

Driving Forces of Immigrant Entrepreneurship

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ABSTRACT

This paper investigates the driving forces of immigrant entrepreneurship in Europe, focusing on macroeconomic, formal institutional, and educational factors. With increased inflows of immigrants and migration between European countries, it is vital to successfully integrate new residents into society and the labour market. In many European countries total entrepreneurial activity (TEA) is higher for foreigners than for natives. The analysis illustrates that entrepreneurial pursuit is strongly influenced by the individual's level of educational attainment and constraint by governmental programs. By understanding the government's role in the market and policies' consequences on immigrant entrepreneurship, entrepreneurial pursuit and persistence can be strengthened.

Keywords

Immigrant Entrepreneurship, Ethnic minority, Europe, Integration

INTRODUCTION

With nearly 1.3 million immigrants in Europe claiming asylum in 2015 (Eurostat, 2016), Europe faces great obstacles and opportunities in coming years. Despite enlarged public spending in the short term to accommodate the asylum seekers, the inflow of young refugees could counteract the aging population dilemma and labour market shortages. If integrated successfully in the labour market, local firms could benefit from the rise in foreign-born workforce. In fact, immigrants are more prone to start their own business than native-born.

As a result of lacking evidence about future prospects of incoming immigrants, the aim of the paper is to analyse the driving forces of immigrant entrepreneurship. It contributes to the existing literature by evaluating the influence of macroeconomic, formal institutional, and educational factors on immigrant entrepreneurship. Contrasting to previous literature, this paper takes possible differences between generations into account. This paper uses data retrieved from GEM (General Entrepreneurship Monitor), World Bank, and OECD for twenty-two European countries for the year 2012. The effect of macroeconomic, formal institutional, and educational factors on immigrant and non-immigrant (TEA) is estimated by using a surprisingly unrelated model (SUR), as a result of standard errors being correlated. To account for differences between generations, two OLS multivariate regression models

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estimate the effect of macroeconomic, formal institutional, and educational factors on first and second-generation immigrant TEA respectively.

In the following sections, the theoretical background aims to define entrepreneurship, link it to immigration, and develop hypotheses based on previous theoretical frameworks. Moreover, the statistical analysis of immigrant entrepreneurship will annex more robustness to existing framework on entrepreneurship and add value to current political discussions in Europe. Lastly, the empirical evidence and avenues for future research are discussed.

THEORETICAL BACKGROUND

Defining entrepreneurship

Entrepreneurship is a multidimensional concept with varying definitions (Carree & Thurik, 2002). Such variations and disagreements in defining entrepreneurship and its role (Amit Glosten & Muller, 1993), have led to an incapability of a single measurement of entrepreneurship. Entrepreneurship is a "behavioural characteristic of persons (..) and not an occupation" (Carree & Thurik, 2002, p. 565) and the entrepreneur plays a "central figure" in the self-regulating market and organisation of economies (Knight, 1921; Thurik, 2007 and Amarante, Ghossoub & Phelps, 2013). According to Joseph Schumpeter, an entrepreneur is a prime determinant of economic development and further describes the entrepreneur as the 'agent of change', whose actions lead to creative destruction.

Linking Immigrants and Entrepreneurship

Immigrant entrepreneurship is defined as the creation or acquisition of a business by an immigrant in the country of settlement. (Bhachu, Karageorgis, and Light, 1989; Altinay & Basu, 2002). Further, immigrant entrepreneurship creates job opportunities for immigrants and co-immigrants, who are often employed by businesses with foreign origins (Evans, 1989), and positively influences economic growth through intermediate linkages like innovation, competition, and variety of products and services (Thurik & Wennekers, 1999). A study in the U.S. showed that 10.5% of foreign-born open up their own business, compared to a slightly lower rate of 9.3% for native-born citizens (Fairlie, 2012). In the time period of 2006-2014, the rate of foreign-born self-employment in Europe increased more than that of nationals. The share of Non-EU nascent entrepreneurs in all 28 EU Member States increased by 2.1%, compared to 0.4% for nationals (Eurostat, 2015).

HYPOTHESIS DEVELOPMENT

Due to a scarcity of current data available, this field of research is limited, leaving scholars unable to link Europe's high influx of immigrants and their decision of

becoming entrepreneurs. There are, however, a number of suggestions why immigrants are more likely to choose self-employment than natives. An immigrant's decision to become an entrepreneur is, among others, dependent on *opportunities in the labour market, the institutional framework, market characteristics, networks and personal characteristics*.

Firstly, foreign-born residents may be more inclined to self-employment in virtue of fewer *opportunities in the labour market*. They often face discriminations and greater restrictions when seeking to enter the labour market. Discrimination and circumventing unemployment (Baycan-Levent & Nijkamp, 2009) thus strengthen immigrants' motivation (Coate & Tennyson, 1992). Amongst others, language skills and the uncertainty of residence allowance are the main restrictions that impede immigrants to find suitable employment.

Secondly, the decision to become an entrepreneur is influenced by the country's *institutional framework*. An institution, formal or informal, can either promote or restrict entrepreneurship in the market or particular industries and has profound impact on native-born and foreign-born residents' behaviour. Possible explanations for this are a favourable institutional framework and equal opportunities for all business owners, though immigrants facing additional restrictions in comparison to natives.

Hypothesis I: Formal institutions strongly influence immigrant entrepreneurship.

Hypothesis I.I: The presence of property rights and other legal services positively influence immigrant entrepreneurship.

Hypothesis I.II: Government support policies and taxes and bureaucracy negatively impact immigrant entrepreneurship.

A distinction is made between different forms of institutions, due to varying effects on entrepreneurship pursuit and economic prosperity. One must differentiate between governmental institutions that passively create an open and flourishing macroeconomic environment and other forms of institutions that actively enter the market. The nature and strength of property rights and patent protection, for example, strongly influence investments and innovation. Furthermore, with the protection and acknowledgement of ownership, individuals are encouraged to take risks by starting their own business.

Nonetheless, this study conjectures that government programs and public policies, aimed to assist small and medium-sized enterprises (SMEs), and the country's tax system negatively influence and even discourages the pursuit and persistence of entrepreneurship (Audretsch, Thurik, Verheul, & Wennekers, 2002).

Furthermore, a study of GEM (2000) showed that governments are, on average, less involved in the market in countries of high entrepreneurial activity

Thirdly, immigrant entrepreneurship is dependent on *market characteristics*. According to Porter (1979) an industry's competitiveness and attractiveness is subject to competitive rivalry, threat of new entrants, bargaining power of suppliers and customers, and threat of substitution. Evans (1989) suggests that the probability of business ownership and its success is also dependent on

ethnic market's attributes (e.g., size, strength of community ties and *networks*, and degree of integration). Not only do networks offer intra-group solidarity, flexible access to labour, capital, and informal information needed to start a business (Constant & Zimmermann, 2006), but they are also recognized as "a potential comparative advantage in the undertaking of a new economic activity" (Masurel, Nijkamp, Tastan & Vindigni, 2001).

Lastly, individuals' *personal characteristics* influence the immigrant's decision to become an entrepreneur. Amongst other factors, the individual's work experience, risk attitude, their confidence about their own skills, age, gender, religion, household income, vigilance towards unrecognised opportunities (Arenius & Minniti, 2005), and an immigrant's duration of stay have a remarkable impact on the immigrant's entrepreneurial pursuit. Furthermore, education plays a significant role in the likelihood of an immigrant's integration in the labour market or self-employment (Fairlie & Meyer, 1996; Evans, 1989; GEM, 2000). In general, immigrants show lower levels of education, in comparison to natives. Opinions about the relationship of education and immigrant entrepreneurship diverge amongst scholars. Results are likely to differentiate based on the year of measurement, sample size, location, and group characteristics.

Hypothesis II: Higher educated immigrants are more likely to choose self-employment.

Hypothesis II.I: High education has a more significant influence on first-generation immigrant entrepreneurial activity compared to second-generation immigrants.

The paper conjectures that (1) there is a different effect of education on immigrant entrepreneurship when controlling for generations, (2) different educational attainment levels have a different impact on immigrant entrepreneurship, and (3) the impact of tertiary educational attainment is more significant for first-generation immigrants. Reason being that first-generation immigrants, on average, are less educated when comparing to second-generation immigrants and natives. Hence, tertiary education will have a greater impact on a first-generation immigrant's entrepreneurial pursuit and persistence.

METHODOLOGY

The following subsections aim to give a more profound statistical analysis by testing previously stated hypotheses about the driving forces of immigrant entrepreneurship. The following subsections give an indication of the research method, data set, and results of the statistical analysis.

Research method

Data was collected from OECD, World Bank, and GEM for the year 2012, due to GEM's special focus on immigrant entrepreneurship in that year. Data is retrieved for twenty-two European countries. GEM, as the leading source of entrepreneurial data worldwide, pursues more than 200,000 interviews with respondents aged 18-64 each year in +100 countries each year (GEM, n.d.).

Data description

Dependent Variables. four dependent variables are used, thus allowing to differentiate TEA between foreign-born and native-born residents and for differences between generations (first and second generation immigrants).

Education. Overall, differences in the educational attainment on European level are significant. Educational attainment is subdivided between (1) low, medium, and high level of educational attainment and (2) native-born and foreign-born residents to account for differences between the groups.

Institutions. Three variables are added: (1) Taxes and bureaucracy illustrates to what extent a country's tax regulation and nature of bureaucracy supports entrepreneurship or whether such regulations are size neutral. (2) Governmental programs exemplify its nature and quality of programs to support SMEs. (3) Commercial and professional infrastructure is added, which accounts for the presence of property rights, and other legal services and institutions that support SMEs.

Control variables. Four control variables were added: Male ratio, GDP growth, unemployment rates for native-born and foreign-born residents, and the inflow of foreign-born population.

Results

The SUR model tested macroeconomic, formal institutional, and educational factors on immigrant and non-immigrant TEA. The results show, that *GDP growth*, *gender*, and *governmental programs* are significant for TEA of immigrants and non-immigrants, whereas *educational attainment* (low, medium, and high) is solely significant for immigrant TEA. All else equal, governmental programs are greater constraints for immigrant entrepreneurs than for non-immigrants. Thus, hypothesis I.II can be partly confirmed, that government support policies negatively impact entrepreneurship. Nonetheless, only one of three formal institutional variables is significant. Therefore, hypothesis I, and I.I cannot be confirmed and the influence on formal institutions on immigrant entrepreneurship cannot clearly be defined. In regard to hypothesis II, the model further shows that low education and high education both positively influence immigrants' entrepreneurial pursuit, whereas medium educational attainment constraints immigrant's entrepreneurial pursuit.

Two OLS multivariate regression models were created to signal whether immigrants of differing generations face other driving motives and are constraint differently by macroeconomic factors. The model with the dependent variable TEA of first-generation immigrants displays insignificance for all included variables. Hypothesis II.I can thus not be confirmed. Further, results show that second-generation immigrant TEA is dependent on *gender*, *foreign-born unemployment rate*, and *constrained by governmental programs and medium educational attainment*. All else equal, governmental programs are a more significant constraint to second-generation immigrant entrepreneurs, compared to when immigrant TEA is not controlled for generations.

DISCUSSION

The statistical analysis provides the reader with a small,

but restricted insight into the constraints that immigrants face in Europe. Due to low data available, the results must be construed with care. The main results indicate that immigrant TEA in Europe was constrained by governmental programs and influenced by the individual's educational attainment in the year 2012. In that year, governmental programs were a greater constraint to immigrant TEA, compared to non-immigrant TEA, suggesting that both, immigrants and non-immigrants face same opportunities in Europe, but that immigrants are restricted by additional governmental regulations. It is suggested that entrepreneurial activity flourishes best when governmental programs do not try to actively encourage or support entrepreneurs. This paper's findings, that governmental support discourages entrepreneurial activity is in line with previous research from GEM (2012), which concludes that governments less actively intervene in the market in countries of high entrepreneurial activity.

Unfortunately, the regressions do not allow for a clear distinction between generations. The statistical analysis showed that immigrant TEA is highly influenced by the individual's level of educational attainment. All else equal, low and high educational attainment leads to an increase of immigrant TEA. Immigrants with low educational attainment might decide to enter self-employment as a result of low job opportunities in the labour market and wanting to circumvent unemployment. Highly educated immigrants might choose self-employment as a result of (1) working in under-qualified jobs, (2) facing difficulties in the recognition of qualifications, (3) limited upward mobility in wage employment, and (4) wanting to exploit unattended demand in ethnic communities. In ethnic communities a high share of co-ethnics lacks the proficiency of the host country's language, allowing highly educated immigrants to exploit this unattended and lucrative demand and avail their bilingual profession, by offering their service to natives and co-ethnics. Nonetheless, the influence of educational attainment cannot be generalised due to medium educational attainment having a negative influence on immigrant TEA.

CONCLUSION

This paper analyses the driving forces of immigrant entrepreneurship in twenty-two European countries in 2012. Overall, the paper showed that self-employment is an essential career path for many immigrants in Europe and contributes to the existing literature by evaluating the influence of macroeconomic, formal institutional, and educational factors on immigrant entrepreneurship. The results contribute to a better understanding of the relationship between formal institutional factors and immigrant entrepreneurship; prior research does not differentiate between foreign-born and native-born entrepreneurs. This paper successfully proves that foreign-born entrepreneurs face greater formal institutional barriers, compared to native-born entrepreneurs. All else equal, the presence of government support programs display greater constraints for foreign-born entrepreneurs than for native-born entrepreneurs. Further, it becomes clear that immigrant entrepreneurial pursuit cannot be explained by a single factor. Instead, immigrants' decision is influenced by a number of driving factors [opportunities

in the labour market, (in)formal institutions, market characteristics, networks, and personal characteristics]. In the long-term, immigrant entrepreneurship will have an exceptional influence on the economy's prosperity. Until then, politicians and lobbyists in Europe must recognize its importance for long-term economic development and apprehend consequences of governmental incentives and support on (immigrant) entrepreneurship. Future research is encouraged to further investigate the impact of formal institutions and other macroeconomic factors on immigrant entrepreneurship. Outcomes are likely to differ when looking at different stages and types of immigrant entrepreneurship. Further data collection about first and second generation entrepreneurs is necessary to apprehend heterogeneity in constraints faced by different generations. Additionally, research about the cause of immigrant entrepreneurship's low persistence rates can help governments in their promulgation of tax and commercial laws and positively exercise their role in the market. By understanding the government's role in the market and government policies' consequences on (1) immigrant self-employment and (2) their participation in the labour market, immigrant entrepreneurship can successfully thrive in the future, allowing them to integrate into society and make a life for themselves in their new country of residence.

ROLE OF THE STUDENT

Merle Rüder is a bachelor student at Utrecht University. Merle worked under the supervision of Rebean Al-silefanee when the thesis was written and chose the research topic herself. Furthermore, the data collection, statistical analysis, discussion of results, and writing were done by the student.

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