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Factors Influencing Performance of Immigrant Service Firms

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Abstract
Although immigrant businesses continue their proliferation across the world, research that accompanied this phenomenon has so far produced only little insights and generated limited explanations on performance matters. This is particularly true in non-western contexts. Meanwhile, a growing literature is pointing to the fact that 21st century immigrant firms are getting much sophisticated and performing in ways that differ significantly than traditional immigrant firms. Drawing on the approach developed by Storey (1994) for the small business sector, this paper builds a conceptual model that governs performance of immigrant service firms. The model encompasses factors pertinent to the entrepreneur/owner, the firm, and the firm strategy. By doing so, the study aims to bring to light new insights on factor leading to performance of immigrant service firms which could be useful to immigrant entrepreneurs and policy makers alike.

Key-words: Factors, Performance, Firm, Service, Immigrant

Introduction
Research on immigrant entrepreneurship has started capturing scholars’ attention since the 1970s and gained considerable momentum in the post 1990s. Up to know, the bulk of studies conducted with regards of this matter are considerable but it suffers from several shortcomings including particularly 1) bias towards researching immigrant businesses in western contexts (Aliasa-ilga and Rialp, 2013), 2) bias towards studying businesses owned by immigrants from certain ethnic groups, 3) focus on business antecedents than on business outcomes (Fairlie & Robb, 2008; Arrghetti et al., 2014), 4) lack of clear demarcation between pure immigrants (first generation) and ethnic migrants (descendants of immigrants), 5) methodological bias towards much reliance of secondary and qualitative data (Legros et al., 2013). However the major shortcomings related to this study is 6) industrial mis-specification. Immigrants are extensively involved in service industries because this type of industries requires more labors than capitals and relatively easy to operate and liquidate. Researchers tended to look at a group of industries
together and draw conclusions. Less industrial focus is reported in the literature. Thus, there is a need for studies that focus on single industries.

Due to limited market knowledge and resources, immigrant firms have long been regarded as being traditional owing to their inclination to be involved in neglected neighborhoods to serve limited market niches (often co-ethnic customers). As such, they tend to have limited choices of strategy (Brush and Chaganti, 1999) with their performance being most often undermined compared to native businesses (Sullivan, 2007). Indeed, while immigrant businesses were found to have higher rates of self-employment compared to natives across many established economies, their performance is often not at the level of their native counterparts.

Drawing on the extensive reliance on and the inseparable effect of ethnicity on immigrant businesses’ behavior, researchers have been focusing on the entrepreneur’s human capital as well as social capital which are accessible within the ethnic enclave as main drivers of performance. However, a shift in immigrant firms’ focus, orientation and scope of operations has been witnessed in the last two decades. This transformation is evidenced in the fact that immigrant firms are increasingly operating in high tech industries across many contexts (Mosbah and Daghrir, 2017), expanding and breaking through mainstream markets (Scott et al., 2011), and getting involved in transnational and cross border activities (Kariv et al., 2011).

Therefore, while current research that addresses performance of immigrant firms needs to consider this change, it must build upon factors that reflect modern practices and behaviors. In doing so, a main question to be asked basically seeks to identify the most important factors influencing performance of modern immigrant service firms. Academia is yet to see a clear move in this direction. Therefore, the current study emerges in response to these shortcomings and aims to fill this gap by building on Storey’s (1994) model which considers elements pertinent to the entrepreneurs, the firm and the strategy of the firm as factors that are believed to influence performance. Although the paper is conceptual in nature, it builds on relevant findings from the extant literature to develop hypotheses on factors contributing to performance of modern immigrant service firms. Therefore, the insights provided in this paper can be of good interest to immigrant entrepreneurs/managers as well as policy makers at the host country. Of particular concern, those entrepreneurs operating in a service sector, those who are not yet clear on the market to follow or those who are involved in cross border business activities.

**Conceptual framework**

The small firm performance model developed by Storey (1994) advocates that formation rates of firms vary significantly between sectors, time frames as well as countries and regions. These differences are influenced by certain key factors including particularly the extent of entry barriers and expected profitability. Within small business populations, rapidly growing firms constitute a very small proportion because of the limited willingness to grow among small firms. However, there seems to be three core factors influencing growth of small firms: (i) the background of the entrepreneur (e.g. education and management team), (ii) the nature of the firm, and (iii) the strategic decisions taken for the firm (e.g. the ability to identify niches). These components need to be properly pooled together to boost performance.
Immigrant entrepreneurship performance and its operationalization
The overall trend in the way immigrant entrepreneurship performance is approached is according to Chrysostome (2010), not much different than that of the mainstream (indigenous) entrepreneurship. The indicators being used to measure performance include objective and subjective measures as well as financial and non-financial attributes and figures. This is in fact influenced by the perception that performance itself is a multidimensional construct. In many cases, different indicators were combined within single studies. Such combination does not only depict a comprehensive picture of performance measures but it also, according to Robb and Fairlie (2009), yield powerful and universally accepted results. However, revenue/sales volume, turnover/sales growth, number of employees, and personal satisfaction remain widely used.

Table 1: Common indicators used to measure immigrant entrepreneurship performance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Example from the literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover/sales growth</td>
<td>Masurel et al. (2002); Perreault et al. (2007); Altinay and Altinay, (2008); Nijkamp et al. (2009); Basu (2010); Nijkamp et al. (2010);</td>
</tr>
<tr>
<td>Revenue/sales volume</td>
<td>Ley (2006); Kariv et Al. (2009); Sahin et al. (2009); Robb and Fairlie (2009)</td>
</tr>
<tr>
<td>Profitability</td>
<td>Masurel et al. (2002); Rhodes and Butler (2004); Nikjamp et al. (2009); Robb and Fairlie (2009); Sahin et al. (2009); Nikjamp et al. (2010); Scott et al. (2011);</td>
</tr>
<tr>
<td>Personal satisfaction</td>
<td>Masurel et al. (2002); Rhodes and Butler (2004); Ley (2006); Sahin et al. (2009); Scott et al. (2011);</td>
</tr>
<tr>
<td>Age</td>
<td>Rhodes and Butler (2004); Perreault et al. (2007); Vinogradov and Isaksen (2008); Kariv et Al. (2009); Chthsostome and Arcand (2009); Scott et al. (2011);</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Perreault et al (2007); Kariv et Al. (2009); Robb and Fairlie (2009); Scott et al. (2011);</td>
</tr>
<tr>
<td>Market share</td>
<td>Sahin et al. (2009); Nikjamp et al. (2010);</td>
</tr>
<tr>
<td>Location</td>
<td>Scott et al. (2011);</td>
</tr>
<tr>
<td>Market value</td>
<td>Scott et al. (2011);</td>
</tr>
<tr>
<td>Business viability</td>
<td>Shinar and Young (2008)</td>
</tr>
<tr>
<td>Income level</td>
<td>Oka (2001)</td>
</tr>
</tbody>
</table>

Source: Synthesized by the Author

The Entrepreneur Characteristics
Since immigrant businesses are often small in size (Tata and Prasad, 2015), the role of the entrepreneurs in shaping its performance is crucial (Brush and Chaganti, 1999). Many factors like the firm’s human resources are in fact important and potential sources for the firm because they meet the criteria for sustained competitive advantage in that they are valuable, rare, inimitable, and non-substitutable (Wright et al., 1994). This includes education, experience, partnership, weak ties support. The effect of education and experience of the entrepreneurs on performance of immigrant firms was empirically confirmed across various settings (Metcalf et al., 1996; Basu and Goswami, 1999; Robb and Fairlie, 2009; Blasco et al., 2011). Entrepreneurs who have higher level of education are comparatively better prepared to communicate with and understand
bankers, customers and suppliers, which in turn lead to a growth of their businesses. High educational level also helps the entrepreneurs to deal with the challenges encountered in the host country, determines the best approaches to face them and add to the decision role of the immigrant entrepreneur (Chrysestome, 2010). Fairlie et al. (2010) compared Indians to Chinese and other Asian businesses in Canada, US, and UK and found that Indian immigrants achieved top levels of earnings across all immigrant groups under focus. Recently, Blasco et al., 2011 reached clear evidence that education of the entrepreneurs affect performance of his business.

**H1: Education of the entrepreneur has positive effect on performance of immigrant service firms.**

The sum of knowledge gained through experience stems from various aspects of business operating management. Many studies including reached positive effect of the immigrant entrepreneurs on performance of his business (Valdez, 2002; Robb and Fairlie’s (2009; Piperopoulos, 2010) because it help them develop more successful strategies that lead to higher performance. For example, Valdez (2002) also found that the entrepreneur income increases along the increase in work experience. Piperopoulos (2010) investigated entrepreneurs from eight different groups in Greece and added support to the positive relationship between experience and performance. Fairlie and Robb (2009) female immigrant businesses are less successful than male businesses because they have less prior work experience.

**H2: Previous experience of the entrepreneur has positive effect on performance of immigrant service firms.**

Furthermore, support from networks, can also boost performance of immigrant firms seeking to extend their scope to the mainstream market. Weak ties support is a type of networking that refers to support generated from building networks outside the ethnic community. Sequeira and Rasheed (2006) argue that the immigrant entrepreneur should get involved in a network made up of weak ties in order for his business to succeed. This is because while the greater value of strong ties may appear in the start-up stage of the business, strong ties must be developed in order to expand the business outside the ethnic community. Empirically, Ooka (2001) found that social capital beyond the ethnic structure (weak ties) significantly increase the level of income attainment of Chinese immigrant entrepreneurs in Canada. Efendic et al. (2015) also found that second generation immigrant businesses from non OECD countries in Sweden are less likely to grow compared to second generation peers from OECD countries because of social ties.

**H3: Weak ties support has positive effect on performance of immigrant service firms.**

Another human attribute that is positive to performance of immigrant businesses is partnership. Partnership is often discussed under the heading of “entrepreneurial team” or “founding team.” While the available evidence implies that the entrepreneurial team plays a very important role in the success of new ventures (Schjoedt & Kraus, 2009), much work is needed to reveal the outcomes of collective entrepreneurial dynamics of multiple founding individuals throughout the entrepreneurial process (Klotz et al., 2014). Several studies demonstrated that firms run by more than one entrepreneur are likely to attain better performance than solo-firms (Cooney, 2005). Partners learn from complementarities, facilitate knowledge transfer of idiosyncratic information, and generate synergy. So far, the researchers failed to find any study examining the effect of partnership on performance of immigrant firms except the reporting of Arrighetti et al. (2014) on multicultural hybrid in ethnic/immigrant firms in Italy in which the size of the founding team appeared to be one of the main drivers of multicultural hybridism. Ethnic
research has shown it in many studies that multicultural hybridism is crucial for firms’ performance. 

**H4: Availability of partners in the business has positive effect on performance of immigrant service firms.**

The Firm Characteristics

Firm characteristics refer to tangible and intangible firm-specific attributes that altogether distinguish it from other firms. Organizational learning theory provides insights on how do immigrant businesses strengthen their learning capacity along years and, subsequently, improve their performance through successful adaptation of the organization to dynamic and changing environments, adjustment to specific conditions of uncertainty, and increasing efficiency (Dodgson, 1993). *age of the firm* appear to be an important element that derive learning as firms do apparently behave differently along their life. Although considerable research shows that young firms have characteristics that enable them to be more entrepreneurial than older firm such as higher growth rates (Davidsson et al., 2002; Zhou & Wit, 2009). This must be, in fact, treated with caution (Fadahunsi, 2012).

Furthermore, firms develop resources and capabilities to improve their performance as they age and they, therefore, can boost their performance by taking good advantage of larger business experience, existing contacts with customers and relaxed access to resources (Coad et al., 2013) and the learnt combination of resources with different strategy types (Brush and Chaganti (1999). According to Bridoux (2004), RBV resource heterogeneity (or uniqueness) which lays at the core of Resource-Based View (RBV) may persist over time because the resources used in the implementation of business strategies are not perfectly moveable across firms.

Moreover, immigrant firms are different in their learning and adaptation due to their specific conditions including particularly unfamiliarity of immigrant entrepreneurs with the business environment in the host country. Indeed, there exist only a few empirical studies that directly examined the effect of age on performance of immigrant firms. However, the available conceptual and empirical arguments advocate a positive impact. For instance, Zolin et al. (2016) have reached this effect among Chinese restaurants in Australia. Meanwhile, the implication of learning and gaining resources (particularly intangible resources) exacerbates for the case of service firms since these firms are bounded by everlasting interaction with people from different backgrounds. Service firms seem to be in need of more time to understand people and establish trust compared to manufacturing firms. The notion of resources and learning as gained through age and how they lead to improved performance has been recognized in the literature (see. eg. Kim, 2010; Arrighetti et al., 2014; Wang and Kitvorametha, 2014). Firms in general and immigrant firms in specific take time to acquire the resources and capabilities that are allied to the growth of their revenues (Dalziel, 2008). Breakout strategies and transnational involvement which are recognized for their impact on performance (see the next sections) are often not understood nor implemented by immigrant firms early in their life span. 

**H5: Age of the firm has positive effect on performance of immigrant service firms.**

In the same manner, RBV considers *location* of the firm as a source of competitive advantage if it allows better access to customers and suppliers than locations of the competing lines while in same time it is non-substitutable, and inimitable to competitors. Given that locational choices of immigrant firms are usually driven by cheap rental costs (Chrysostome,
2010), they may find themselves operating in low populated neighborhoods and occupying less accessible premises (Barrett et al., 2002; Kim, 2010). While research shows that the decision of small and immigrant firms’ location has direct impacts on their performance (Sahin et al., 2012), it also point to the limited performance of the internal-oriented immigrant firms that target co-ethnic clientele mainly because the population of the ethnic community is limited. In line with this, many studies have argued in favor of an undeniable impact of location on performance of immigrant firms. This includes, but not limited to: Min and Bozorgmehr (2000), Teixiera (2001) Ley (2006), Li et al. (2016).

**H6: Population density of the firm location has positive effect on performance of immigrant service firms.**

**The Firm Strategy**

Recent immigrant entrepreneurship theory indicates that modern immigrant businesses, seen as highly performer in many contexts, are no longer attracted to traditional market niches but, instead, are growingly operating in sophisticated industries (Baycan-Levent et al., 2003), adopting breaking strategies into the wider mainstream market (external orientation) to target native clientele (Kim, 2010), and operate in cross-border business activities (Kariv et al., 2009). In fact, the positive impact of external orientation on performance of immigrant firms can be traced in many of the studies that compare between internally and externally-oriented firms. This includes Min and Bozorgmehr (2000) who compared Iranian with Korean entrepreneurs in Los Angeles, Ley (2006) who compared Asian immigrant businesses in Canada and Shinnar et al. (2011) who compared between Korean African and Mexican businesses in The U.S. Similarly, Scott et al. (2011) found positive associations between Mainstream market orientation and objective indicators of business success among Spanish businesses in Indiana U.S. Recently, Panda (2015) found that Market integration is one of the main determinants of the firm growth.

**H7: External orientation has positive effect on performance of immigrant service firms.**

Besides, transnational involvement of immigrant entrepreneurs gained momentum in the last decade as a sub-field of immigrant entrepreneurship. Transnational entrepreneurs are able use networking to grab opportunities in both home and host countries market (Chen and Tan, 2009). Oftentimes this is facilitated by certain advantages available to immigrant entrepreneurs including; language proficiency, the identification of cost differences between the home country and the host country, networking and sometimes cultural understanding. According to Kariv et al. (2009), one of the grand reasons why business performance varies across immigrant firms has to do with dissimilar types of transnational networking the entrepreneurs prefer to engage at. International networks are empirically found to be a powerful competitive advantage available to immigrant firms compared to non-immigrant firms (Neville et al., 2014). In the U.S context, Wang and Liu (2015) used micro-data to compare between the transnational activities of immigrant and non-immigrant (native) firms. Their findings show that immigrants firms which are engaged in transnational activities perform better than non-immigrant firms, whereas immigrant firms which are not engaged in transnational activities perform lesser than non-immigrant firms.

**H8: Transnational involvement has positive effect on performance of immigrant service firms.**
Conclusion

The idea that immigrant firms are traditional in their scope of involvement is outdated. Immigrant firms in the new millennium have shown increasing involvement in sophisticated industries such as high technologies, consultancy, accountancy and financial activities, professional services and so on. The increased mainstream orientation and transnationalism among immigrant firms is another feature characterizing them nowadays. Such change in the entrepreneurial behavior of immigrant businesses is likely to be driven by changes in the entrepreneur based as well as contextual attributes. Within these conditions, current research addressing their performance needs to consider this change and builds upon factors that reflects it. This identified gap is what triggered the emergence of the current study. The aim in this study however was to bring to light new insights on nowadays business management practices and factor leading to performance of immigrant service firms. These insights can be considered and used by immigrant entrepreneurs and policy makers alike.

The conceptual model developed in this study is anchored in these notions and combines factors categorized under three groups; the entrepreneur, the firm and the strategy of the firm. While owner characteristics were extensively considered in the extant literature, the used of the firm characteristics is limited. Firm strategy on the other hand seems not being in the agendas of immigrant entrepreneurship performance. A total of eight variables are were discussed in terms of their influence on performance of immigrant firms; The entrepreneur’s education, previous experience and weak ties, the existence of partners, age and location of the firm, as well as external orientation and involvement in transnational activities. Finally, while the next stage requires collection, analysis and discussion of the data, the operationalization of the variables must be something out of the observed trend taking place in immigrant entrepreneurship. Performance for instance, will be measured in both in terms of personal satisfaction and growth. New measurement needs to be developed for certain variables like weak ties support because they are not yet measured in the case of immigrant entrepreneurship.

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