



# Internationalization of immigrant-owned SMEs: The role of language



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## ARTICLE INFO

### Article history:

Received 22 December 2014

Received in revised form 4 April 2015

Accepted 15 April 2015

Available online 7 May 2015

### Keywords:

Immigrants

Internationalization

International trade

Liability of outsidership

Language

Small and medium-sized enterprises

## ABSTRACT

Immigrant entrepreneurs have become increasingly important to economic development, and there is substantial debate regarding their enhanced potential to expand their activities across national borders. However, research regarding how immigrant-owned small- and medium-sized enterprises (SMEs) engage in internationalization and how entrepreneurs' native languages might influence such processes remains in its infancy. Drawing on a sample of 3077 Canadian SMEs, we evaluated the impact of immigrant ownership and the moderating role of native language on companies' decisions to export to global markets and to the English-speaking regional market. Immigrant ownership generally fostered a global orientation, particularly for French and Allophone owners.

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## 1. Introduction

Immigrant entrepreneurs have recently caught the attention of international entrepreneurship researchers because of their potential to expand into international markets more easily than non-immigrant businesses (e.g., Neville, Orser, Riding, & Jung, 2014; Sequeira, Carr, & Rasheed, 2009; Terjesen & Elam, 2009). Much of the optimism surrounding the international orientation of immigrant-owned firms emanates from the notion that immigrant owners have certain knowledge and complementary resources that enable them to successfully operate in foreign markets that might be considered difficult to penetrate by non-immigrant business owners (Drori, Honig, & Wright, 2009; Neville et al., 2014). For example, prior research has suggested that immigrants may have superior foreign language skills, cultural knowledge, trusted relationships in their home countries, and knowledge about how to conduct business in foreign markets (Cappelli, 2008; Carr, Inkson, & Thorn, 2005; Cerdin, Diné, & Brewster, 2014; Tarique & Schuler, 2010).

Although these studies provide important contributions, we continue to lack a clear understanding of whether immigrants pursue different internationalization strategies than their non-immigrant counterparts, and whether they can therefore convert

their innate skills and abilities into an enhanced international scope for their businesses. The scope of international operations is an important constituent of the internationalization strategies of small- and medium-sized enterprises (SMEs) (Baum, Schwens, & Kabst, 2011). Studies in the international entrepreneurship and SME internationalization domains have demonstrated that entrepreneurial firms pursue different internationalization strategies (Kuivalainen, Saarenketo, & Puimalainen, 2012; Lopez, Kundu, & Ciravegna, 2009; Sui, Yu, & Baum, 2013), and that both resources and capabilities have an impact on a chosen internationalization strategy (Baum et al., 2011; Baum, Schwens, & Kabst, 2015; Olejnik & Swoboda, 2012). In line with this previous research, we use the geographic scope of SMEs' export activities to categorize the regional and global internationalization strategies of SMEs (Lopez et al., 2009; Sui, Yu, & Baum, 2012), and to compare them with domestic sales activities.<sup>3</sup> Insofar as immigrants are in possession of superior internationalization-relevant resources and capabilities – including a deeper cultural knowledge of certain foreign

<sup>3</sup> Regional internationalization means that a Canadian firm focuses its export activities only on the regional (U.S.) market, whereas a global strategy encompasses significant exports into regions in addition to North America (Sui et al., 2012; Sui and Baum, 2014). This operationalization of an internationalization strategy should not be understood as implying that SMEs pursuing a global internationalization strategy exclusively serve global markets. As discussed in greater detail below, SMEs that adopt a regional internationalization strategy will only export to the regional market in addition to serving the domestic market; however, those that adopt a global internationalization strategy may still export to, or have a strategic interest in, the regional market.

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markets – than their non-immigrant counterparts, our baseline prediction is that the immigrant status of SME owners will influence their internationalization strategy. Following previous research (e.g., Sui & Morgan, 2014), we focus on recent immigrants who are less likely to have had a strong assimilation into the mainstream national culture; hence, we define immigrants as people living in the host country (Canada) for up to 5 years.

However, in addition to immigrant status, previous work suggests that language also impacts internationalization processes (Harzing & Pudelko, 2013). Therefore, we anticipate that the native languages of immigrant entrepreneurs will also influence their decision to pursue a regional or global internationalization strategy. More specifically, we propose that a mismatch between the native languages of immigrant business owners and the official languages in which business is conducted in given regional markets may accentuate the difficulty of cultivating social networks that mitigate the informational barriers to internationalization (Griffith, 2002; Hinds, Neeley, & Cramton, 2014; Kuznetsov & Kuznetsova, 2014; Tenzer, Pudelko, & Harzing, 2014).

To empirically evaluate the importance of native language in the internationalization decisions of immigrant-owned businesses, we drew on a sample of 3077 Canada-based SMEs that began operations between 1992 and 2007. There are three broad language categories in Canada: Anglophone if one's mother tongue is English, Francophone if one's mother tongue is French, and Allophone if one's mother tongue is neither English nor French (Kiernan, 2014; Statistics Canada, 2011). Because it facilitates a valid test of the implications of language for SMEs' choices between regional or global internationalization strategies, the Canadian context proves to be an ideal setting for our study.

Our paper offers several major contributions to the extant literature. First, we verify that immigrant status is an important determinant of the internationalization of SMEs. In so doing, we advance the domain of international entrepreneurship, in which immigrant status has been largely neglected as a predicting variable of internationalization processes (Sequeira et al., 2009). Introducing this variable together with language into the discussion of entrepreneurial internationalization illuminates our understanding as to why some firms tend to focus on regional markets, whereas others span their activities globally, thus contributing to the discourse about the internationalization strategies of SMEs (Kuivalainen et al., 2012).

Second, we offer new theoretical insights into the extent to which language may influence SMEs' choice of internationalization strategy. In particular, our study encompasses a test of whether language constitutes an important source of the *liability of outsidership* (Johanson & Vahlne, 2009). A central tenet of the liability-of-outsidership hypothesis is that the prospects for successful internationalization are particularly weak for firms that lack access to business networks that facilitate learning through the transfer of tacit knowledge and complementary resources to their members. However, if the potential to cultivate these networks is high when individuals share the same native language, then we expect to find a pattern of internationalization among immigrant-owned businesses that is consistent with the efforts of their owners to overcome the liability of outsidership. Our study thus also complements a relatively small, but growing body of research that emphasizes the role of language in the international business activities and outcomes of multinational corporations (MNCs) (Bordia & Bordia, 2014; Griffith, 2002; Harzing & Pudelko, 2013; Janssens, Lambert, & Steyaert, 2004; Joshi & Lahiri, 2014; Marschan-Piekkari, Welch, & Welch, 1999; Selmier, Newenham-Kahindi, & Oh, 2014), and of listed companies that conduct business abroad (Jeanjean, Stolowy, Erkens, & Yohn, 2014), as well as the process whereby knowledge is transferred between independent firms based in different countries (Liu, Gao, Lu, & Wei, 2015).

Third, we contribute to the international trade literature by clarifying and reconciling two streams of literature on the language–trade relationship (Hutchinson, 2002; Melitz & Toubal, 2014; Melitz, 2008; Rauch, 1999; Sauter, 2012), and the immigration–trade relationship (Girma & Yu, 2002; Gould, 1994; Head & Ries, 1998; Rauch & Trindade, 2002; Wagner, Head, & Ries, 2002). International trade scholars have long theorized that language commonality and immigrants should foster trade; however, it has been difficult to convincingly verify these insights because the bulk of the previous evidence is based on aggregate, country-level trade data. By documenting systematic, firm-level evidence on the direct participation of immigrants in export activities and the influence of native language on the internationalization strategies of these immigrants as business owners, our study adds to the sparse stock of firm-level evidence on both language and immigrant effects.

In addition, our study provides insights into the language-related channel through which immigrants enable their host countries to not only strengthen commercial ties with the countries from which they originate but also create new trade relationships. In so doing, our study may provide a platform for assessing whether policymakers and business leaders can redirect a country's trade flows through appropriate immigration policies and programs that support foreign language learning. Finally, we contribute to practice by considering how immigrant-owned SMEs with limited human and financial resources can cope with language barriers.

## 2. Theoretical framework

### 2.1. International orientation of immigrant-owned SMEs

Prior research suggests that SMEs owned by immigrant entrepreneurs may be more internationally oriented than those owned by non-immigrant entrepreneurs. Specifically, we know that SMEs are particularly influenced by their founders' personal experiences and capabilities (Bloodgood, Sapienza, & Almeida, 1996), and immigrant entrepreneurs seem to have an advantage over their non-immigrant counterparts in terms of internationalization-relevant resources and capabilities (Cappelli, 2008; Carr et al., 2005; Cerdin et al., 2014; Neville et al., 2014; Tarique & Schuler, 2010).

Although immigrant entrepreneurs embody much of the cultural and experiential knowledge required to engage with the potentially promising but uncertain countries or regions from which they originate, their ability to better recognize and successfully exploit opportunities in these countries or regions than non-immigrant entrepreneurs may be closely tied to their better access to international business relationships. According to the liability-of-outsidership hypothesis of internationalization (Johanson & Vahlne, 2009), limited access to business networks is a major impediment to internationalization because these networks facilitate learning by means of exclusive transfers of tacit knowledge and complementary resources.

Whereas not all immigrants operate businesses that commercially link their original and host countries, those that do tend to have a relatively high level of educational attainment (Lin & Tao, 2012) and superior access to business networks (Chen & Tan, 2009; Drori et al., 2009; Sequeira et al., 2009). Although the pre-existence of social or biological ties may account for the superior access of immigrant entrepreneurs to these networks (Landolt, 2001; Saxenian, Motoyama, & Quan, 2002), we do not yet have a solid understanding of the most salient attributes that enable some immigrant entrepreneurs to fare better than their non-immigrant counterparts in establishing and sustaining business relationships beyond their host countries and regions. However, given this

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