Schlepphorst, Susanne; Kay, Rosemarie; Nielen, Sebastian

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The effect of migrants' resource endowments on business performance

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The Effect of Migrants’ Resource Endowments on Business Performance

Susanne Schlepphorst, Rosemarie Kay, Sebastian Nielen

Abstract

This paper questions the stereotypical image of migrant-led companies as being less successful than native-led businesses. While facing similar framework conditions, migrant-led businesses are supposed to differ from native-led businesses in terms of their social capital endowment. In its function, social capital helps to mobilise further resources in form of human and financial resources. Each form of capital can have an effect on business performance, both directly as well as indirectly through its influence on the business’ innovativeness. That is, social, human and financial resources can enhance the development and exploitation of business ideas. To test these relationships we apply a mediation model. Using data of migrant- and non-migrant-led businesses, we indeed find slight differences in their social capital resource endowments. These differences, however, do not result in performance differences between migrant- and native-led businesses.

Keywords: migrant entrepreneurship; social capital; performance; mediation model

JEL: J15, L25, L26

1 Susanne Schlepphorst (corresponding author), Rosemarie Kay, Sebastian Nielen, Institut für Mittelstandsforschung (IfM) Bonn, Maximilianstr. 20, 53111 Bonn, Germany, email: schlepphorst@ifm-bonn.org.

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1 Introduction

Against the background of the recent rising number of people moving to Western countries, migrant entrepreneurship gains in importance. Therefore researchers and politicians pay increased attention to this topic (e.g. Vershinina, Rodgers, McAdam, & Clinton, 2019; Zybura, Schilling, Philipp, & Woywode, 2018; Baklanov, Rezaei, Brambini-Pedersen, & Dana, 2014; Ma, Zhao, Wang, & Lee, 2013). In fact, all evidence shows that migrant entrepreneurship has evolved into a substantial economic factor across the globe (e.g. Sahin, Nijkamp, & Suzuki, 2014; EESC, 2012; Hart & Acs, 2011; Nijkamp, Sahin, & Baycan, 2010; Leicht et al., 2005; Masurel, Nijkamp, Tastan, & Vindigni, 2002). Moreover, migrant-led businesses do not only offer an opportunity for the economic and social integration of the migrant entrepreneur him-/herself, but as employers also essentially for other immigrants (Schunk & Windzio, 2009).

Nonetheless, stereotypes of migrant-led companies persist. They are commonly considered, among other things, as low-value-adding, low in innovativeness, employment and growth, and prevalent in markets with low market entry barriers. In other words: Migrant-led businesses seem to be less successful than native-led businesses.

In this paper, we scrutinize whether established migrant-led businesses are actually less successful than native-led ones. For various reasons, we assume that the stereotypical image described above does not reflect today’s situation in Germany (anymore). On the one hand, the regulatory frameworks as well as the business conditions under which migrants become self-employed have changed. For example, the process of European unification has given rise to the right of establishment. On the other hand, the migrants themselves have changed. For example, today’s immigrants are often better educated than former generations. Moreover, migrants of the second and third generation, who grew up in the host country, are more socially as well as economically integrated. They can often position themselves in more profitable markets.

Beyond that, a review of the current literature does not allow any clear conclusion as to whether migrant-led companies in Germany perform differently than non-migrant-led ones. As valuable as the results of existing studies are, most studies have analysed performance differences between different groups of migrant entrepreneurs and/or do not include a control group consisting of native-led companies (e.g. Nijkamp et al., 2010; Masurel et al., 2002). The few studies comparing the performance of migrant and native entrepreneurs show, in fact, considerable performance gaps (e.g. Beckers & Blumberg, 2013; Ley, 2006). Yet, these studies consider new ventures, not established businesses. As newly created companies have a general higher failure rate than established ones (cf. Stinchcombe, 1965 on the liability of newness), these study results might give an overall distorted picture of the success of migrant-led businesses. It is thus unclear whether these study results on the performance of newly created businesses also hold true for established ones. Moreover, these examinations relate to certain countries, but contextual factors such as country-specific immigration policies, economic policies and economic prosperity play a substantial role for (migrant) entrepreneurship. These international studies are thus valuable for gaining insights into successful business start-ups by migrants in the respective countries, but their findings are hardly transferable to established migrant-led businesses in Germany offhand.

There is only one study indicating performance differences between established migrant-led and non-migrant-led businesses in Germany. In essence, Leicht and Langhauser (2014) find that the net income of self-employed individuals with a migrant background is slightly below that of non-migrants.
To conclude, considering the fact that established companies are generally more sustainable and make a greater economic contribution than new ventures, we know astonishingly little about the performance of established migrant-led businesses based in Germany.

Why should migrant-led and non-migrant-led enterprises perform differently? After all, companies whether managed by migrants or natives, essentially have the same framework conditions and face similar challenges. There is, however, one essential difference between the two that can finally lead to performance differences: Migrant entrepreneurs balance two cultures which provide them with specific resources (Light, 2003). Specifically their social capital endowments have been found to be the pivotal difference to non-migrant entrepreneurs (Kloosterman, 2010; Masurel et al., 2002), caused by their strong embeddedness in social networks. Since social capital provides a particularly important conduit for the acquisition of further resources (Adler & Kwon, 2002), above all human and financial resources (Kloosterman, 2010), specific social capital endowments could lead to differing human and financial capital endowments and thus to the different use of market opportunities (Kloosterman, 2010; Kloosterman, Van der Leun, & Rath, 1999). These differences in social capital can finally be reflected in the entrepreneurial outcomes. As a resource can yet be “anything which could be thought of as a strength or weakness of a given firm” (Wernerfelt, 2006, p. 172), it is unclear, whether the resources have the potential to put a migrant-led business into a favourable or unfavourable position. Thus, to answer our research question whether established migrant-led businesses are actually less successful than native-led ones, we have to address the question whether the positive or negative effects of migrant-led businesses’ resources prevail.

In the next section we explain the value of social capital, human capital and financial capital endowments and discuss their relationships with innovativeness and performance. By applying a mediation model described in section three, we map the importance and value of the resources endowed by (non-)migrant-led businesses. Finally, we conclude with a discussion of our main results, some limitations of our analysis and questions for future research.

2 Conceptual framework

2.1 The mediating role of social capital endowments

The role of social capital, and in effect, social networks has largely been discussed in entrepreneurship research. Its convenience lies in the actors’ abilities to derive benefits from their membership in social networks such as family, friends, acquaintances or business associations (Davidsson & Honig, 2003) and from the trust of the actors involved, their goodwill, commitment and solidarity (Ndofor & Priem, 2009; Davidsson & Honig, 2003; Adler & Kwon, 2002; Sandefur & Laumann, 1998). Transferred to the business level, the value of social relations lies firstly in the lasting business relationship with suppliers or customers (Sirmon, Hitt, Arregle, & Campbell, 2010). This view is corroborated by Vinding (2006) who provides evidence that closer relations with a wider range of external stakeholders lead to better innovative performance. Secondly, the value of social relations lie in the flow of business relevant information (Tsai & Ghoshal, 1998), which can enhance the identification of market opportunities and thus the innovative capacity of businesses (Bhagavatula, Elfring, van Tilburg, & van de Bunt, 2010). Furthermore, social capital which is “(...) the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (Nahapiet & Ghoshal, 1998, p. 243) increases the capacity to acquire further resources, which can, in addition to the other promoting factors, enhance economic performance (Adler & Kwon, 2002; Tsai & Ghoshal, 1998).

Network relationships can, however, also have negative effects, such as the opportunistic behaviour of the actors involved or sanctions and/or serious damage to the business’ reputa-
tion if the actors fail to conform to the norm of reciprocity (Gargiulo & Benassi, 2000). Beyond that, if one considers relationships as investments, keeping all of them may not necessarily pay off (Semrau & Werner, 2012).

Generally speaking, the positive and negative effects of social capital relationships apply to all businesses, both led by migrants and non-migrants. However, migrant-led businesses are generally considered as to differ in their social capital endowments from native-led businesses. They are said to be strongly embedded in widespread family relationships and co-ethnic structures providing them with a variety of heterogeneous contacts and thus with good chances of acquiring a broad array of further resources and business relevant information. At the same time, they can be more strongly affected by the disadvantages of these relationships. And even strong cohesions within an ethnic community cannot avoid opportunistic behaviour on the part of the network partners. Another disadvantage may be the lesser use of consultancy from business associations or chambers of commerce than native-led businesses (Leicht et al., 2005). They thus forgo the possibility of making use of a range of services to support their development.

Overall, the composition of social capital resources of migrant-led businesses somewhat differs from that of native-led businesses. Possible performance differences could arise from the different use of these endowments, e.g. as regards the acquisition and use of human and financial resources which may also affect their innovative capacity. These relationships are described in the following.

2.2 The relationship between social capital, human capital, innovativeness and performance

Human capital theory predicts that knowledge, in particular, educational attainments and work experience, enhances the productivity of their owners (Chowdhury, Schulz, Milner, & Van De Voort, 2014; Becker 1964; Becker 1962). It is also widely understood as a source of innovation that drives business performance (Githaiga, 2019; Vinding, 2006). As individuals differently invest in human capital they are not homogeneous, but heterogeneous in their individual endowments and, therefore, differently productive and innovative.

This delivers value on the productivity and innovative capacity of companies, too. In organisations, human capital is, in the first instance, inherent in entrepreneurs themselves and their employees (Chowdhury et al., 2014; Unger, Rauch, Frese, & Rosenbusch, 2011). Through the accumulation of knowledge, experiences and skills of these individuals, the company is provided with a high and heterogeneous human capital base. At best, it is valuable, rare, and hard to copy or imitate because in that case businesses are more likely to create competitive advantages and can finally outperform competing companies (Barney, Wright, & Ketchen, 2001; Barney, 1991). While there is incongruity about the magnitude of the overall effect of human capital on entrepreneurial performance, there is broad consensus about a positive relationship (e.g. Rocha, van Praag, Folt, & Moreira Carneiro, 2016; Crook, Todd, Combs, Woehr, & Ketchen Jr, 2011; Unger et al., 2011; Coleman, 2007; Bosma, van Praag, Thurik, & de Wit, 2004).

In addition to investment in education and experience, human capital can also be obtained through relationships. It is, for example, available through entrepreneurs' close and strong relationships to family members (e.g. Sirmon & Hitt, 2003) and close friends. The use of these specific human capital resources can be a double-edged sword. On the one hand “insider access to the (...) labour of family and friends at sub-market rates is argued to provide entrepreneurs with a decisive competitive advantage”. That means, the family members and friends can be a pool of low-cost (if necessary unpaid), flexible, loyal and motivated workers (e.g. Cederberg & Villares-Varela, 2019; Ram, Theodorakopoulos, & Jones, 2008; Drori &
Lerner, 2002; Nee & Sanders, 2001), providing assistance in business operations and emotional support (Beckers & Blumberg, 2013; Bosma et al., 2004). Beyond that, they are sometimes considered as informal apprentices gathering experience instead of earning a decent income (Ram et al., 2008). It is possible that businesses employ family members or friends for reasons for reciprocity or due to obligation and commitment. On the other hand, the unnecessary employment of family members or friends in general and particularly the employment of unsuitable candidates causes costs and can thus impede business success, especially when skilled employees are needed to meet the market requirements (Drori & Lerner, 2002). After all, the pool of suitable and capable employees within the family and circle of friends is limited and there could be more suitable employees outside these boundaries. Moreover, particularly as regards family employees, entrepreneurs have limited sanction options if family employees do not act according to the needs of the company. Regardless of their way of behaving or acting, family employees must be treated with tolerance and respect (Drori & Lerner, 2002). Basu and Goswami (1999) and Drori and Lerner (2002) conclude that at times the employment of family members (as well as friends) can be a hindrance to growth.

When compared to native-led businesses migrant-led businesses are particularly characterised by the greater involvement of family members and co-ethnic friends in the company (Cederberg & Villares-Varela, 2019; Masurel et al., 2002). They are thus to a larger extent affected by the advantages and disadvantages mentioned above. However, since studies show a lower level of education among employees with foreign roots (Sachs, Hoch, Münch, & Steidle, 2016), their larger employment can have a larger negative effect on the (innovative) performance of migrant-led businesses. But it is just as possible that the cross-cultural knowledge and multilingual capabilities of the migrant entrepreneurs and/or the migrant employees provide economic opportunities in other regards, e.g. the opportunity to serve niches that are protected against entrepreneurs without this specific knowledge and capabilities (Schaland, 2009). Additionally, the cultural background of the immigrant entrepreneur or their employees can increase customers' trust in ethnic products and/or services (Baklanov et al., 2014) and might thus be conducive to their performance.

2.3 The relationship between social capital, financial capital, innovativeness and performance

The endowment of companies with financial resources has long been a major stream of research as financial means are rated as a central predictor for performance (Coleman, 2007; Cooper, Gimeno, & Woo, 1994). After all, the amount of available financial capital influences the companies' investment behaviour e.g. in terms of their choice of market segments, and thus ultimately their survival chances and growth potential (Coleman, 2007; Uzzi, 1999). Likewise, a shortage of financial means can slow down investments in innovative activities (Mohnen, Palm, van der Loeff, & Tiwari, 2008). If companies have to fall back on external sources for funding purposes, formal credits are thought to be universally available, meaning that any firm with a positive economic net present value obtains a loan at a competitive price (Petersen & Rajan, 1994). However, entrepreneurs commonly raise outside debt if internal resources are exhausted (cf. the pecking order hypothesis by Myers, 1984). In that case they typically prefer the personal network over formal lending institutions.

In the field of migrant entrepreneurship, various researchers assume that migrant-led businesses do not have the same opportunities as native-led businesses to obtain formal loans (Cederberg & Villares-Varela, 2019; Bewaji, 2015; Drori & Lerner, 2002). Rather, they usually record migrants’ limited access to formal credits. Lending institutions are often accused for not welcoming and discriminating this clientele (Ram et al., 2008). Others report, then again,
that migrant entrepreneurs themselves voluntarily make less use of bank finance and funding programs due to, for example, language barriers, limited financing knowledge or lack of information on the procedures for getting loans (Lee & Black, 2017; Leifels, 2017; Drori & Lerner, 2002). In this regard, Coleman (2007) explains that the reluctance of the entrepreneur to apply for debt capital can (erroneously) be understood as his/her concern about the financial health and prospect of the firm. As pointed out by other studies, migrant entrepreneurs alternatively tend to make use of overdraft facilities (Leifels, 2017), credit cards and informal moneylenders more frequently (Jones, Ram, Edwards, Kiselinchev, & Muchenje, 2014). These are costly alternatives that can worsen their financial and competitive situation in the long-term.

In addition, migrant-led businesses seem to rely on informal lending practices to a much larger extent than native-led businesses (Lee & Black, 2017; Leifels, 2017; Masurel et al., 2002), e.g. from the immediate social network such as family members and close friends or from the broader network such as rotating credit associations. As a member of this cooperative self-help institution organised by migrant peer groups (Ram et al., 2008; Bates, 1997), the migrant entrepreneur can withdraw cash from this fund for commercial purposes. Both informal lending practices might provide migrant entrepreneurs with a competitive advantage over native-led businesses as they benefit to a greater extent from financial means often free of interests (Ram et al., 2008), of red tapes and more flexible in their use (Johnson, 2000).

Then again, it can be assumed that the immediate social network such as family members and close friends can provide the entrepreneur only with a restricted amount of financial means. Moreover, the loose formalities of informal lending practices may harm the business. Since entrepreneurs go through a critical analysis of business concepts and investment ideas with simultaneous considerations of market risks and creditworthiness when they apply for formal credits, this fails to happen when making use of informal credits and raises the chances for misguided investments.

Beyond that, the commitment to family members often prompts the migrant entrepreneur to share profits with them e.g. through regular transfers to the home country. These financial resources, however, are no longer available for productive purposes.

Together, companies’ equipment with social, human and financial resources have generally been found to be conducive or obstructive factors for factors for business’ innovativeness and performance. Their influence can be both direct and indirect. The differences inherent to migrant- and native-led businesses can amplify or mitigate the respective positive and negative effects. It needs empirical investigations to determine whether the positive or negative effects prevail.

3 Sample and measures

Due to the absence of a sound database on migrant entrepreneurship and due to privacy regulations it is not possible to identify migrant-led businesses in a formal way (see also Nijkamp et al., 2010). We thus make use of a national survey targeting owners and managers of businesses located in Germany in winter 2016/2017. In sum, 26,665 entrepreneurs were invited to participate in an online survey via email, to which a total of 1,389 responded, providing a response rate of 5.2%. For our analysis, we used 806 complete responses.

To test the relation between migrant-led businesses and performance we applied structural equation modelling (see Figure 1).
We use the development of turnover over the last five years as the dependent variable and formed a dummy variable coded 1, if turnover had increased (strongly) and 0 otherwise.

As regards the independent variable migrant-led businesses, there is no generally accepted definition to date (Ram et al. 2017) despite growing attention paid on migrant entrepreneurship. For the purpose of this study, we categorised persons as migrants if either the individual him-/herself or his/her parents was/were born outside Germany (cf. Ndofor & Priem, 2009). We defined a business as migrant-led if at least one person in the management board has a migration background. In this sample, this applies to 88 businesses.

While frequently ignored in migrant entrepreneurship research (Light, 2003), the inclusion of a control group made up of native-led companies is of paramount importance (Jones et al., 2014) to ensure meaningful interpretation of the results (Beckers & Blumberg, 2013). Since this has largely been neglected in academic research, Light (2003, p. 26) calls “Research needs to learn whether, to what extent, and how the ethnic or immigrant entrepreneurs differ from non-immigrant entrepreneurs”. Thus, in order to be able to assess the performance of businesses led by migrants, this study includes a control group made up of 718 native-led businesses, which have supposedly different resources but operate under the same framework conditions.

We used a set of questions on the different kinds of resources as mediating variables. Social capital endowments are captured as dummy variables which are coded 1 if the business is in regular contact with Chambers of Commerce and Industry and/or Chamber of Crafts; commercial associations and/or professional associations and/or guilds; local councils and/or city councils and/or municipal economic promotion; acquainted entrepreneurs; family members and/or close friends as well as friends and/acquaintances, respectively, and 0 otherwise. To capture human capital endowments, we use information on the share of professionals and managers with a university degree and on whether the business employs family members. Difficulties with corporate financing in the last three years are a proxy for the availability of
financial resources. The introduction of market innovations within three years prior to the
survey captures the innovative power of the companies.

Finally, we included a number of control variables in our mediation model, which may af-
fect business performance. We account for company size, age, location (West/East Germany),
and legal structure.

The descriptive results of these variables presented in Table 1 reveals only slight differ-
ences between migrant-led and native-led businesses, namely in their social capital resources.
 Compared to native-led businesses, migrant-led ones more frequently contact family members
and close friends for business purposes, but less frequently commercial and professional asso-
ciations or guilds. In terms of human or financial resources, the two types of companies do not
differ significantly. Likewise, they are not different as regards their innovativeness and per-
formance. Migrant-led businesses are however significantly younger. It should be noted that
this might be (partially) due to the definition applied. After all, we do not regard executives
with foreign roots who are already living in Germany in the third or further generation as mi-
grants. Accordingly we do not regard their companies as migrant-led businesses.
### Table 1: Measures and descriptive results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Migrant-led business</th>
<th>Native-led business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Standard deviation</td>
</tr>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>0.602</td>
<td>0.492</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial / professional associations</td>
<td>0.375</td>
<td>0.487</td>
</tr>
<tr>
<td>Commercial association and/or professional associations and/or guilds</td>
<td>0.455*</td>
<td>0.501</td>
</tr>
<tr>
<td>Local councils/ city councils/municipal economic promotion</td>
<td>0.216</td>
<td>0.414</td>
</tr>
<tr>
<td>Acquainted entrepreneurs</td>
<td>0.716</td>
<td>0.454</td>
</tr>
<tr>
<td>Family members/close friends</td>
<td>0.318**</td>
<td>0.468</td>
</tr>
<tr>
<td>Friends/acquaintances</td>
<td>0.443</td>
<td>0.500</td>
</tr>
<tr>
<td>Human capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family members employed</td>
<td>0.614</td>
<td>0.499</td>
</tr>
<tr>
<td>Share of professionals/managers with university degrees</td>
<td>0.250</td>
<td>0.308</td>
</tr>
<tr>
<td>Financial capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing problems</td>
<td>0.148</td>
<td>0.357</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>0.614</td>
<td>0.490</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company age</td>
<td>25.2***</td>
<td>30.4</td>
</tr>
<tr>
<td>Numbers of employees</td>
<td>85.4***</td>
<td>155.3</td>
</tr>
<tr>
<td>Manufacturing industry</td>
<td>0.284</td>
<td>0.454</td>
</tr>
<tr>
<td>Distribution</td>
<td>0.307</td>
<td>0.464</td>
</tr>
<tr>
<td>Corporate services</td>
<td>0.216</td>
<td>0.414</td>
</tr>
<tr>
<td>Other services</td>
<td>0.193</td>
<td>0.397</td>
</tr>
<tr>
<td>West Germany</td>
<td>0.886</td>
<td>0.319</td>
</tr>
<tr>
<td>Limited liability company</td>
<td>0.682</td>
<td>0.468</td>
</tr>
</tbody>
</table>

n = 88 718

Note: ***, **, * denote statistical significance at the 0.01, 0.05, and 0.10 levels
Source: Own calculations.

### 4 Results

The results of the mediation model concur with the descriptive results. Migrant-led businesses differ from native-led businesses in, first, their lower probability to contact commercials and professional associations and/or guilds and, second, the more frequent contact with family members and close friends for business purposes. As illustrated in Figure 2, the different use of these both kinds of social capital resources impacts their human capital resources,
which then affect performance, either directly or indirectly over innovativeness. Hence, broadly speaking, the migration background of executive managers affects innovativeness and business performance via two different paths (mediation chains), which we will discuss in more detail in the following.

The first chain of indirect effects leads from migrant-led businesses through the contact with commercial and professional associations and guilds, the employment of professionals and managers with a university degree to innovativeness and business performance. More specifically, businesses, regardless of whether they are led by individuals with foreign or native roots which are in regular touch with business associations employ a larger share of professionals and managers with a university degree. The share of professionals and managers with a university degree positively affects business’ innovativeness and innovativeness, in turn, has a positive impact on business performance. We can thus conclude a general positive mediation chain. However, since migrant-led businesses less frequently use business associations for networking, they less often benefit from the positive indirect effects of this kind of business contacts.

The second chain of indirect effects is less clear as its paths takes two directions. One path suggests a positive indirect effect from migrant-led businesses through the contact with family members and close friends, to the employment of family members to innovativeness and business performance. Again, the indirect relationships count for migrant- and native-led business. However, since migrant-led businesses more frequently use the contact with family members and close friends for business purposes, they profit to a larger extent from the positive indirect effects.

Another path however leads from migrant-led businesses through the contact with family members and close friends, to the employment of professionals and managers with a university degree to innovativeness and then to performance. Since the frequent contact with family members and close friends for business purposes negatively affects the share of professionals and managers with a university degree, migrant-led businesses profit from the overall positive indirect effects to a lower degree.

The results further reveal that the use of social capital resources like contacts with Chambers of Commerce and Industry and/or Chambers of Crafts and with acquainted entrepreneurs has significant effects on innovativeness and performance. However, migrant- and native-led businesses do not seem to differ in the application of these social capital resources.

Most of the path coefficients have the expected signs: Our results point to a positive relationship between innovativeness and business performance. Human capital has a positive direct as well as a positive indirect effect via innovativeness on business performance. Financing problems are found to be negatively related to business performance and positively to innovativeness, which is at a first glance somewhat surprising. Our measure of financing problems mostly covers problems to receive short-term finance. Innovative firms are in general more likely to be credit rationed compared to non-innovative ones (Ughetto, 2009; Guiso, 1998). Hence, the positive relationship between financing problems and innovativeness in our sample is in line with the literature pointing to credit rationing of innovative firms.
Figure 2: Mediation model results

Social capital
- Commercial/professional associations/guilds
- Family members/close friends
- Chambers of Commerce and Industry/Chambers of Crafts
- Acquainted entrepreneurs

Human capital
- Share of professionals and managers with university degree
- Family employees

Innovativeness
- 0.414***

Performance
- 0.101**

Financial capital
- Financing problems

R² = 0.126

Note: ***, **, * denote statistical significance at the 0.01, 0.05, and 0.10 levels
Source: Own calculations.
All in all we find mediational chains suggesting positive as well as negative indirect effects of migrant-led businesses on the innovativeness and business performance. To finally evaluate the overall effect of migrant-led businesses on innovativeness and performance we have to look at the direct and overall indirect effects. The respective results are shown in Table 2.

Table 2: Overall direct and indirect effects

<table>
<thead>
<tr>
<th>Variable</th>
<th>direct effect</th>
<th>indirect effect</th>
<th>overall effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td>0.037</td>
<td>-0.007</td>
<td>0.030</td>
</tr>
<tr>
<td>Performance</td>
<td>-0.068</td>
<td>0.002</td>
<td>-0.066</td>
</tr>
</tbody>
</table>

Source: Own calculations.

The direct effects of being a migrant-led business on innovativeness and business performance are not significant. Regarding innovativeness the indirect effect is negative, but insignificant. The indirect effect on business performance is weakly positive, but also not significant. Hence, our results suggest that existing positive and negative indirect effects are canceling each other out. In the last column of Table 2 the overall effects are reported, which equal the sum of the respective direct and indirect effects. Since all direct and indirect effects are not significant, both overall effects are insignificant too. Thus, the results of our empirical investigation provide evidence that migrant-led businesses do not perform worse than native-led businesses. Our results also point to a mediating role of social and human resources in explaining the relationship between migrant-led businesses and innovativeness. Regarding financial resources our results do not confirm the mediating role. Migrant-led and native-led businesses are not found to be different in terms of their innovativeness.

5 Conclusions and Implications

This study aims to elucidate whether established migrant-led businesses are actually less successful than native-led businesses, and whether their specific resources, particularly their social capital endowment, lead to performance differences. Our deliberations are based on the fact that migrant- and non-migrant-led businesses basically face similar framework conditions. Potential differences in the cultural background of its management could, however, result in different resource endowments, specifically in social capital resources, which finally could either amplify or mitigate their innovativeness and performance.

To answer our research question, we built a mediation model and expected that social, human and financial resources mediate the relationship between migrant-led businesses and their innovativeness and, then again, innovativeness mediates the relationship between migrant-led businesses and performance. In sum, we surmise that migrant-led businesses do not perform worse than native-led businesses. To test our assumption we used a secondary data set on German businesses comprising both migrant-led and native-led businesses.

Our empirical findings reveal that migrant-led businesses only slightly differ from non-migrant led ones. They do differ in terms of relying more frequently on family members and close friends regarding business concerns, as well as in terms of less frequent contacts with business associations. These differences however do not result in differences in their innovativeness or their performance. Rather, in a number of ways their respective resource endowments have similar direct and indirect effects on performance. In line with our expectations we thus conclude that migrant-led businesses perform as good as native-led ones.
It is remarkable though, that migrant-led businesses obviously forfeit opportunities to improve their economic performance. The indirect positive effects of business associations on business performance indicate that more migrant-led business could perform better if they would make use of the services and opportunities offered by business associations.

Furthermore, the generally negative relationship between the frequent contact with family members and close friends for business purposes and the lower share of professionals and managers with a university degree indicates that the closer circle of family and friends affects business decisions. This is also reflected in the generally positive relationship between frequent contact with family members and close friends and the employment of family members. Referring to the literature we construe these findings as that these companies tend to recruit members of this narrow circle, potentially owing to a sense of obligation. Obviously, this does not finally negatively affect neither migrant- nor native-led businesses’ performance. However, it is reasonable to assume that both types of business could perform better if they recruited employees more rationally. This particularly applies to migrant-led businesses as they involve family members and close friends more frequently into business concerns.

Taken together, we conclude, first, that resource endowments of migrant and non-migrant-led businesses do neither result in significant advantages nor disadvantages for one or the other, and second, that the stereotypical image of migrant-led businesses is outdated, at least in Germany. Our results contradict the picture of migrants being a generally disadvantaged group of entrepreneurs. If they managed to establish their businesses in their respective markets they bear the comparison with their native counterparts. Hence, rather a positive picture of migrant-led businesses emerges from this study and thus calls for reviewing adopted perspectives in migrant entrepreneurship research.

6 Limitations

To the best of our knowledge, this study is the first that explicitly analyses performance differences between migrant- and native-led established businesses in Germany. Yet, it is not without limitations. We are aware that migrant entrepreneurs are a quite heterogeneous group, consisting of individuals of different nations with differing cultural backgrounds, motivations and orientations that finally might affect their respective economic performance (Nijkamp et al., 2010). The small size of our sample prevented us, however, from conducting inter-ethnic comparative research. Likewise, we regret that we could not differentiate between migrant-led businesses whose executive immigrated to Germany him-/herself and whose parents immigrated. With respect to our data, it needs further to be acknowledged that it consists of self-reported data. With respect to our data, it needs further to be acknowledged that they consist of self-reported data that reflects the subjective perceptions of interviewees. Beyond that, the results are limited to Germany. They are thus hardly referable to other countries with different framework conditions, and if so, then most of all with other highly industrialised Western European countries. Despite these limitations, we believe that our study provides novel insights into the situation of migrant-led businesses.
References


