Are SMEs with immigrant owners exceptional exporters?

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ABSTRACT

Immigrant owners possess valuable human and social capital from which small and medium-sized enterprises (SMEs) might derive advantages when internationalizing. According to this resource-based perspective, such advantages might be manifested in immigrant-owned SMEs' enhanced ability to identify, evaluate, develop and exploit opportunities in international markets. However, a cognitive perspective offers an opposing view: insofar as immigrant owners are more prone to overconfidence than their non-immigrant counterparts when making internationalization decisions, immigrant-owned SMEs might reap less financial rewards from potentially high-risk international markets. We pit the two perspectives against each other theoretically and empirically by evaluating a) the relationship between business owners' immigrant background and SMEs' export intensity, and b) the extent to which such background moderates the relationship between SMEs' export intensity and (risk-adjusted) financial performance. Based on a representative sample of 9977 Canadian SMEs, we find that the presence of immigrant owners positively impacts export intensity, but negatively moderates the relationship between export intensity and financial performance. We interpret this evidence, combined with supplementary analyses, as support for a cognitive theory of international entrepreneurship in general, and particularly in relation to the role and consequences of entrepreneurs' immigrant background.

1. Executive summary

Entrepreneurship scholars have begun to pay increasing attention to the role that owners' immigrant background play in the development and global expansion of small and medium-sized enterprises (SMEs). Based on an overarching resource-based perspective (Barney, 1991), a dominant view is that immigrant business owners possess knowledge, experience and other capabilities that constitute valuable resources for conducting business globally (e.g., Neville et al., 2014; Sui et al., 2015). In short, an immigrant background is generally perceived to be an enabling attribute when it comes to global expansion. However, it remains difficult to verify this basic theoretical insight because there is an unresolved performance puzzle, and the resource-based framework is not as adequate as one might initially believe.

By unresolved performance puzzle, we mean that the existing evidence does not definitively show that immigrant-owned SMEs systematically outperform other SMEs in creating and capturing value in foreign markets at levels that adequately compensate for the risks assumed in potentially difficult foreign markets (Neville et al., 2014; Sui et al., 2015; Wang and Liu, 2015). Therefore, more systematic evidence is needed. Meanwhile, there is a fundamental gap in the resource-based framework by virtue of its exclusive

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focus on the enabling (individual) attributes (i.e. internationalization-relevant human and social capital) of an immigrant background. An alternative theoretical framework that identifies counterproductive or detrimental attributes in owners' immigrant background may shed new light on the role and consequences of immigrant ownership in SMEs.

Drawing on insights from a cognitive perspective, we propose a competing and complementary theory of why and how owners' immigrant background shapes the observed patterns of export activity and financial performance in SMEs. This framework has the following two fundamental building blocks (Grégoire et al., 2011): a) cognitive resources, as reflected in individuals' prior knowledge and experience, and b) cognitive representations, as reflected in how individuals perceive themselves, others, tasks, and/or the decision-making environment. We propose that immigrant owners possess advantageous cognitive resources in the form of prior foreign market knowledge and experience; however, the advantages they derive from such resources may be offset by counterproductive cognitive representations of themselves and the international business environment within which they operate. We focus on overconfidence; that is, an individual's tendency to "[overestimate] the probability of being right" (Busenitz and Barney, 1997: 10) in a specific situation. Overconfidence is problematic because when present in entrepreneurs it may distort their judgment, accentuate risk-taking, and induce overcommitment to marginal or money-losing export activity. We propose that immigrant owners are particularly vulnerable to overconfidence when faced with export market decisions.

Based on our analysis of 9977 Canadian SMEs, the emerging picture is that although immigrant owners bring resources to their ventures that are particularly helpful for global expansion, these resources seem to make them overconfident; and therefore, less able to realize superior performance from internationalizing. Further, because we have found that the relative financial underperformance of immigrant exporters extends to less and more capable or established players, an alternative interpretation of our results based on a necessity-based entrepreneurship hypothesis is less consistent with the evidence. We contribute by offering a coherent multiple-lens framework and evidence that do not only lend support to a cognitive theory of international entrepreneurship in general, but also clarifies and verifies the role and consequences of immigrant ownership in SMEs.

2. Introduction

Do immigrant entrepreneurs merely internationalize more aggressively than their non-immigrant peers, or can they also consistently reap greater financial benefits from their international endeavors? Immigrants are generally recognized for their enhanced entrepreneurial orientation (Chaganti et al., 2008; Green et al., 2016; Li et al., 2017; Saxenian, 2002). Furthermore, because they often have foreign language and cross-cultural skills, and especially pre-existing ties to global networks (Cerdin et al., 2014; Kloosterman et al., 1998; Portes et al., 2002), they may develop and operate small and medium-sized enterprises (SMEs) that become exceptional exporters in their host countries. By exceptional exporters, we mean exporters that excel at multiple entrepreneurial processes—such as the identification, evaluation, development and enactment of opportunities—in international markets. This train of thought implies that immigrant-owned SMEs might engage in export activity more intensively and more profitably than other SMEs.

A theoretical foundation for these expected immigrant ownership effects can be found in an overarching resource-based perspective (Barney, 1991), where owners' immigrant background is presumed to be a critical source of valuable, rare and inimitable human and social capital resources that foster entry and success in international markets. However, while immigrant-owned businesses have been found to exhibit a relatively strong export orientation, the extant evidence does not definitively show that they systematically outperform other businesses in creating and capturing value at levels that adequately compensate for the risks assumed in potentially difficult foreign markets (Neville et al., 2014; Sui et al., 2015; Wang and Liu, 2015). This unresolved performance puzzle constitutes a major research deficit, both from a theoretical and empirical perspective. A mere resource-based perspective cannot tell the whole story because it focuses on enabling attributes (i.e. immigrant owners' internationalization-enabling human and social capital resources) while omitting potential counterproductive attributes (such as overconfidence). We argue that a cognitive lens may challenge and complement the resource-based perspective by clarifying why and how the enabling and counterproductive aspects of owners' immigrant background shape international expansion and its performance effects in SMEs; and consequently resolve the performance puzzle.

We add to prior research at the intersection of international and immigrant entrepreneurship by delineating and juxtaposing resource-based and cognitive theories of the role and consequences of immigrant ownership in internationalizing SMEs. To do so, we address the following two key questions: a) Do immigrant-owned SMEs engage in export activity more intensively than other comparable SMEs? b) Do immigrant-owned SMEs generate higher profitability from intensive export activity than other comparable SMEs when the risks associated with such activity are taken into account?

Central to our approach is a novel conceptualization of the implications of owners' immigrant background for the international expansion and financial performance of SMEs. In this regard, we move beyond the conventional view of owners' immigrant background as an embodiment of enabling attributes, and introduce the possibility that such a background might engender potentially detrimental or counterproductive cognitive attributes such as overconfidence. By overconfidence, we mean an individual's tendency to "[overestimate] the probability of being right" (Busenitz and Barney, 1997: 10) in a specific situation. Although entrepreneurs are generally more prone to overconfidence than managers (Busenitz and Barney, 1997; McMullen and Shepherd, 2006), we argue that immigrant entrepreneurs are particularly susceptible to overconfidence when making internationalization decisions. Specifically, by virtue of their potentially superior social ties, prior first-hand knowledge and experience in foreign markets beyond their host countries, immigrant entrepreneurs might mistakenly downplay substantial risks, or outrightly overstate their chance of success in such markets. As a result, immigrant entrepreneurs may imprudently intensify their operations in excessively risky foreign markets, and thereby potentially incur greater financial loss than their non-immigrant peers.
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