

# *10th International Conference of Panel Data Users in Switzerland*

## *Workshop 1A (room 2207) Ethnic minorities and migration*

### **Immigrant self-employment and intergenerational links. The Swiss case.**

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#### **Abstract**

In recent decades, immigrant self-employment and entrepreneurial activity have become a notable source of interest for academic research. Undoubtedly, starting an entrepreneurial activity leads to economic and social benefits. Self-employment capacity is often considered an important aspect of the economic integration of immigrants in their host country due to their role as a “social hinge”. In particular, immigrant entrepreneurs support other newcomers providing jobs and access to information. Moreover, immigrant businesses may have an advantage in providing specific services or goods to co-ethnics, fostering their integration in the host country. These social benefits could drive government spending on business school education, entrepreneurial training programs and promotion.

Previous research has found evidence for over-representation of immigrants in self-employment in several countries, compared to natives. This over-representation was found in many countries where immigration is prevalent, e.g. US, Canada, Germany, Sweden, Australia, England and Wales. The high entrepreneurial propensity of immigrants can be due to a variety of reasons. First, the social condition of foreign individuals in the host country typically disadvantages and limits labour market opportunities. Unemployment or low wages, lack of recognition of qualifications, wage labour discrimination and poor language skills may represent a pushing force for immigrants into self-employment. Second, the existence of ethnic enclaves may provide a comparative advantage in producing the so-called “ethnic goods” through hiring co-ethnic labour force. Third, migrants have taken the risk of moving to a new country, which could indicate that they are a self-selected “risk-lover” group. Hence, they might have higher levels of unobservable motivation.

Switzerland represents a unique case: immigrants were not allowed to start a business (except in particular cases) before the 2002 European Union (EU) bilateral agreements. After 2002, newcomers had no entry barriers for the entry into self-employment, apart from some self-sustaining conditions. Albeit in the last 15 years the percentage of foreign entrepreneurs in Switzerland has sensibly increased, barriers to entry and difficulties for immigrants who want to start a venture are still relatively high. Even today, the self-employment propensity of immigrants is lower, compared to natives. Part of the difference may be due to some handicaps related to the immigrant status: having a foreign citizenship, having a temporary residency permit and being a newcomer in the Swiss economic and social context may represent a barrier to access to venture capital and other business related networks and services, thereby hindering the entry into self-employment. Moreover, immigrants have different self-employment traditions in their home countries, which affect their propensities as newcomers. Juhasz Liebermann et al. (2006) showed that the self-employment rate is higher among foreign citizens married to a Swiss individual. Having a Swiss citizen in the family can facilitate starting a venture. Distinguishing between first and second-generation immigrants, different entrepreneurial capacities may be expected. Previous literature suggests that the behaviour of immigrants of first and second generations could be very different, based on host country, national origin and traditions in their home countries.

Another strand of the literature further explores intergenerational links in entrepreneurial propensity. Some authors have focused on the intergenerational transmission of self-employment and its underlying mechanism. Hout & Rosen (2000) define the “intergenerational pick-up rate” (with respect to self-employment) as the probability that the child of an entrepreneur will become self-employed himself. Their main assumption – given the existing sociological, psychological and economic literature – was that “the likelihood that a person succeeds in self-employment depends in part on the human capital he or she receives from a self-employed father/mother and the amount of that human capital may differ from one ancestry group to another” (p. 673). This intergenerational transmission can act through a variety of channels. The simplest explanation regards the inheritance of a family business. Siblings help their parents to run their business, acquiring expertise and specific networks that would ease the transition from the ancestors to the children. In other cases, the informal business experience acquired by the offspring provides skills and motivation to start a new venture. The experience of a successful business history in the family may also decrease risk aversion in the decision process for the entry into self-employment.

Little is known about the self-employment propensity of immigrant generations and individuals with an immigrant background in Switzerland. Previous studies have focused on immigrants’ self-employment

propensity in general. A search of the relevant literature yielded one related article. Juhasz Liebermann et al. (2014) went deeper into the analysis of immigrant generations and established that “members of the second generation overtake the Swiss as self-employed” (p. 107). As stated previously, Switzerland is a particular case in the international panorama, due to a barrier to entry into self-employment for immigrants (until 2002) and their lower entrepreneurial propensity, compared to natives. Thus, the contribution of this paper is to distinguish between first and second-generation immigrants and shed light on their entrepreneurial capacity with respect to Swiss natives. It additionally aspires to elucidate the mechanism of intergenerational transmission of entrepreneurial abilities and the differences between ancestry groups. Finally, this research aims to drive policy makers through some important issues such as access barriers to entrepreneurship, venture financing and entrepreneurial training among particular social categories or ethnic groups.

The longitudinal data survey used - “Swiss Household Panel” (SHP) - includes information about individual and household characteristics. Furthermore, the “Social Origin” data set contains information about parents when the individual was an adolescent. Hence, this data set allows an analysis of the entrepreneurial propensity of individuals based on their immigrant and family background. There is clear evidence for an under-representation of first-generation immigrants and an over-representation of second-generation immigrants and individuals with an immigration background, compared to natives. There seems to be no ancestry group effect on self-employment propensity. Furthermore, some factors that can determine the self-employment capacity are taken into account, i.e. having a self-employed parent, household income and assets and parental wealth. These factors influence the entrepreneurial propensity in different ways, although the latter is not statistically significant in any of the specifications of the empirical model.

**Keywords:** *immigrants, self-employment, entrepreneurship, parental role models, intergenerational transmission*