

The “Outsider” Entrepreneurs: The Role of Founders’ Immigrant Status in the Internationalization and Performance of High Technology New Ventures

ABSTRACT

In this dissertation, I use the concept of *outsiderness*, which refers to a founder starting a new business in a country other than his country of origin. I argue that although outsiderness may convey some disadvantages domestically, this very status may serve both as a spur to encourage international efforts and insights to allow such efforts to flourish. In the empirical analyses, I use the KFS data on high-technology ventures. Results show that immigrant-founded new ventures are more likely to internationalize early, but immigrant status has a negative effect on the survival and growth of international new ventures.

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Executive Summary

With the globalization of the world economy, internationalization as a growth strategy is becoming more relevant for established companies and new ventures alike. Although researchers traditionally have focused on large, well-established firms to study internationalization, with the increasing prominence of the international new ventures in the world economy, internationalization of young and small companies are also receiving more research interest (e.g. Oviatt & McDougall, 1994; Autio, Sapienza, & Almeida, 2000; Zahra, 2005). Yet, we still know very little about new venture internationalization even though new ventures face even greater challenges than established companies in international markets (Zahra, 2005). This dissertation examines how entrepreneurs’ decisions to internationalize early are affected by their immigrant status, and the performance outcomes of this choice in terms of firm survival and growth in high technology industries.

Immigrant entrepreneurship (IE) research is built on idea that immigrant and native entrepreneurs do not compete on an equal footing (Light, 1979). IE scholars have argued that immigrant entrepreneurs are largely disadvantaged in the mainstream economy relative to native entrepreneurs because immigrant entrepreneurs suffer from the unfamiliarity with local economic, social, legal, and cultural circumstances, limited local information networks, and absence of effective relations with local governments, nationalistic costumers, and suppliers (Collins & Low, 2010). Building on these arguments, some researchers have empirically examined the influence of founders’

immigrant status on firm performance and found that immigrant-founded new ventures often perform worse relative to native-founded new ventures (e.g. Vinogradov & Isaksen, 2008).

While this research has increased our understanding of immigrant entrepreneurs and their ventures, its main focus has been the immigrant entrepreneurs in low-growth industries and on the *disadvantages* that immigrant entrepreneurs face. In my dissertation, I extend this literature to high-technology entrepreneurship and examine how founders' immigrant status affect both the choice of whether or not to internationalize a high technology new venture early on, and the outcomes of such choices on the firm survival and growth for both immigrant-founded and native-founded new ventures. In doing this, I use the concept of *outsiderness*, which refers to a founder starting a new business in a country other than his or her country of origin. I consider outsiderness not necessarily a disadvantage but an important factor that shapes founders' strategic choices and the performance outcomes of these choices. Specifically, I ask (1) *How does outsiderness versus insiderness (i.e., founders' immigrant status) affect early internationalization strategy in high technology industries?* (2) *How does early internationalization affect firm survival and firm growth?* (3) *How does outsiderness versus insiderness (i.e., founders' immigrant status) affect firm survival and firm growth for domestic-only and international new ventures?*

Studying these questions is timely given two recent trends. The first trend is an increase in the number of newly established high technology firms pursuing internationalization at their founding or very shortly thereafter (Shrader, Oviatt, & McDougall, 2000). These firms are shown to transfer technologies and managerial

practices across international borders, innovate, create jobs, and eventually contribute to the development and growth of their countries at rates higher than entrepreneurial firms in general (Hessels & Stel, 2007). Although the challenges of internationalization are particularly salient for young companies, we know little about why these ventures internationalize, or how they overcome their liabilities of newness and foreignness despite their small size and limited resources (Zahra, 2005).

The second trend is an increase in the number of new high technology companies founded by highly skilled immigrant entrepreneurs (Wadhwa, Rissing, Saxenian, & Gereffi, 2007). Immigrant-founded high technology startups accounted for more than 25.3 % of all high-growth companies started in the US from 1995 to 2005 (Wadhwa et al., 2007). Although immigrant entrepreneurs have been studied extensively (e.g. Aldrich & Waldinger, 1990; Portes, 1995), studies of immigrants have focused primarily on low technology, low growth startups. We know very little about the emerging highly educated, high technology immigrants and their startups (Bhide, 2008; Kalnins & Chung, 2006). The work of Anne Le Saxenian is an exception to this (e.g. Saxenian, 1999; Saxenian & Hsu, 2001), but the main focus of her work has been the development of Silicon Valley and not the strategies or performance of immigrant-founded new ventures relative to their native counterparts in high technology sectors.

In order to fill these gaps in the literature and to increase our understanding of immigrant versus native entrepreneurs and the type of high technology companies that they develop, I invoke the behavioral theory of the firm and explain how outsidersness will affect both the choice of whether or not to internationalize a high technology new venture early on, and the outcomes of such choices on the firm survival and growth for

both immigrant-founded and native-founded new ventures. The perceptions and expectations of the founders themselves in their adopted country drive the initial choice; then, I develop arguments as to why outsidership (and “insidership”) will affect their survival and growth outcomes. Being “*outsiders*,” immigrant entrepreneurs have less experiential knowledge and social embeddedness in their adopted country relative to native entrepreneurs (Hart, Acs, & Tracy, 2009, Shane, 2007). Traditionally, these differences are assumed to disadvantage immigrant-founded new ventures relative to native-founded new ventures by limiting their access to resources and markets in their country of adoption (Rath & Kloosteman, 2000; Dana, 1997). I argue that although outsider status of entrepreneurs may convey some disadvantages domestically, this very status may serve both as a spur to encourage international efforts and insights to allow such efforts to flourish. For example, their early life experiences with personal mobility may incline outsider entrepreneurs to build new ventures that are less locationally bound and more likely to be international earlier on. Moreover, outsider founded new ventures, potentially free of cognitive and relational barriers may be able to develop international business competencies that native founded new ventures cannot easily replicate and may perform better in international markets relative insider.

In order to empirically test these ideas, I focus on large number of new ventures in high technology industries. These ventures should be comparable in age, vary in terms of characteristics of their owners (i.e., immigrant versus non-immigrant) and their international strategies. The Kaufmann Firm Survey (KFS) is an ideal data set that meets these requirements. KFS is a large panel data set of new businesses that were all founded in 2004 in the US. The data set consists of four follow up surveys (of the same firms)

taking place in 2006, 2007, 2008, 2009 respectively. Because KFS follows the same cohort of firms over time, it helps to address the problems of reverse causation and survivor bias.

The hypotheses are tested on 395 such ventures, 45 of which are primarily founded by immigrant entrepreneurs and 350 of which are primarily founded by native entrepreneurs. Of these 395 new ventures, 134 are early internationalizers and 261 are domestic-only. I first test the likelihood of early internationalization as a function of founders' immigrant status by using logistic regression. I have then used two-stage instrumental variable approach to test the joint effect of founders' immigrant status and early internationalization on firm survival and growth in the year following early internationalization. The main industrial activity (i.e. whether the venture is producing a product or a service) is used as an instrumental variable in the two-stage models. I use control variables in all analyses to address (a) founder differences such as gender, age, education, previous start up and industry experiences of primary founders, (b) firm characteristics such as internet sales, intellectual property, R&D focus, sales focus and firm size, and (c) macro context such as state export intensity and being located in high-tech centers.

The results show that immigrant-founded international new ventures are 2.37 times more likely to be early internationalizers at or near their founding relative to native-founded new ventures. I also find that there is a significant interaction effect of founders' immigrant status and early internationalization on firm survival and growth. However, contrary to my predictions, I find that immigrant-founded international new ventures are less likely to survive in the next year relative to native-founded international new

ventures. Similarly, the growth of immigrant-founded international new ventures is 1.84 times lower than that of native-founded international new ventures.

I also use qualitative research techniques in order to have a deeper understanding of immigrant versus native-founded high technology ventures and the strategies that they implement. For that, I have conducted *semi*-structured interviews with five immigrant and five native high-tech entrepreneurs. These interviews aimed at enriching my theoretical understanding (Yin, 2002), then are quantitatively tested on KFS data set. And also, they serve to aid in interpreting the results of my quantitative analysis and shed a better light on some of the findings. Table 1 lists the six themes that have emerged from my evaluation of the data.

Table 1. Profile of Outsider versus Insider Entrepreneurs and their New Ventures

Themes	Immigrant	Native
Reason to start	<ul style="list-style-type: none"> - High need for achievement - Limited upward mobility in large established companies 	<ul style="list-style-type: none"> - Desire for autonomy - Belief that they can do things better than are done in established companies. (i.e. organizing, selling...etc)
Pursuit of opportunities	<ul style="list-style-type: none"> - Divergent attention - Pursuit of many opportunities at once. 	<ul style="list-style-type: none"> - Focused attention - Pursuit of one single opportunity at once.
Scalability of the business	<ul style="list-style-type: none"> - Scalability of the business from Day 1. - Start big. Do things only if they are scalable. 	<ul style="list-style-type: none"> - Grow slowly but surely. Do not think about the scalability at the start. - Just start to do things. If it becomes scalable, great. If not, seems like no problem.
Mindset	<ul style="list-style-type: none"> - Global mindset - No differentiation between home and abroad. Anything anywhere that makes the most profit. - Globe is the marketplace. 	<ul style="list-style-type: none"> - Local mindset - Clear distinction between home and abroad. - Some fear and reluctance to fully internationalize very quickly. - More careful and cautious approach. - Take it step by step.

Product	<ul style="list-style-type: none"> - Consciously think about the world market. - Customizable products for the world market from Day 1. 	<ul style="list-style-type: none"> - Think about the local needs first. - Adjust for the world market when the time comes.
Country selection	<ul style="list-style-type: none"> - Preference for their home country if the opportunity is also there. Otherwise, it is where the opportunity is. - No concern mentioned about the institutional context. 	<ul style="list-style-type: none"> - Opportunity based - Institutional environment is important for country selection.

This dissertation contributes to immigrant entrepreneurship, international entrepreneurship and strategic management literatures by providing a new insight into the concept of outsidership, early internationalization and firm performance. First, while most research in immigrant entrepreneurship literature has emphasized the disadvantages that outsider entrepreneurs face in their adopted country due to institutional pressures external to immigrant entrepreneurs, this study contributes to this literature by shedding light onto the cognitive aspects of outsidership. Having early life experiences with personal mobility and lacking strong roots in their adopted country, immigrant entrepreneurs are free from the “local” mindsets and social obligations created by local social networks, and therefore they can act more freely and flexibly to take advantage of a broader set of opportunities both within and outside of their adopted countries. In line with this argument, the results provide evidence for the pursuit of a wider geographic scope by outsider founded new ventures relative to insider founded new ventures. One important implication is that “*outsidership*” or foreignness is a two-edged sword; on one hand, it has largely been assumed that outsidership is a liability limiting access to local resources, yet on the other hand, this study shows that it is also an asset that provides new ventures with more freedom, openness and flexibility for a broader market scope.

Research in international studies has begun to examine the paradox of foreignness (Edman, 2009), and this research adds to this recent effort.

Second, the aforementioned disadvantages and advantages of outsidership provide insights into the performance of insider versus outsider founded new ventures. The existing body of empirical studies in this literature focuses mainly on the performance of domestic-only new ventures founded by insider and outsider entrepreneurs. A sole examination of domestic-only ventures may not capture the entirety of differences between outsider and insider founded new venture performance, and therefore confines the identification of the true impact of founders' immigrant status on firm performance. This study found that independent of the international strategies of new ventures, there is no main effect of founders' outsider status on firm performance. This finding not only demonstrates that outsider status is not a sole advantage or disadvantage in and of itself, but also indicates that it is important to consider firm strategy in this relationship. Moreover, given the surprising result that outsider founded international new ventures have a lower rate of survival and growth relative to insider founded international new ventures, more research is needed to understand the dynamics of success for insider and outsider founded new ventures. This study therefore calls for a more comprehensive examination of the impact of outsider status on firm performance.