processing abilities and foresight
- Are uncertainty avoiders: relying on information that is familiar to them in uncertain situations
- Satisfice: they are content with finding a satisfactory rather than a best solution.

This implies that to make decisions in complex environments, people only search for solutions in areas familiar to them and when they are satisfied they discontinue the search (Bromiley, 2005).

This approach to decision-making creates routines and patterns wherein how firms solved problems in the past has implications for how they solve problems in the future. This creates path dependence where history impacts strategic decisions (Levitt & March, 1988).

### *Resource Dependence Theory*

The resource dependence theory is a study of the procurement of resources necessary for the strategic management of a firm (Pfeffer & Salanick, 1978). This theoretical framework outlines that firms depend on resources that ultimately originate in the context and environment that the firm operates within. The resources necessary for foundation and survival are usually held by other organizations thus creating a power dynamic and interaction between firms or organizations guided by institutions (Davis & Cobb, 2010). The resources a firm needs are multidimensional in nature and include labor, financial capital, and raw materials and firms must strategically align themselves according to the criticality and scarcity of those resources (Pfeffer, 1982). This perspective provides depth to the perspective of immigrant entrepreneurship as it implies the importance of environment and context within which these firms are founded and operate. In this sense firms that are founded by immigrants often do so leveraging social capital to obtain financial capital or rely more heavily on human capital rather than engaging in activities that require further financial investments. In these cases financial capital would be a critical and scarce resource that immigrants may have less access to and resource dependence theory would be more concerned with the institutional environment and external organizations and networks that provide access to these critical and scarce resources.

### *The Resource-Based View of the Firm*

Within the resource-based view of the firm, competitive advantage is attained through a firm's ability to marshal and deploy a unique combination of resources, and to have the dynamic

capability necessary to make adjustments as necessary to sustain that competitive advantage (Barney, 1991). The resource-based view in the context of the aforementioned behavioral theory of the firm implies that the temporary adaptive strategies used overcome any inability of the firm to identify, develop, or deploy a particular necessary resource, will then have implications for future abilities. This would then mean the inclination to rely on existing networks and institutions to provide resources as an adaptive strategy is often initially effective, but eventually limits future abilities of firms to expand and access other resources. The Resource Based View of the firm maintains that the dynamic capability, or the ability to change and adjust resources to maintain a competitive advantage, is an attribute at the firm level and should not be influenced by larger contexts. Therefore, the decisions made by an entrepreneur to marshal and deploy the various forms of human, social and financial capital available may change and adapt to a context depending on the degree to which an entrepreneur is capable of being dynamic. Evidence of attributes or influences beyond the individual or firm level would indicate the Resource Based View is insufficient, as it does not focus on the mezzo or macro-level forces that could potentially shape and influence individual behavior.

Overall, it can be said there is a positive relationship between access to financial capital and venture performance (Brush & Chaganti, 1998; Cooper et al., 1994). A shortage of financial capital can hurt survival and growth of a firm, as firms are dependent on the influx of capital to make operations more efficient, expand into new markets, or serve a new customer base (Cooper et al., 1994). An increase in financial capital means there will be an increase in the earnings of the firm leading to “financial slack” (Honig, 1998; Coleman & Cohn, 2000). Greater amounts of financial capital allow firms to invest in the development of new products/services, hire more employees and grow (Coleman, 2007). Higher levels of financial capital can also decrease the

likelihood of business closure (Bates, 1990). Though existing research suggests immigrant entrepreneurs have limited access to startup capital (Ram et al., 2003), this is not necessarily reflected in the Kauffman data (Fairlie, 2013), which indicates that immigrant entrepreneurs are actually slightly less likely to lack startup capital compared to natives and more likely to start with a higher amount of capital than native entrepreneurs. This finding suggests the need for further study of both the amount and type of financial capital available to a firm.

Using bank debt in the form of a business loan as a source of capital is not often possible for immigrant entrepreneurs at start-up as a longer performance history is necessary before a firm is capable of being an independent borrowing entity. However, given the firm-based model of behavior, these restrictions impact future use of business debt as a source of capital over the life of the firm. Immigrant entrepreneurs are more likely to turn to ethnic resources to overcome this lack of access to financial resources, but will not adjust to using business debt as a source of financing after a performance history has been established. Native entrepreneurs that do not face the same restrictions on access to financing, or do not become overly reliant on ethnic resources, will have a much higher likelihood of using business debt either at startup or after establishing the firm.

Existing theoretical frameworks from the financial literature, specifically Neoclassical Economics Models, Resource Dependence Theory and the Resource-Based View of the Firm, explain different components of how immigrants differ in their approach to entrepreneurship. As the Behavioral Theory of the firm posits, actors in financial markets search for solutions in areas familiar to them and then discontinue the search when they have found a solution (Cyert & March, 1963; Bromiley, 2003). For immigrant entrepreneurs, this process of satisficing occurs when they use social and human capital to meet the financing needs of their businesses, even

though those resources are suboptimal. Further, Resource Dependency Theory reports that organizations hold important resources necessary for business success (Pfeffer & Salanick, 1978). For immigrants, financial capital becomes a critical and scarce resource as it is held by financial institutions outside of their immigrant network, giving native entrepreneurs a significant advantage. Finally, the Resource Based View of the Firm (Barney, 1991) assumes that firms possess the dynamic capacity to make adjustments that sustain competitive advantage in the long-term. In the case of immigrant owned businesses, operating outside of traditional financial networks makes dynamic adjustments difficult for immigrants, which causes them to lose competitive advantage relative to their native counterparts. The Resource Based View of the firm fails to acknowledge the mezzo and macro forces (explained by the Mixed-Embeddedness perspective and Co-Ethnic Advantage) that determine immigrant entrepreneurs' access to resources essential to business sustainability.

### *Conceptual Model*

The perspectives reviewed suggest that the contextual factors that influence immigrant entrepreneurs' business decisions differ from those that advantage native entrepreneurs. As Portes and Rumbaut (2006) explain, although accessing resources, such as financial capital, is necessary to the upward mobility of new immigrants immigrants are bound by the resources available within their contexts. For immigrant entrepreneurs, this often comes in the form of socially generated capital from their co-ethnic networks. Herein lies a significant divergence between native and immigrant entrepreneurs: *while native entrepreneurs possess the structural and social embeddedness to access institutions that provide traditional financial capital, immigrant entrepreneurs operate within social contexts and networks limiting their relational embeddedness.* This, in turn, isolates immigrants from the key relationships that would allow the



knowledge of or access to more robust forms of financing such as friends or associates working as accountants or in financial services (Kloosterman, 2010; Granovetter, 1985). In addition to issues with relational embeddedness, immigrants also suffer from lack of relevant structural embeddedness in that the tools and approaches developed in their home context do not allow them to effectively work in their host context. The analogy of tools can be taken further as in many regards this structural disembeddedness is much like trying to work with a set of wrenches that are based in the metric system rather than standard (SAE) measurements. The wrenches may appear as though they could and should work but for whatever reason they will not ever fit quite right as they have been developed in a different context. Lacking a credit score or other financial history that can be interpreted by lenders would be a clear example of the structural disembeddedness many immigrants face.

To overcome the structural and relational embeddedness barriers many immigrants turn to enclaves or take advantage of their environments to both obtain and provide resources where the disembeddedness from one environment is exchanged for embeddedness in another. While scholars have asserted the upside of these types of ethnic enclaves or co-ethnic advantages (Portes & Bach, 1985), for entrepreneurs operating within co-ethnic enclaves, reliance on group resources has limited their exposure to the most productive financing strategies. In this context, the ethnic resources that their communities make available are suboptimal (Portes & Rumbaut, 2006).

The Mixed-Embeddedness approach advocated by Kloosterman (2010) identifies areas where traditional finance theory fails to adequately account for the experience of immigrant entrepreneurs. Information and important resources are not “free and available” to those with immigrant status due to their relational social embeddedness which operates largely outside

native financial structures (Modigliana & Miller, 1958). In this way, effective boundaries are drawn around the institutions that provide the scarce resource of financial capital (Pfeffer & Salanck, 1978; Brealey & Meyers, 2000). This idea also resonates with the external group factors and social receptivity identified by Cornell and Hartmann (1998) which play key roles in shaping ethnic identities and group relations. In this sense the forces that shape the behaviors and decisions of immigrants that lack either an awareness of or access to various forms and types of financing are emblematic of the external forces that Cornell and Hartmann describe and that construct what possibilities are available to entrepreneurs. Portes and Rumbaut (1990; 1996) also discuss the receptivity of a society to particular immigrant groups over time indicating the importance of immigrant status not just within a particular group but given a larger context or institutional environment that group is received within that shapes opportunities available to that group. Thus, immigrant entrepreneurs enter the non-immigrant market and institutions comparatively disadvantaged, as they lack the right combination of resources and the dynamic capability to sustain competitive advantage (Barney, 1991).

#### *Research Contribution and Exploratory Analysis*

This research focuses on the relationship between financing strategies used by immigrant versus native entrepreneurs. In this study I utilize descriptive statistics over time to determine the propensity of immigrant and native entrepreneurs to use business lines of credit or business debt.

Using formal business loans puts debt in the name of the business decreasing personal liability of the entrepreneur. It is also often less expensive and more substantial in the capital it provides when compared to personal loans or direct investment of personal funds through internal equity. Access to better capitalization sources, such as formalized business loans, has

been shown by prior research to have an associated impact on firm performance, making the entrepreneurs' decisions key in ultimately understanding firm performance and growth.

## METHODS AND DATA SOURCES

### *Data Source*

In order to investigate the impact of native vs. immigrant status on entrepreneurial activity, I drew from data collected from the Kauffman Firm Survey (KFS), a longitudinal data set of new businesses founded in 2004. The dataset consists of four follow-up surveys of individual firms taking place in 2005, 2006, 2007, and 2008 respectively and includes responses to detailed questions on business characteristics, strategy and innovation, business structure and benefits, financing, and the demographic characteristics of the founders (DesRoches, Robb, & Mulcahy, 2010). The sample frame for the KFS includes new, for-profit, non-subsidary businesses started in the 2004 calendar year within the United States, a dataset comprised of 4,928 firms.

### *Analysis*

Native vs. immigrant status is determined by the question: "Were you born in the U.S.?" for each year. This definition of native and immigrant as determined by being a U.S born person is also consistent with prior literature (e.g. Hart, Acs, & Tracy, 2009; Wadhwa et al., 2007).

The use of business forms of debt in the financing structure of a firm is measured by the response in each year to the question, "Not including any personal debt obtained on behalf of the business, did [NAME BUSINESS] use Business line of credit?"

Other variables suggested as important by prior studies include age, minority status, educational attainment, gender of the owner, and legal status of the firm. Variations in firm performance have been suggested to be related to a number of owner and firm-based

characteristics that must be considered in crafting a more detailed model. In using a Resource-Based View of the Firm, the unique combination of resources is what allows the firm to enjoy a competitive advantage and outperform the competition. Therefore, access to human capital as a resource must be considered as it will have impact on the ability to access financing.

Human capital, such as educational attainment (Coleman, 2004) achieved by the owner is a positive and strong contributor to firm performance as well as access to financing (Bates, 1990). Though the foreign earned human capital of most immigrants is not highly valued by US employers (Stinchcombe, 1990), educational attainment achieved by an immigrant entrepreneur should have a similar effect as a contributor to business longevity (Bates, 1994). Other explanatory variables commonly used in studying firm performance (e.g. Astebro & Bernhardt, 2003; Bosma et al., 2004; Glancey, 1998; Zinger et al. 2001) include age, as older owners are more likely to earn a profit (Coleman, 2007) and their firms more likely to survive (Bates, 1990), and sex, as female and male owned firms differ in performance and access to financing (Coleman, 2007). Corporations and LLCs are more likely to survive and access financial resources compared to sole proprietorships due to differences in organizational resources (Robb, 2007). It is also important to control for the racial minority status of the entrepreneur, as a firm being owned by a Hispanic or Black entrepreneur has been previously identified as having an impact on the likelihood of both profitability and survivability of a that firm (Ortiz-Walters & Gius, 2012).

For the purposes of this study, simple descriptive statistics are useful in beginning to examine the use of business debt by the groups of entrepreneurs of interest. For future research that includes more in-depth analysis of the panel-data I recommend controlling for these variables.

## RESEARCH RESULTS

As demonstrated in Table 3, this comparison shows the similarity of native and immigrant entrepreneurs indicating that the sample is apparently representative. There are a few slight differences in the demographic composition of the two groups that are worthy of note. First, consistent with other data, immigrant entrepreneurs are represented by a larger proportion of ethnic minorities and smaller proportion of white entrepreneurs than natives. This supports the idea that minority status contributes to the previously discussed push and pull factors of the labor market and the decision to become self-employed. Immigrant entrepreneurs in this sample also tend to have a higher level of educational achievement than natives. This is consistent with existing research that suggests that the perceived human capital of immigrants is not valued as highly by the labor market in the new context of their host country and as such contributes to the decision to become self-employed. It would then make sense that natives with advanced degrees would have more opportunities than immigrants with similar educational backgrounds and more educated natives would be less inclined to become self-employed. The description of each group using business debt in each year is reported in Table 4.

(Table 3 about here)

The figures in Table 4 indicate that the rate of using business forms of debt decreases for immigrant entrepreneurs while increasing for native entrepreneurs during the first five years of operation. While this analysis does not control for other variables, it suggests that native entrepreneurs have greater propensity to utilize business forms of debt over time, though further analysis is necessary. Each year fewer participants from the initial sample were reached by those administering the survey for any number of reasons, one of which is that the business was no longer in operation. These results associated with native vs. immigrant status justify a more in-

depth analysis using a statistical model that takes advantage of the panel nature of the data. Since respondent bias or missing data may influence the findings, it would need to be controlled for in this type of deeper analysis. This exploratory analysis, however, does suggest support for understanding the importance of contextual influences on native vs. immigrant entrepreneurship and a need for further study.

(Table 4 about here)

## DISCUSSION

### *Implications of Findings*

These findings suggest that immigrant status impacts the growth potential of entrepreneurial ventures. In addition to other significant factors, such as race, immigrant status is necessary to consider along with gender, educational attainment, age and organizational form. Using business forms of debt shapes business founding and expansion for entrepreneurs, particularly during the first five years of business as noted by the descriptive statistics outlining the use of business debt of immigrant versus native entrepreneurs. For immigrant entrepreneurs, reliance on ethnic and other forms of capital within their embedded communities effectively removes their business ventures from the forms of capital (specifically business forms of debt) that contribute to the success of native entrepreneurs. As these findings indicate, it is not merely access to financing that predicts the sustainability of entrepreneurial ventures, but also the type of financing that matters.

These findings shed new light on the implication of studies reporting the financing strategies of entrepreneurs in founding and expanding their businesses in early stages. The literature has suggested that various marginalized populations, such as immigrants, have restricted access to financial markets (Ahiarah, 1993) and are more likely to utilize alternative

unorthodox sources of financial capital (Portes & Zhou, 1992), rely on community sponsorship (Greene, 1997) or use internal equity, such as personal savings rather than bank debt to start businesses (Feldman et al., 1991; Smith-Hunter & Boyd, 2004). As this study shows, examining the social embeddedness of immigrant entrepreneurs, particularly on a structural level, is critical to understanding the trajectories of immigrant-owned business (Kloosterman, 2010; Granovetter, 1985; Ibrahim & Galt, 2003; Thornton & Flynn, 2003).

The decreased odds among immigrants (compared to natives) of using business forms of debt can be attributed to multiple potential factors. Limited use of these financial resources could be driven by demand-side reasons, such as additional knowledge of or willingness (Kim & Hurh, 1985; Yoon, 1991) to engage financing options, or supply-side reasons such as lenders being unwilling to lend to immigrant groups due to discrimination or asymmetries of information regarding their creditworthiness (Stinchcombe, 1990). In either case, both the personal relationships and networks of entrepreneurs and the structural and institutional contexts in which they operate are important to understand for immigrant entrepreneurs. Immigrant status, in fact, may have a distinct impact on individual choices independent of the influences of race, gender, educational achievement, age, or organizational form. Identifying the influence of immigrant status without looking at other factors such as country of origin or cultural dimensions signifies the importance of recognizing how immigrants may operate very differently for no other reason than they are from another context and, as such, lack the types of relational or structural embeddedness that their native counterparts enjoy.

The following figure provides a visual representation of the Mixed-Embeddedness perspective as it applies to the immigrant entrepreneur experience. The concepts explained in this figure are outlined in the conceptual frameworks presented in Table 1 in the literature review as

well as the conceptual model. As this figure illustrates, the investor base, strategic partners, and co-ethnic markets are embedded in the immigrant entrepreneur's network. This reflects both the strengths and limitations presented by the Mixed-Embeddedness and Co-Ethnic Advantage perspectives: while immigrants are able to secure capital from the resources available within their enclaves, the new markets and financial services enjoyed by natives are disconnected from the immigrant entrepreneur (Kloosterman, 2010; Vallejo, 2009; Coleman, 2007; Fairlie & Robb, 2009). This disconnection is influenced by the negative contexts of reception immigrants experience as well as the double-bind imposed by native labor markets where immigrants are restricted from accessing native institutional structures, both as laborers and business owners (Portes & Rumbaut, 2006; Cornell & Hartmann, 2007).

(Figure 5 about here)

This stands in stark contrast to the context of the native entrepreneur where financial services and broader markets are included in the native institutional framework. As Neoclassical Economics Models, Resource Dependency Theory, and the Resource Based View of the Firm posit, access to broader markets and financial services in the form of resources are the drivers of competitive advantage and the forces that facilitate dynamic change (Cyert & March, 1963; Bromiley, 2003; Pfeffer & Salanick, 1978; Barney, 1991). Herein lies the central component of native entrepreneurial advantage: the resources most positively associated with growth and sustainability are situated in native networks and disconnected from immigrant networks.

Immigrant entrepreneurs may have both relational and structural embeddedness in their particular contexts, groups or enclaves and, similar to natives, can use their relationships and understanding of cultural norms and approaches initially to develop strategic partnerships, find investors and access markets both to procure and provide resources. This would explain why the



Kauffman data has shown that immigrants have similar amounts and sources of financial capital upon initial startup as natives. The real difference between immigrant entrepreneurs and natives emerges later when the business grows and needs to access additional markets and sources of financing beyond the ones immediately familiar to the entrepreneur (immigrant or native). Native entrepreneurs are more embedded in their context and, as such, will make this transition more easily whereas immigrant entrepreneurs will struggle to do so. Natives will be able to access resources through financial services and broader markets, as they are able to leverage both their relationships and ability to understand and work within mainstream institutional contexts. Immigrants may overcome the hurdle created by the lack of relational or structural embeddedness, but it is too limiting to look only at this initial startup phase of the business as it does not show the contextual obstacles immigrant face as they make decisions related to growth.

A sociological and macro-view becomes important in looking at the phenomenon of immigrant entrepreneurship in order to properly locate the activities and behaviors at the individual level and also understand how the individual is embedded in both social networks and structural contexts (Gibson, 1992; Van Auken, 2005, Kloosterman, 2010). The conceptual model and analysis in this study add a new dimension to Kloosterman's (2010) research that references the importance of both individual characteristics of entrepreneurs and the macro-level institutions and context in which those entrepreneurs operate. The results suggest that "immigrant-ness" and the associated lack of both structural and relational embeddedness shape the decisions and behaviors of individual entrepreneurs. The impact of this structural and relational disembeddedness is seemingly independent of other factors previously established by the existing literature such as ethnicity, gender, and educational attainment (Rob & Fairlie, 2009; Coleman, 2007; Ortiz-Walters & Gius, 2012). This further supports other perspectives that

incorporate either external factors or contexts that shape individual identities (Cornell & Hartmann, 1998) or limits on opportunities available to immigrant groups given societal receptivity to their arrival (Portes and Rumbaut, 1990; 1996; 2006) both of which are far beyond either an individual or even community/enclave level perspective. The point is that the macro-level context also matters as a means of not only shaping individuals but entire groups of people such as immigrants as a whole independent of culture, race or background. To properly understand both the individual factors and the contextual factors that influence and shape individual behaviors it is necessary to move beyond an individual level analysis and develop multi-level approaches to examining things like business financing decisions of immigrant entrepreneurs. This multi-level approach is a distinct departure from those approaches or frameworks referenced in past studies that have an ethnic or cultural focus. Therefore, future work to explain this phenomenon should consider and incorporate the experiences of both natives and immigrants in understanding entrepreneurial processes and outcomes.

#### *Limitations & Considerations*

This study is limited by using the public version rather than the full data of the Kauffman Firm Survey. The findings are sufficiently compelling to suggest further analysis of the data controlling for additional elements such as geographic locale and associated network effects on business foundation and growth. Other factors that would provide additional understanding of the phenomena of interest, type financing for business growth and business survival, include industrial sector of the firm, background experience of the founder, and the amount rather than simply the type of financial capital used to fund the startup and growth of a firm. Further research could use qualitative methods along with quantitative analysis to explore the rationale behind entrepreneurs' finance choices and factors associated with eventual firm closure. In

addition, examining data beyond the current five-year period may yield interesting results given the lack of different reasons for firm closure before the five-year mark.

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Table 1. Conceptual Framework for Understanding the Context of Immigrant Entrepreneurial Activity

Framework	Key Scholars	Key Elements	Limits
Mixed-embeddedness perspective	Kloosterman (2010)	Uses 3 levels of analysis: micro (individuals), mezzo (networks and communities) and macro (institutions) to understand interactions between actors and the context wherein interactions occur.	While exposing part of immigrant entrepreneur's disadvantage, the focus fails to account for influential factors in the traditional finance structure.
Co-ethnic advantage	Lee (1999), Portes & Washington (1993), Lin (1991)	A distinct social identity emerges for entrepreneurs based upon their community associations.	Explains the benefits of ethnic solidarity, but fails to detail the limitations that emerge from these strategies to obtain resources once co-ethnics operate in the broader market.
Access to resources (financial, social, and human capital)	Bruderl & Preisendorfer (1998), Bates (1990), Autio, Sapienza & Almeida (2000), Venkataraman, Van de Ven, Buckeye, & Hudson (1990)	Identifies 3 types of resources as essential for firm survival: financial, knowledge, and environmental. These resources are explored through financial, social, and human capital.	Not all resources are equally significant and beneficial. It is not simply access to resources, rather access to the right kind of resources.
Neoclassical economics models (rational choice and transaction-cost economics perspective)	Modigliani & Miller (1958), Cyert & March (1963), Williamson (2007)	Human decision-making is based on the results of rational calculations of utility and cost. Information is free and available to all investors and entrepreneurs.	Is unable to account for contextual factors, including the reality that immigrants lack the right exposure to networks and institutions that facilitate success.
Resource Dependence Theory	Pfeffer & Salancik (1978)	Organizations depend on access to critical and scarce resources that are held by other organizations. Procurement of these resources are the basis of power dynamics and rely on institutional frameworks and environmental contexts.	Does not necessarily explain individual organizational performance in a direct manner though is useful in explaining outcomes after the fact.
Resource-Based Theory of the Firm	Barney (1991)	Individual firms are a unique combination of resources which are identified, developed, and deployed to create competitive advantage.	Does not recognize the barriers immigrant entrepreneurs encounter, based upon their socially constructed contexts, that limits their competitive advantage.

Table 2. Percentage of Racial and Ethnic Groups that Are Self-Employed

Ethnicity	Native-Born	Naturalized Citizens	Non-Citizens
White	93.9%	57.3%	65.7%
African-American	4.1%	6.7%	8.1%
Asian	1.2%	35.0%	26.1%
Mixed/other	0.8%	1.0%	0.1%
Hispanic	3.7%	21.7%	31.3%

*Source: US Census 2010-2011*

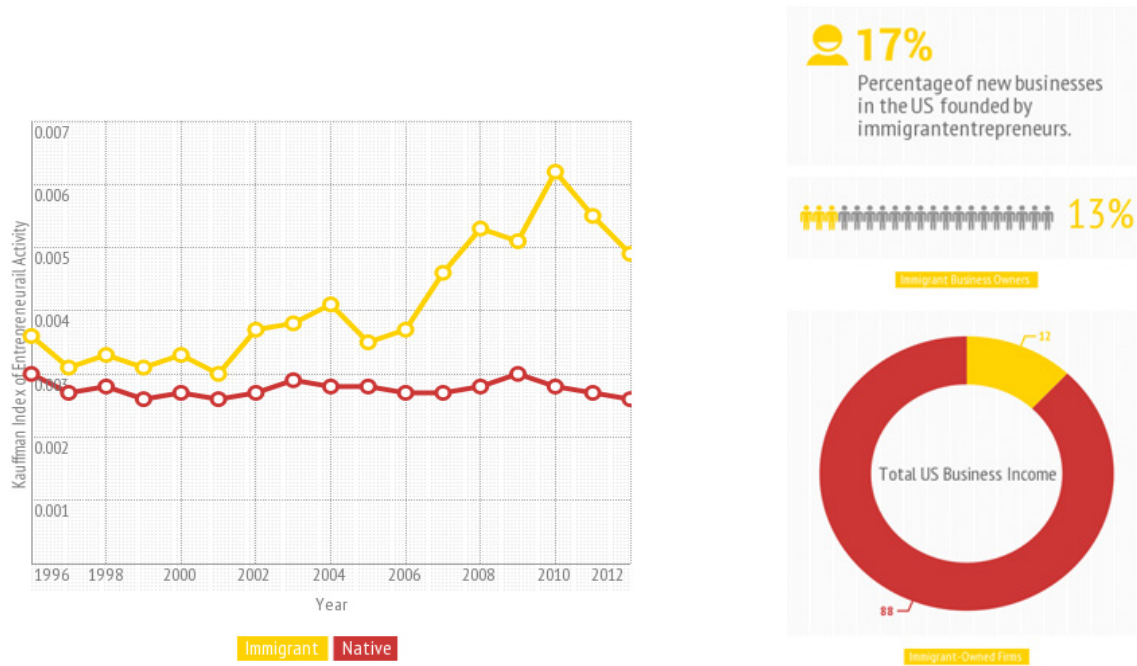
Table 3. Descriptive Statistics of Native and Immigrant Segments in the Kauffman Sample for First Wave (Year 0) Data (N=4588)

	Native Obs.	Percent of Native	Percent of Total	Immigrant Obs.	Percent of Immigrant	Percent of Total
Total Observed	4062	100.00	88.54	526	100.00	11.50
Male	2809	69.10	61.22	384	73.00	8.37
Female	1253	30.88	27.31	142	26.99	3.09
White	3196	78.68	69.66	391	74.33	8.52
Black	377	9.28	8.22	49	9.31	1.06
Asian	178	4.38	3.88	36	6.84	0.78
Other Ethnicity	91	2.24	1.98	15	2.85	0.33
Hispanic	217	5.34	4.73	35	6.65	0.76
Age 18-34	735	18.09	16.02	91	17.30	1.98
Age 35-54	2530	62.28	55.14	411	78.13	8.96
High School (only)	564	13.88	12.29	55	10.46	1.19
Some College or Associates	1519	37.40	33.11	197	37.45	4.29
Bachelors, Masters or PhD	1962	48.30	42.76	269	51.14	5.86
Firm organized as LLC	1283	31.59	27.96	153	29.08	3.33

Table 4. Descriptive Use of Business Debt by Year

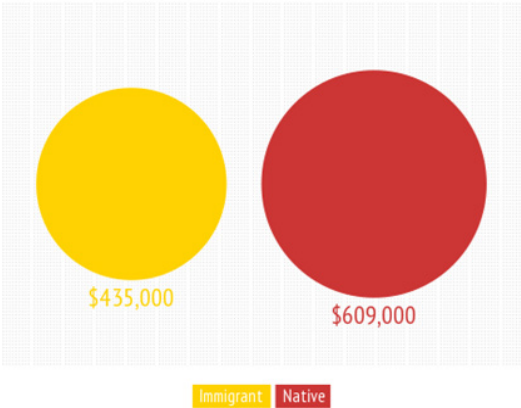
	Native Entrepreneurs				Immigrant Entrepreneurs				Total N
	Business Debt	No Debt	Percent using Debt	Total	Business Debt	No Debt	Percent using Debt	Total	
Year 0	510	3940	8.73	4450	36	393	12.19	439	4879
Year 1	355	3122	9.79	3477	43	431	11.02	474	3951
Year 2	254	2576	11.14	2830	68	424	7.24	492	3322
Year 3	229	2169	10.47	2398	53	385	8.26	438	2836
Year 4	182	1872	11.28	2054	57	373	7.54	430	2484
Year 5	176	1737	10.87	1913	46	316	7.87	362	2275

Figure 1. Index of Entrepreneurial Activity by Nativity (1996, 2012)

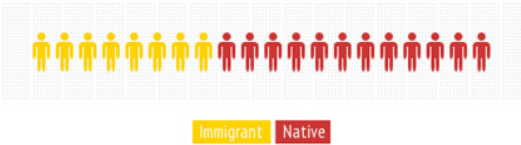


Source: Kauffman Index of Entrepreneurial Activity 2008, Marion Kauffman Foundation

Figure 2. Average Annual Sales and Receipts

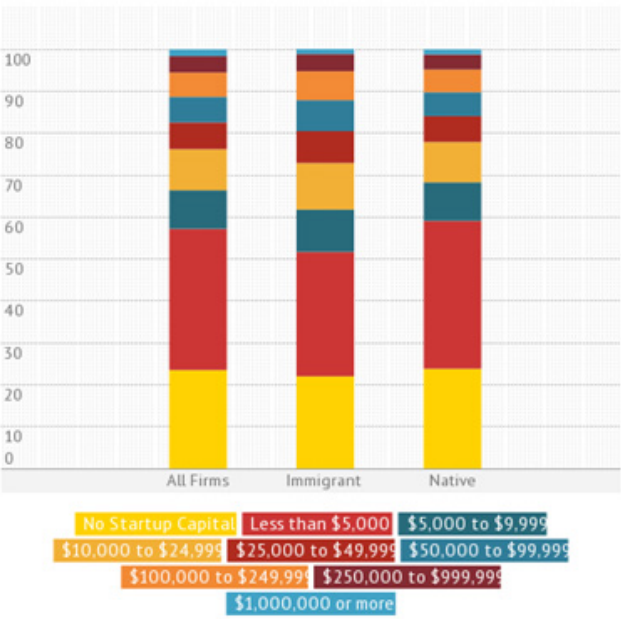


**Average Number of Employees**



Source: Kauffman Index of Entrepreneurial Activity 2008, Marion Kauffman Foundation

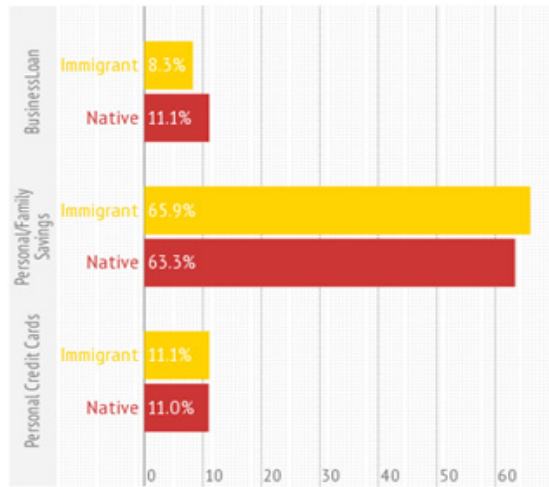
Figure 3. Startup Capital Distributions for Immigrant and Native Firms



Special Tabulations from the Survey of Business Owners (2007)

Source: Kauffman Index of Entrepreneurial Activity 2008, Marion Kauffman Foundation

Figure 4. Sources of Startup Capital for Immigrant and Native Firms



Special Tabulations from the Survey of Business Owners 2007

Source: *Kauffman Index of Entrepreneurial Activity 2008*, Marion Kauffman Foundation



Figure 5. Visual Representation of the Mixed-Embeddedness Perspective

