

A Test of the Relationship between Cultural Diversity and Entrepreneur's Innovation: Chinese Immigrant Entrepreneurs In Italy

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Cultural capital is the key to determining the quantity and quality of the entrepreneurship with its essence being innovation. Cultural diversity is a powerful driver to entrepreneur's innovation. Different cross cultural acculturation strategies may have different impact on the immigrant entrepreneur's innovation. This study intends to determine this relationship by extending the Berry's cross-cultural acculturation strategies (integration, assimilation, separation and marginalization strategies) model and outlining a conceptual hypothesis framework. Drawing data from a sample of 91 Chinese immigrant entrepreneurs in Italy, this paper confirms the hypothesis that the cultural diversity and information sharing have a positive impact on immigrant entrepreneur's innovation. The finding obtained is that when immigrant entrepreneur maintain the dominant culture of the host community as well as sharing information with the host, they tend to be more innovative in generating higher quality and different products & services to meet up with the demand of the host country.

JEL Codes: F34, G21 and G24

1. Introduction

Innovation is the principal essence of entrepreneurship. It brings about the creation of new products and services, offer more jobs, result in economy boom and enrich people's lives. The emergence of Immigrant entrepreneur (IE) can enrich the lives of citizens in the host community by providing diverse goods and services which might not exist or is limited and also has impact on the pricing system. But IE have the short plank of innovation, they offer similar goods & services.

Immigrant entrepreneur emerges and thrives where they are pushed by the tide of the international economic development, meeting more open and free market and national immigrant policy changes, facing legal difficulties, limited labor markets and career opportunities, language barriers and unfamiliarity with the mores of the host country. IE's activity involves a local productive system and it is embedded in the local economic development. For example, Chinese entrepreneurs are now well off as "pioneer" in the Italian pronto moda system - firms that design and produce ready-to-wear garments which

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can follow monthly or even weekly changes in fashion (Ceccagno, 2003). According to the OECD, a foreign-born self-employed person who owns a small or medium firm creates between 1.4 and 2.1 additional jobs (OECD 2010).

However, the business strategy introduced by IE is usually not aimed at innovation and they employ lower prices and expand output. A theory of innovative enterprise posits that a business enterprise can exert its power over the allocation of labor and capital to transform the technological and market conditions that it faces at a given time, so as to generate higher-quality and lower-cost products. However, an optimizing firm that takes technological and market conditions as given, in making its resource allocation decisions cannot generate innovation. The innovative enterprise can sell at lower prices than the industry's optimizing firms (Lazonick 2002). Nowadays, Chinese IE are trying to promote the level of technology, management and culture to provide higher quality and lower-cost of goods and service to the local consumers.

How immigrant entrepreneurs can drive their innovation? There are many researches which support the opinion that diversity unlocks innovation and drives market growth (E.S. Hewlett, Marshall & Sherbin 2013). This study starts with literatures of some basic concepts which are rooted in the cross-cultural acculturation strategies model. Thereafter, the model of relationship between cross cultural strategy and entrepreneurial innovation is set, following an outline of hypothesis. Thirdly, the main section of the paper introduced OLS regression to test these hypotheses. The conclusion pulls together innovation from sharing information and maintaining cultural diversity which suggests that immigrant entrepreneurs should study the norms of the host culture and interact with its indigenes with open mind.

2. Some Basic Concepts and Hypothesis

2.1 Entrepreneur and Innovation

Entrepreneurship has received attention in economic and management research because the entrepreneur is essential to economic development (Schumpeter 1934; Kilby 1971; Williams 1981; Conney 2012). Although, there is no uniform definition of an entrepreneur and entrepreneurship, however, many scholars have asserted that risk bearing is a prime factor in the entrepreneurial character and function (Cantillon 1734; Mill 1848; Palmer 1971; Timmons 1978; Welsh & White 1981), whereas, in risk taking, many scholars noted it as a function of the investor and in ownership, they believe that an entrepreneur is different from a business owner, investor and manager, the innovation is inherent in entrepreneurship (Schumpeter 1934;McClelland 1961;Schein 1974; Brockhaus, 1980; Martin 1982; Drucker 1985; Ronald May 2013). From these literature, the Schumpeter's and Drucker's theories about entrepreneurship, of which the essence is innovation, are commonly conformed in the contemporary economy and the science of management.

Martin (1982) stressed that entrepreneurial creativity is different from literary or artistic creativity, in that the entrepreneur does not innovate by creating ideas, but by exploiting the value of ideas. In the theory of Drucker (1985), entrepreneur's innovation involves "doing something different, not doing better what is already being done". Innovation, creating a new organization, product/service, or process, may be further distinguished from imitation, which is, entering an established market (Ruef, Aldrich &Carter 2003). However, in these definitions, innovation are defined in the strict sense as a product or

process new to the world or marketplace.

Innovation and creativity are not synonyms. Kim (1997) pointed out that the distinction between innovation and creative imitation is blurred, Nelson and Winter (1982) noted that imitators working with an extremely sparse set of clues might claim the title of the innovator, since most of the problem is really solved independently. Wu (1992, 1995a, 2009) proposed the definition of secondary innovation, which refers to the specific innovation process, especially in developing countries that begins with technology acquisition from developed countries and further develops along the acquired technologies' existing trajectories within the established technological paradigm, generated and dominated by the original innovation process. This conceptual insights on latecomer/catch-up innovation, is interpreted by Hobday (2005) as "a process that involves the application of new knowledge and skills", rather than an easily identifiable once-and-for-all events. Therefore, this study considers also an imitator, who creates the same innovation derived from the first or the original innovator, as an innovator as well.

Innovation is nature to entrepreneurship and its fundamental feature according to Schumpeter's definition (1934) in that time, had not focused on how entrepreneurs drive innovation. Nonaka, who has made important contributions to the knowledge management, pointed that innovation is the result of movement of two types of knowledge, although, tacit knowledge also include beliefs and perspectives which are part of cultural capital, and explicit knowledge usually result from information, but he did not link innovation with cultural diversity and diversity in information. Based on these reviews, this study considers from the context of innovation, that explicit knowledge which contribute to innovation come from diversity information, and tacit knowledge is rooted in cultural diversity.

2.2 Cultural Dimensions and Cultural Diversity

Tylor (1871) defined that Culture is a complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society. UNESCO (2001) reaffirmed that culture should be regarded as the set of distinctive, spiritual, material, intellectual and emotional features of society or a social group, and that it encompasses, in addition to art and literature, lifestyles, value systems, traditions and beliefs. Culture is a broad-reaching concept that is difficult to define, many scholars and researchers tried to categorize it according to two predominant camps: "visible" and "invisible". "Visible" culture include artifacts (for example, food, clothing), behaviors (for example, language, rituals), and "invisible" culture cover attitudes, beliefs and values (Hawkins 1997; Rudmin, 2009). But these definitions are discussed from individual level. Schein (1985, 2004) identified and elaborated three distinct levels in organizational cultures: artifacts and behaviors, espoused values, and assumptions. This three levels form the benchmark in the organizational culture study.

Entrepreneur's cultural diversity is necessary for improving the entrepreneur's innovation. This diversity is embodied in the uniqueness and plurality of the identities of the groups and societies making up mankind (UNESCO 2001). The diverse team members working together from diverse national and cultural backgrounds can produce diverse ideas and contribute to forming a new product and methods (Wu, Zhang. 2006, and p.100). Cultural diversity involves dissimilar values and behavioral norms in a group, resulting from the individual's national background (Bouncken, Ratzman & Winkler 2008). Niebuhr (2009) tested that cultural diversity related to immigration enhance performance of R&D sectors in Germany. Audretsch et al. (2009) considered the impact of cultural diversity of the labor

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force on Entrepreneurship. In this sense, cultural diversity, consisting of the own heritage/original culture and receiving culture, could be of benefit by fostering immigrant entrepreneur's innovation capability. This study intends to test if IE innovation draws on the roots of native culture, and flourishes when it comes in contact with host's cultures and information.

2.3 Knowledge and Information Sharing

An entrepreneur is also a knowledge worker. Nonaka (1991) described that the innovation illustrates a movement between two very different types of knowledge. The end point of that movement is "explicit" knowledge which is formal and systematic in product specifications or a scientific formula or a computer program, but the starting point of innovation is "tacit" knowledge which is highly personal and rooted in action and is based on an individual's commitment to a specific context, a particular technology or product market, or the activities of a work group or team. Therefore, Entrepreneur's innovation is the end point of movement comprising new products and service.

Explicit knowledge can be expressed in words and numbers, and can be easily communicated and shared in the form of hard data, scientific formulae, codified procedures, or universal principles, tacit knowledge is highly personal and hard to formalize, making it difficult to communicate or to share with others. It is rooted in an individual's action and experience, as well as in the ideals, values, or emotions which he or she embraces (Ploanyi 1958; Nonaka & Takeuchi 1995; Collins 2010).

Knowledge comes from information. Information is a flow of messages, knowledge is created by that very flow of information, anchored in the beliefs and commitment of its holder (Nonaka & Takeuchi 1995, p.58). Information and knowledge remains typically vague in everyday discourse in an information economy. Cleveland (1982) stated that information is the sum total of all the facts and ideas that are available to be known by somebody at a given moment in time. Knowledge is the result of an individual applying the refiner's fire to the mass of facts and ideas, as well as selecting and organizing what is useful to somebody. Wisdom is integrated knowledge – information made super-useful by creating theory. Gourlay (2006) argued that organizational knowledge creation theory redefines 'knowledge' to mean leaders' beliefs about the viability of information and ideas. In the theory of DIKW pyramid, "wisdom in terms of knowledge, knowledge in terms of information, typically information is defined in terms of data" (Rowley & Jennifer 2007).

New knowledge is created through the four phases of the SECI process. Socialization represents the sharing and conversion of tacit knowledge through the shared experiences of individuals. Externalization represents the articulation of tacit into explicit knowledge. Combination represents the process of combining different strands of explicit knowledge to create more complex or systematic sets of knowledge. Internalization represents the process of embodying explicit into tacit knowledge (Nonaka et al. 2000, 2012). Creating new knowledge is a matter of "processing" objective information, and setting it in motion by participants who spontaneously collaborate and shift between leading and following (Von Krogh, Nonaka & Rechsteiner 2012). Building capacity for entrepreneur requires sharing and acquiring more information. The ability of an entrepreneur to transform useful information to knowledge may be one of the most important factors in innovation.

With tacit knowledge, people are not often aware of the knowledge they possess or how it can be valuable to others. Effective transfer of tacit knowledge generally requires

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extensive personal contact, regular interaction (Goffin & Koners 2011) and trust. This kind of knowledge can only be revealed through practice in a particular context and transmitted through social networks (Schmidt & Hunter 1993). To some extent it is "captured" when the knowledge holder joins a network or a community of practice (Goffin & Koners 2011). Innovations are created through a process of close interaction with both the client and the wider environment (Nonaka 2012). Therefore, this paper attempts to objectively test the relationship between IE's innovation and information, which is transformed to useful knowledge by the entrepreneur. IE's cultural diversity and information sharing result from different cross-cultural acculturation strategies.

2.4 Cross-Cultural Acculturation Strategies

Acculturation is defined as a dynamic process in which individuals and groups change over time when in contact with another culture (Berry & Sabatier 2011). Successful integration of heritage and receiving cultures are considered as biculturalism, which is often regarded as optimal acculturation and has become widely associated with positive psychosocial outcomes (Schwartz, Unger, Zamboanga & Szapocznik 2010). Early acculturation theories applied the uni-dimensional concept, acculturation is seen as the internal change an individual experiences as a result of cultural contact (Graves 1967). Berry (1970, 1980, 1997, 2011) argued for two dimensional (original and dominant) cultural movements and suggested four acculturation status to the non-dominant groups: integration strategy (an interest in both maintaining one's original culture, while in daily interactions with other groups), assimilation strategy (individuals not wishing to maintain the original cultural identity and seek daily interaction with dominant cultures), separation (individuals place a value on holding on to the original culture, and wish to avoid interaction with others), and marginalization (isolated and not participatory in his/her own or any other culture). Berry's studies support integration as the most beneficial outcome for psychological health.

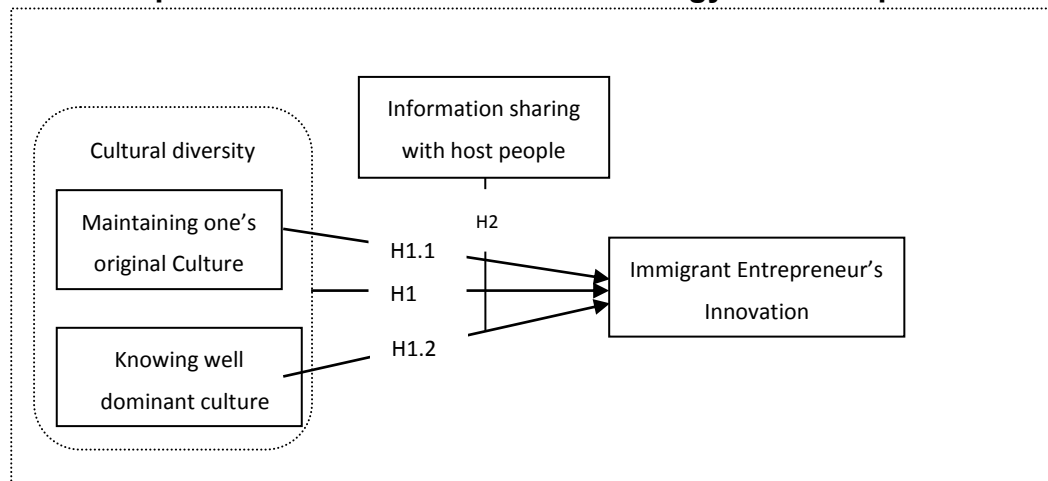
Usually, migrants start out from their ethnicity, and then develop their ethnic identity, as they are exposed to the culture and values of the host country. Ethnic identity is defined as the balance between commitments with the host country and commitments with the country of origin (Niebuhr 2009). Constant et al. (2006) distinguished between four states of ethnic identity: assimilation, integration, marginalization and separation. Assimilation seems to imply a strong decline in both costs and benefits of cultural diversity, since it is characterized by a strong identification with the host country and conformity to the corresponding norms and codes. With respect to the economic effects of diversity, integration might be interpreted as the best state because it involves commitment to the host society, but also a strong dedication to the culture of origin, thus, ensuring high benefits but relatively low costs of diversity. In contrast, in cases where migrants are primarily identified as marginalized or separated, cultural diversity may mainly entail high costs. Cultural diversity is a frequent topic for innovation, this study wants to apply Berry's model in examining the relationship between cross-cultural acculturation strategy and innovation of entrepreneur.

2.5 Conceptual Model and Hypothesis

As earlier mentioned, cross cultural acculturations is described in two dimension: maintaining one's original culture and knowing well dominant culture, and they have positive impacts on the immigrant entrepreneur's innovation. Sharing information with citizens of the host country would have moderating effects on the association between

cultural diversity derived from cross-culture acculturation and IE's innovation. This study constructs the following conceptual model (Fig.1). Consistent with the conceptual model, this study makes the following hypothesis.

Figure 1: Conceptual model of cross cultural strategy and entrepreneur's innovation



Hypothesis 1: Cultural diversity (maintaining one's own culture and at the same time knowing the well dominant culture) has a positive impact on entrepreneur's innovation.

Hypothesis 1.1: Maintaining Chinese culture has a positive impact on the entrepreneur's innovation.

Hypothesis 1.2: Knowing the well dominant culture has a positive impact on entrepreneur's innovation.

Hypothesis 2: The interaction between sharing diversity information and cultural diversity (integration acculturation strategy) has a positive impact on entrepreneur's innovation.

Hypothesis 2.1: The interaction between sharing information and maintaining the original culture has a positive impact on entrepreneur's innovation.

Hypothesis 2.1: The interaction between sharing information and knowing the dominant culture has a positive impact on entrepreneur's innovation.

3. Methodology

Data and Measurements

This study apply Chinese immigrant entrepreneurs in Italy as data. Although, the route of mobility and access to self-employment was denied the Chinese immigrant in Italy from 1990 to 1998, but according to a recent national data, Chinese IE accounts for the largest number of small business owners among non-EU immigrants in Italy. The Chinese IE's main activity are the production of ready-to-wear garments, leather garments and bags, and woolen sweaters especially at Prato and Florence. They are also involved in catering services especially at Milan and in the export-import trade especially at Rome.

According to the data of Italian Union armere (Aug., 2013), there were about 65 thousands Chinese immigrant enterprises in Italy. From the point of region, Lombardi region shared 21%, Tuscany 18%, Veneto 12%, Emilia Romagna 10% and Lazio 9%; from the point of industrial activity, wholesale & retail trade occupy 36.6%, manufacture 28.3%, restaurant 20.4%, these three sectors occupy 85.4%; from the point of ages, the 30-49 demographic took 67%, the 50-69. 18%, and 18-29. 14%.

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Therefore, this study conducted a complete interview with 91 Chinese entrepreneurs in these three sectors at Rome, Milan, Vince and Florence in Italy, where Chinese immigrants moved to at the earliest period and a large number stayed back. Sixty-four percent of the interviewers were men. 20 interviewers are in Rome, 35 interviewers at Milan, 14 at Vince, and 22 at Florence. These data were collected in the summer of 2014.

Dependent variable: According to the theory of Schumpeter, immigrant entrepreneur's innovation include following items: (1) introducing new products; (2) exploring new client/market; (3) using new methods of management.

Independent variables: Cultural diversity derived from the Cross-cultural acculturation is measured by maintaining one's own original culture and knowing well the dominant culture.

Mediator variable: If you usually share information with the host people.

Control variables: According to relevant prior researches, we select the years in Italy, their education and age as control variables

4. Results

This study relied on OLS regression to test these hypotheses. The table below shows the results of four models estimated. Model 1 is the baseline model including only the control variables. Model 2 adds to the control variables the set of independent variables: maintain the original culture, know well dominant culture and information sharing. Models 3 and 4 test these two hypotheses regarding the interaction effects between cultural diversity and information sharing.

Table 1: Regression analysis: Effects of cultural diversity and information sharing on IE's innovation

	Model 1	Model 2	Model 3	Model 4
<i>Control Variables</i>				
Gender	0.214*	0.205*	0.105*	0.201*
Years in IT	0.024	0.022	0.019	0.023
Language	-0.034	-0.01	-0.023	-0.031
Education	0.245*	0.278*	0.254*	0.267*
<i>Independent Variables</i>				
maintain original culture(O)		0.04	0.056	
Know well dominant culture(D)		0.251**	0.237**	0.264**
sharing information		-0.2	-0.19	-0.11
O x sharing information			-0.93	
D x sharing information				0.201*
R square	0.124	0.18	0.135	0.105
Adjusted R square	0.79	0.74	0.70	0.71
F	2.105*	2.384*	2.384*	2.53*

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In the table below, model 1 reveals a statistically significant positive effect of gender and education on IE's innovation ($p < 0.1$), its positive but no statistically significant effect on the years IE lived in Italy, the number of Italian languages IE learned has no statistically significant positive effect. Hypothesis 1 states that the cultural diversity has a positive impact on entrepreneur's innovation. Model 2 shows that knowing well dominant culture has a positive and statistically significant positive effect on IE's innovation ($p < 0.05$), maintaining one's original culture has a positive effect which is not significant on IE's innovation. Therefore, hypothesis 1 is partially supported by cultural diversity and IE's innovation.

Hypothesis 2 states that the interaction between cultural diversity and information sharing has a positive impact on IE's innovation. Model 3 reveals that maintaining one's original culture \times sharing information with the host community is not statistically significant, and also has a negative effect on IE's innovation. Model 4 shows that knowing well dominant culture \times sharing information with the host community has a positive and statistically significant ($p < 0.1$) effect. Therefore, OLS results partially support hypothesis 2, regarding the positive interaction effect between cultural diversity and information sharing on IE's innovation.

5. Discussion

The purpose of this study is to investigate if cultural diversity and information sharing, which result from immigrant entrepreneur's cross-cultural acculturation strategy, may affect immigrant entrepreneur's innovation. This paper identifies two dimensions of cross-cultural acculturation strategy (maintaining own culture and knowing well dominant culture), and input one mediator variable of sharing information with the host community.

Results of regression show that knowing well dominant culture has a positive and statistically significant effect on the IE's innovation. That is to say that immigrant entrepreneur are more innovative for products/services, marketing and management when they know the well dominant culture. The reason for such a positive effect is that the higher the well dominant culture knows the need of the host community, the better they satisfy those need based on knowing well their culture. For example, a Chinese entrepreneur running a restaurant usually change the Chinese traditional cooking method and combine it with Italian cooking to make it suitable for Italian stomachs, therefore, they introduce those Chinese dishes familiar to the Italians, but are not common dishes for the Chinese family or Chinese restaurant in China, which are welcome by the Italians. Therefore, IE should pay attention to maintain relationships with the host country with an open mind to understand their culture.

Results of regression show that information sharing with the host community has a moderating effect on the relationship between knowing well dominant culture and IE's innovation. That is to say the relationship between knowing well dominant culture and IE's innovation varies, depending on the level of information sharing. Immigrant entrepreneur, who are more experienced in information sharing, has more positive relationship between knowing well dominant culture and IE's innovation. The reason for such a moderating effect is that the higher the information sharing between immigrant entrepreneur and the host community, the more knowledge can be produced by IE, which may generate more new ideas and methods for products, marketing and management.

However, as the results show, there is no such positive effect of maintaining own culture

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and IE's innovation, which is contrary to the expectation of this study. The possible explanations is that IE is familiar with maintaining their own culture, but not knowing well the dominant culture makes it difficult to meet the need of the host people, including innovative products/services needed by the host people. Therefore, IE should strike a balance between their own culture and the dominant culture, and should embrace more of the dominant culture where they live.

There is no moderating effect of sharing information between maintaining own culture and IE's innovation, which is also contrary to the expectation of this study. Although, they share information with the host community, they could not distinguish between useful information because immigrant entrepreneur would maintain their original culture and not know the well dominant culture. Therefore, they could not capture the need of the host people from the nature level.

6. Conclusion and Implications

In conclusion, this study tested the positive effects of knowing well dominant culture on the IE's innovation, and information sharing can moderate its effect on the relationship between knowing well dominant culture and IE's innovation, especially for male IE and for those who have higher education. This study contributes to this new literature that a cross-culture acculturation strategy takes cultural diversity into consideration, of which IE maintain their original culture and a knowledge of the well dominant culture, can impact on IE's innovation.

As virtually all of the factors identified in this review are under human control. Berry (1997b) believed that these cross-cultural factors should be amenable to change, guided by informed policy and programmer development, at both the group and individual levels in both the society of origin and the society of settlement. The society of origin can involve pre-departure counseling and training at the individual level, the society of settlement can support the development of national policies which try to know well host culture and apply public education and social legislation at the group levels.

The exogenous forces is necessary, the endogenetic forces resulted from individual cognition and endeavor is more important to IE to change these factors of cross cultural strategy. From the individual level, IE should study deeply their original and host country's culture; from the group levels, IE should build open social network to know well the host dominant culture. Therefore, future research would explore how immigrant entrepreneurs build cognitive model to perceive and study the dominant culture, rational design information flow, and build one open social network. According to the first theory of culture defined by Matthew (1869, 1882), culture is a study of perfection by means of getting to know the best which has been thought and said in the world, immigrant enterprise should pay more attention to host culture which is a powerful driver of innovation.

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