



## **Work Experience, Support from Compatriot Communities Can Diminish the Failure of Immigrant Businesses**

Firms founded by immigrants have a lower survival rate than those founded by natives. But a new study has found that work experience in the host country and a supporting compatriot community decreases the disadvantages faced by immigrants.

The study, *The survival of firms founded by immigrants: Institutional distance between home and host country, and experience in the host country*, published Monday (October 8, 2018) in the Strategic Management Society's *Strategic Management Journal*, was authored by Jose Mata, HEC Lausanne, University of Lausanne, and Claudia Alves, Nova School of Business and Economics.

“The issue is more than foreignness,” say the authors. “It is the lack of integration in the local economic fabric that creates obstacles to doing business, which suggests that differently integrated foreign firms may suffer from liabilities to a different extent.”

An important finding of the study is that the “Liabilities of Foreignness” apply not just to multinational companies that are managed from abroad, but to all companies with foreigners in senior positions.

“When foreigners have managerial positions in firms, these liabilities extend to the firm,” write the authors. “Foreigners are less able to handle local situations because when they arrive in a cultural context that is different from their own, they go through a ‘culture shock’ that prevents them from functioning effectively.

“Such a shock is related to the cultural distance between the societies of origin and settlement. and adaptation takes time.”

Conversely, the experience of managers in the local environment may be decisive. For example, a prior study found that while foreign firms operating in the U.S. faced more labor suits in American courts than their local counterparts, the presence of Americans among the foreign firm's top officers reduced the number of these labor suits.

According to the study, immigrant-started businesses cannot be treated monolithically. The type of business and immigrant's nation of origin are also factors.

“Large corporations have routines and processes that partially insulate them from the influence of individual decision makers,” write the authors. “Entrepreneurial firms, in contrast, are typically small firms in which founders exert particularly strong influence. For this reason the link between the characteristics between founders and firm outcomes should be more direct and pronounced.”

Immigrant adaptation is related to the country of origin. Cultural distance increases adaptation difficulties. Immigrants or expatriates have a difficult time in adapting to the new society, but

foreign norms are also subject to misinterpretation from locals. This leads to negative attitudes towards foreigners.

In addition, governments and societies of host countries hold different attitudes toward each nationality, and these attitudes exert a great influence on the degree of adaptation. Different national communities also pursue dissimilar strategies of adaptation, seen by cultural psychologists as a consequence of the interplay between the value of maintaining one's identity and that of maintaining relationships with the larger society.

“We argue that the ‘Liabilities of Foreignness’ are reduced with work experience in the host country and that firms created by immigrants that have been in the country for longer are subject to lower exit rates than those created by recently arrived immigrants,” write the authors.

“Immigrant entrepreneurs can also benefit from being part of large national communities, as these communities provide resources which immigrants typically have difficulty accessing.

“We argue that the benefit of work experience and of national communities is particularly valuable for immigrants from countries that are less similar to the host country. We, therefore, propose a new lens for analyzing the effect of institutional differences between countries, one that sees institutional differences as moderators of the relationship between survival and the factors that affect it.

“Our results suggest that those considering entrepreneurship in a foreign country should carefully evaluate if they possess adequate resources for running a business in that country.”

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