Chapter 19

Immigrant Effect in International Expansion

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ABSTRACT

The key problem for commitment to international business activities is the lack of knowledge about a host country and its (business) culture. A firm’s host country experience and its history of entry patterns in other countries shape entry preferences into a foreign country (Pan, 2000; Chung, 2001; Yiu, 2002; Li, 2008). In the past decade, scholars have become aware of the effect of a specific kind of international experience within the firm: the immigrant effect (Chung, 2001; Tadesse, 2008; White, 2008; Madhavan, 2009). The present chapter reports on the role immigrants fulfil in foreign entry plans and how their involvement relates to the outcome of the foreign entry go/no-go decision. Findings confirm that among the firms that continue in entry, the presence of immigrants in the firm is relatively high. But, and this is unexpected, the same is true for firms that cancel entry plans (Oortwijn, 2010).

1. INTRODUCTION

An obstacle to the development of international operations is a lack of knowledge of business practices in foreign markets and the related uncertainty for business performance (Johanson, 1977). Firms prefer countries and/or cultures with which they are familiar, as firm experience and social networks in the foreign country support internationalization. Also, the professional experience and personal background of managers plays a role in foreign entry choices (Collinson, 2005; Oortwijn, 2010).

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Immigrant Effect in International Expansion

Immigrant effect (Chung, 2001; Tadesse, 2008; White, 2008; Madhavan, 2009). Immigrant effect refers to the positive impact immigrant entrepreneurs, employees, and managers have on the success of international operations, principally when an organization engages in the immigrant’s country or region of origin (Hyde, 2002; Chung, 2004). The insight of multicultural entrepreneurs, employees, and managers supports development and realization of foreign entry strategies. This general insight that organizations learn from individuals and individuals from organizations (March, 1991) traditionally has been ignored in international business research.

1.1 Contribution

This chapter adds a new angle to research on the immigrant effect. Two years’ internationalization plans of Dutch firms for China are followed in time even before final decisions on entry are made. This longitudinal study allows for unique insight in how entry plans evolve, or do not evolve. The contribution lies partly in the fact that some of the firms decide not to continue operating in China, while others cancel, alter, or postpone plans. Of the 54 plans under consideration, only 33 continue in a manner similar to what was intended.

An important limitation of existing internationalization research is that data is gathered post-entrance. Due to the origin of the statistical data of previous work, the firms analyzed are those which decided on entry into the host country and are still operating. This study provides unique access before the entry decision. Of the 15 plans that involve immigrants from within the firm, five plans are cancelled and 10 continue as planned. Therefore, this study can report on the immigrant effect in relation to the Go/No-Go decision of foreign entry.

2. LITERATURE

The perception of international business opportunities becomes more realistic, when based on experiential learning (Barkema, 1998; Delios, 1999; Petersen, 2008). Decisions on foreign entry are based on insight in local conditions and general international business know-how. These can be obtained through international business experience of the firm, by knowledge gathered through others outside the firm or by involving managers with in-depth knowledge of the host and home country (Oortwijn, 2006).

2.1 Host Region Experience

Countries differ largely in the business environments they provide, a fact which increases the complexity of overseas business activities. Intercountry differences are more difficult for multinationals to access, harmonise or coordinate than the actual international transfer or dissemination of physical assets as such (Dunning, 2009). Not surprisingly, cultural differences and institutional differences are studied extensively as explanatory factors for patterns of internationalization (Pedersen, 1997; Xu, 2002; Henisz, P. J. Buckley, 2005; Chetty, 2006; Chan, 2007; Dow, 2007; Ellis, 2008; Jansson, 2009).

Companies prefer activities in foreign countries with which they are familiar. Previous experience in a country supports new activities in the same host country and increases performance (Luo, 1999). Experience in a host country or in neighbouring countries provides managers insight in the new business environment and reduces uncertainty. It enables firms to make better judgements for entry and manage operations abroad with more success (Barkema, 1996).