A Comparison of Sources of Business Acumen for Entrepreneurs Originating from Developed and Developing Countries (A Research Note)

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A COMPARISON OF SOURCES OF BUSINESS ACUMEN FOR ENTREPRENEURS ORIGINATING FROM DEVELOPED AND DEVELOPING COUNTRIES*

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ABSTRACT

The implications of migration from less developed to more developed contexts remains understudied at the individual level. With data collected from a pilot study in Tucson, Arizona, this paper uses a Galois lattice to compare sources of business acumen from small business entrepreneurs originating from developed and developing countries. Osili and Paulson (2008) observe that immigrants are influenced by the institutional environment from which they originate. This contrasts with historical evidence that individuals of Mexican origin have largely assimilated to the local culture (Amado 1988). The findings offer promising evidence for Osili and Paulson’s theory and suggest that formal credentials and country of origin may affect entrepreneurs’ decisions to seek capital from strong ties or from formal financial institutions. These results provide adequate support to warrant further research on institutional formalization as a potential barrier to community development in rural areas.

Examining the migration of populations from less developed to more developed areas provides a critical perspective on processes of integration into new institutional contexts. Migration plays an important role in the circulation of human capital (Mykerezi et al 2014). It is often argued that urban areas can be economically attractive to rural migrants (Fields 1975) and capital flows from urban areas can bring economic vitality to rural areas (Mykerezi et al 2014; Rempel and Lobdell 2007), but there remains much to be understood about the implications of transplanting a person from one cultural context to another. This paper focuses on the implications of formalized institutions for small business development. For a starker comparison of institutional development, I focus on immigration from developing countries to the American city of Tucson, Arizona.

Small businesses in the U.S. are disproportionately more likely to be owned by immigrants than native-born citizens (Yoon 1997:11–47). Immigrants of Middle Eastern, European, and East Asian origins have higher rates of successful

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entrepreneurship in the U.S. than immigrants of other ethnicities (Light 2005; Yoon 1997), which suggests that ethnic communities differ in their access to social capital. The term *capital* refers to various types of resources that help people to accomplish things. Business development is contingent upon resource acquisition and strategic investment. Education, skills, knowledge, and experience are types of human capital. All tangible or intangible benefits acquired from an individual's social network are known as social capital (Bourdieu 1986; Galaskiewicz 1979; Lin 1982). Social capital can also be derived from group solidarity, awareness of group membership benefits, and conformity to shared ethical values or norms of reciprocity (Portes 1998; Portes and Sensenbrenner 1993).

Much like rural business owners (Mencken and Tolbert 2016), immigrants from developing countries face barriers to accessing start-up capital. Formal institutional environments often disfavor small businesses and immigrants (Light 2005). Financial institutions exemplify this point. Small businesses may only require small loans to get started, but small business loans are difficult to obtain because they are often less profitable for banks (Light 2005). The institutional requirements for borrowing in the U.S. can differ from those of other countries, especially those with weaker formal institutions (Osili and Paulson 2008). Formal institutions in developing countries are often corrupt (Osili and Paulson 2008), so informal institutions are highly salient. Having close relationships with economic exchange partners raises the social costs of their defection. Members of lending programs, like rotating credit associations, must share certain understandings about the exchange and be committed to meeting those expectations (Coleman 1988; Putnam 1993). The trustworthiness of strong ties allows them to thrive in such situations. Swidler (1986) contends that individuals are inclined to double-down on their worldviews when those views are no longer taken for granted. If this is so, one would expect immigrants from developing countries to display similar patterns of behavior when living and working in more developed countries, as Osili and Paulson (2008) demonstrate.

However, in Tucson, Osili and Paulson’s theory may not apply. According to Sheridan (1986), Tucson historically was host to a large population of Mexican immigrant elites who thrived in entrepreneurship, ranching, education, and real estate. These original Mexican immigrants assimilated and intermarried with white settlers (Amado 1988). During the Great Depression, a new influx of Mexican immigrants arrived in search of employment (Amado 1988). Corporations eventually gained a competitive edge over Mexican entrepreneurs in the 1940s.
COMPARISON OF SOURCES OF BUSINESS ACUMEN

(Amado 1988; Sheridan 1986) and more Hispanics took working class positions (Amado 1988).

One reason to doubt the inadequacy of Osili and Paulson’s theory is that Tucson has a history of ethnic enclaves, which may provide a buffer to full assimilation. Sheridan states that barrios, or Mexican neighborhoods, provided business owners of Mexican origin protection from their corporate competitors. Ethnic enclaves can contribute to broader social inequalities by isolating a sub-population from the broader society (Portes 1998). In this way, social network structure affects the flow of capital. Consequently, the enclaves may form their own institutions or offer preferential support to members seeking capital or opportunities (Granovetter 1995; Portes 1998; Portes and Sensenbrenner 1993).

This pilot study draws on Osili and Paulson’s (2008) argument that the decisions of individuals from developing countries are shaped by their experiences with institutional environments from their native countries. I compare sources of business acumen of entrepreneurs from developed and developing countries in Tucson to determine how an entrepreneur’s exposure to prior institutional contexts affects the type of channels used to acquire human capital for starting a business. If Osili and Paulson’s theory is applicable, assimilation may be weakened by the persistence of Tucson’s ethnic enclaves.

Osili and Paulson (2008) found that individuals distrust formal financial institutions due to their experiences with failed or inadequate formal institutions in their countries of origin and may carry this belief with them when they emigrate. For entrepreneurs who immigrated from developing countries as “first generation” immigrants (that is, individuals who were born as citizens of other countries and became American citizens), I propose three scenarios. First, entrepreneurs from developing countries will not only have obtained fewer skills, less knowledge, less experience, and fewer formal qualifications, but will have internalized the belief that this type of capital is not necessary to succeed in business. Therefore, they will place a lower value on obtaining any formal credentials or advice about running a business. In this scenario, the entrepreneurs will be self-taught. However, a second possibility is that entrepreneurs from developing countries could have differing business backgrounds. For instance, individuals from urban areas might have more social connections to business persons than those from rural areas. Formal qualifications will still be considered unnecessary, but these individuals will have acquired human and cultural capital through simple convenience. This raises a second scenario: entrepreneurs from developing countries will be self-taught to some degree, but they will also have received advice from social ties and business experience.
The third scenario is that immigrants from developing countries attempt to assimilate to American culture. The contrasting institutional environments of developed and developing countries might lead to distorted interpretations of societal demands for formal qualifications in the U.S. As a result, the perceived legitimacy and necessity of formal qualifications in business management might be inflated, whereas the perceived legitimacy and necessity of informal qualifications or the prospects of starting a business without any qualifications might be underestimated. Under this scenario, I expect entrepreneurs who assimilate to place a high value on formal credentials and sources of advice, and a low value on self-teaching, informal credentials, and informal sources of advice. Credentials will be sought through formal education and experience, and advice will be sought through weak ties and organizations.

According to scenario three, professionalism may motivate individuals to seek formal qualifications for the sake of ensuring the survival of their business (DiMaggio and Powell 1983). Formal qualifications can include college degrees or courses related to business, paid consultations, or documented paid and unpaid work experiences. Informal qualifications are obtained either off the record or as an act of reciprocity or altruism by one’s strong ties, which may include friendly advice from individual contacts or experience working at a business owned by one’s family. In other words, if the experience could be stated on a resume and was not obtained through direct family ties, it is considered formal. Thus, I advance the following propositions:

\[ P_a: \text{First generation immigrant entrepreneurs from developing countries are predominantly self-taught, while others learn about running a business from formal and informal sources.} \]

\[ P_b: \text{First generation immigrant entrepreneurs from developing countries are predominantly self-taught, receive advice from social contacts, and have business experience, while others learn about running a business from formal and informal sources.} \]

\[ P_c: \text{First generation immigrant entrepreneurs from developing countries predominantly learn about running a business from formal sources, while others learn about running a business from formal and informal sources.} \]
DATA COLLECTION AND METHODS

Do all entrepreneurs utilize formalized sources of business acumen? How are entrepreneurs from developing countries different, if at all, from entrepreneurs originating from developed countries? This study seeks to empirically determine whether entrepreneurs from developing countries rely on different sources of business acumen than those from developed countries. The propositions above were explored in a pilot study on small business entrepreneurs in Tucson and the surrounding towns. Appropriate permissions were granted from the University of Arizona’s Institutional Review Board. This pilot study was not funded by external sources. All subjects were required to sign a consent and confidentiality agreement to participate in the study. The data collection period took place during the months of January and February of 2015.

Located near the Mexican border, Tucson was an ideal location to perform a study on immigrants from developing countries. Immigration has been a critical part of Tucson’s community development trajectory, but the harsh climate and rural region in which the city is embedded creates unique obstacles to sustainability and development. Although many rural southwestern towns became ghost towns after the depletion of mining activity, Tucson has shown remarkable overall growth. Tucson became an American city in the mid-19th century, reaching a population of 8,000 in 1880 (City of Tucson 2017). Tucson’s population jumped from 120,000 to 220,000 between 1950 and 1960 (City of Tucson 2017), exceeding 520,000 people in 2010 (U.S. Census Bureau 2010). In recent decades, small businesses have become a vital part of Tucson’s economy, comprising approximately 90% of all businesses (Subcommittee on Procurement, Tourism, and Rural Development [Subcommittee] 1992: 2).

Businesses in this study were randomly sampled from three broad categories: automotive services, general goods, and general services. Random sampling ensured that the businesses had an equal opportunity of being selected. A more targeted sampling technique, like stratified sampling or cluster sampling, was unnecessary to achieve a balanced sample of immigrants and non-immigrants here. The sampling frame consisted of businesses within selected sections of the yellow pages in the local phone directory. Automotive services consisted of auto repair and collision services. General goods included convenience stores, grocery stores, gift shops, household retail shops, and various other retail shops. The general services category consisted largely of restaurants and cosmetology services (i.e., hair salons and barber shops) as well as some bakeries and butcher shops. As part of the screening, respondents were asked two questions: 1) Has this business been around
at least four years? 2) Is the person who first started this business still alive? Those who respond affirmatively to both questions were eligible to participate. If the size of the business was questionable, respondents were also asked to confirm that they owned a small business. A small business is defined in this study as having a local, or possibly regional, consumer base and having legal status as a small business enterprise.

A total of 16 entrepreneurs completed this pilot study. Data were collected through written surveys, mail-in surveys, and in-person interviews. Completion rates were 30% for mail-in surveys and 85.7% for written surveys. The respondents overwhelmingly favored the written survey (12 out of 16). Only one entrepreneur opted for an interview. Most entrepreneurs were very busy, as site visitations were conducted during normal business hours, so written surveys were the most viable option.

Population History and Characteristics

The U.S. Census Bureau (2014; 2012b) states that the total number of businesses in Pima County reached about 80,000 in 2012. The 2012 American Community Survey shows that 33% of residents of age 18 or older were foreign born during this time, but there were much higher concentrations of foreign-born residents living in the city of Tucson as compared with the suburbs and rural parts of Pima County (U.S. Census Bureau 2012a). The percentage of foreign-born individuals in the city of Tucson in 2000 was more than 14%, and approximately 64% of them were not citizens (U.S. Census 2000). The largest group of foreign-born people in the survey were Latin American, which is undoubtedly a reflection of Tucson’s proximity to Mexico. Individuals of Hispanic ethnicity make up a prominent portion of the population, but this population appears to exhibit different characteristics than the immigrant population. In 2010, the percentage of ethnically Hispanic people in Tucson was 41.6% (37.3% Mexican; U.S. Census Bureau 2010).

Economic development in southern Arizona was deeply affected by immigration. At the beginning of the 19th century, residents of Tucson were still subsisting primarily through farming and ranching, but the area became increasingly urbanized as more migrants, particularly from the U.S. and Mexico, started building permanent settlements (Sheridan 1986). According to the U.S. Census of 1870, over half the Latin Americans with property valued at $1,000 or more were immigrants (Sheridan 1986). In 1896, the retail industry in the nearby city of Nogales, Arizona was dominated by individuals of German, French, Spanish, Mexican, and American origins (Hu-DeHart 1980). Immigrants from Asia had a
stronger presence in small-scale businesses, such as food and laundry services, which serviced the local area (Hu-DeHart 1980).

Historically, Mexican and Chinese enclaves were prominent in Tucson (Hu-DeHart 1980; Sheridan 1986). Given the persistence of ethnic enclaves in Tucson, one would expect entrepreneurs of specific ethnicities to rely on strong ties or ethnic community ties and to resist integration into other communities. Immigrants with starkly different cultures who cannot easily return to their native countries are apt to develop high levels of solidarity, which may lead to the formation of ethnic enclaves (Portes and Sensenbrenner 1993). For communities that continue to offer low-cost labor, culturally relevant supplies, exclusive lending opportunities, or other sources of capital, maintaining ethnic ties when such resources are difficult to access elsewhere may be valuable for subsequent generations of nonimmigrants (Portes and Sensenbrenner 1993). Of course, even in a hostile environment, ethnic groups that exist in a very small minority may lack sufficient membership to form an enclave of their own.

Method of Analysis

The data are visualized and interpreted with the aid of a Galois lattice, a type of social network diagram that portrays dualistic affiliations using dichotomous data. It was argued by Breiger (1974) that affiliations are dualistic—that individuals, for example, may be affiliated with specific organizations, and organizations are also affiliated with particular individuals. The Galois lattice can be used to identify various affiliation patterns, such as the presence of overlapping relations between groups or the density of affiliation ties (Freeman 1996).

In the survey, entrepreneurs checked a box next to any of the eight options that best described how they learned about running a business. The options were stated and coded as follows: Self-taught/Trial and error/Natural leader (selftaught); Formal schooling/Formal training (fschool); Family owned a business (fambiz); Advice from family or friends (strongadvice); Advice from acquaintances (weakadvice); and paid work experience (paidwrk). The survey included two additional options (consulted an organization and unpaid work experience), which did not receive any responses and were excluded from the analysis. The remaining six options were coded as dichotomous variables in a two-mode matrix (Subjects x Learning strategy). The prefix, F-, is assigned to respondents from developing countries and O- depicts respondents born in the U.S. or a developed country.
Limitations
This study was conducted with meticulous concern for data quality and ethical standards. It remains, nevertheless, imperfect in many regards. Entrepreneurs were often very busy, particularly in restaurants, so interpretable interviews were not secured and valuable qualitative information that could support the mechanistic arguments was not obtained. The response rate was higher among entrepreneurs in auto repair (66.6% mean response rate) than any other sector (50% mean response rate). There may be systematic differences between nonparticipants. It cannot be ascertained with certainty whether or not entrepreneurs are members of ethnic enclaves. The generalizability of this study is limited. These business sectors do not represent all types of small businesses and Tucson is not a reflection of all American cities.

RESULTS
The Galois lattice was generated using the computer program, ConExp. Blue semicircles mark the presence of an attribute, which are assigned gray labels. Black semicircles correspond with the presence of at least one actor, which are specified using white labels. The lattice has an intent of six and extent of 16, as there are six attributes and 16 actors. This means that a given attribute is possessed by all actors residing on the same node or on any subsequent node connected below it. The reverse is true for actors; the set of attributes belonging to a given actor is located on the actor’s node and any nodes directly or indirectly linked to it from above. Thus, the diagram is interpreted by examining which respondents are connected to each attribute, and which attributes are connected to each respondent. For example, in Figure 1, all individuals connected below the \textit{fambiz} node displayed that attribute (here, respondents OQ111 and OQ100). This is true for all attributes. The reverse is the case for respondents. For example, all attributes connected above the OQ111 were mentioned by that respondent (namely, \textit{strongadvice} and \textit{fambiz}).

The Galois lattice reveals a clear and interesting pattern. Four out of five individuals born in developing countries (prefix F-) are clustered on the self-taught node only, and the fifth foreign-born individual from a developing country cited this as well as paid work experience. Recall that \(P_a\) states that entrepreneurs from developing countries will be completely self-taught. \(P_b\) contends that these entrepreneurs will be mainly self-taught, but will also have received advice and business experience. \(P_c\) predicts that immigrants from developing countries will rely on formal institutions to learn about running a business in an overambitious effort to assimilate.
The evidence is strongly in favor of Proposition a, weakly supportive of Proposition b, and does not provide any support for Proposition c. It is immediately apparent from the lattice that self-taught entrepreneurs dominate the sample. Consistent with Pₐ, all of the entrepreneurs from developing countries were self-taught and none of them relied wholly on outside resources to learn about running a business. FQ105 was the only entrepreneur from a developing country to receive any kind of outside knowledge. As predicted in Pₐ, this individual learned about running a business through paid work experience. FQ105 owned a total of 19 businesses before starting the current enterprise, which is the largest number of businesses owned by any entrepreneur in the sample by far.

All of my propositions state that individuals from developed countries will learn about running a business from a mix of formal and informal sources. The data in Table 2(a) support these predictions. Only two of ten respondents from developed countries were completely self-taught. About 36% of respondents from developed countries were not self-taught, but depended entirely on other sources to teach them about running a business. Although strong ties were relatively more important to entrepreneurs from developing countries in finding funding, only the native-born entrepreneurs sought advice from strong ties on running a business. None of the entrepreneurs from developing countries claimed to have experience working for businesses owned by their families. Seeking advice from weak ties was rare overall. For some entrepreneurs, this might be a reflection of sparse social capital. Others might have developed few weak ties, due to the cohesive, tightly knit structure of their networks.
Table 1. How Entrepreneurs Learned about Running a Business by Country of Origin (n=16).

<table>
<thead>
<tr>
<th>Entrepreneur's Country of Origin</th>
<th>USA</th>
<th>Mexico</th>
<th>China</th>
<th>Ukraine</th>
<th>Denmark</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-taught . . . . . .</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Formal schooling</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Family owned a business . . .</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Advice from strong ties . . . .</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Advice from weak ties . . .</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Consulted organization</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Paid work experience . . .</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Unpaid work experience . . .</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total . . . . . . .</td>
<td>10</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>16</td>
</tr>
</tbody>
</table>

Small business entrepreneurs largely acquired their business knowledge from low-cost or convenient sources, rather than forfeiting resources in formal institutional channels. Paid work experience was the most common formal channel through which entrepreneurs gained business experience. Besides being among the most unpopular sources of information, consulting an organization, unpaid work experience, and formal schooling were potentially the costliest options. Formal schooling in business was chosen by two entrepreneurs, though a total of five entrepreneurs received some kind of post-secondary degree (not shown in diagram), all of whom originated from developed countries.

DISCUSSION AND CONCLUSION
A decisive statement cannot be made for the argument that the institutional context is a determinant of the way business acumen is acquired, but the data
yielded by this pilot study exhibit a clear distinction between entrepreneurs from developed and developing countries that warrants further research. There is some preliminary evidence to support the claim that entrepreneurs from developing countries value formal qualifications in business less than those from developed countries, which extends from Osili and Paulson's (2008) argument that individuals from developing countries often retain elements of their native cultures.

It is interesting that the immigrants from developing countries in this sample were unable or unwilling to acquire business acumen in the same way as entrepreneurs from developed countries, most of whom were native-born Americans, since small business owners in the U.S. are often immigrants. Further research is needed to determine how these transitions to new institutional environments play out. Several factors might influence the adaptability of an entrepreneur to the American institutional environment, such as type of cultural capital acquired before immigration (e.g., English language skills), the practical or bureaucratic barriers to immigration that each immigrant had to overcome, and the age at which each person immigrated. In addition, the extent to which these results can be generalized beyond Tucson remains to be ascertained. Immigrants are necessarily constrained by opportunity structures and barriers, which can vary from location to location. An extension of this pilot study is necessary to improve generalizability and to mechanistically explore the institutional transition argument.

The results raise important questions about the differences between entrepreneurs from developing and developed countries—Is there a general overemphasis on obtaining professional qualifications or using formal channels to gain knowledge and skills among individuals from developed countries? If so, this could raise the perceived risks of entrepreneurship for persons from developed countries and deter the growth of local economies. Or do ethnic enclaves provide potential institutional benefits or a consistent client base? If this is true, how can local economies strengthen community ties to increase access to resources for small business development?

Whether and how formal institutions pose barriers to economic development in rural areas requires further investigation. This pilot study suggests that immigrants from developing countries are different from entrepreneurs from developed countries in terms of their sources of business acumen. The causes and effects of such a trend cannot yet be ascertained, but this research has potential implications for understanding practical barriers to community development facing
native-born American citizens, as well as lending support more broadly to the study of assimilation patterns across institutional contexts.

AUTHOR BIOGRAPHY

Jacqueline Joslyn is a doctoral candidate in sociology at the University of Arizona. Her research focuses on institutions, social networks, organizations, and development. For her dissertation, she is studying the phenomenological basis of social structure and the implications of lost or absent relationships in a network.

REFERENCES


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