

Why Are Immigrants More Entrepreneurial?

by Peter Vandor and Nikolaus Franke

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What do Arianna Huffington (Huffington Post), Dietrich Mateschitz (Red Bull), Elon Musk (Tesla, SpaceX), and Sergey Brin (Google) have in common? Apart from their success as entrepreneurs, they all share one distinct characteristic: extensive cross-cultural experience. Huffington grew up in Athens and studied in London before starting her career as a politician and media entrepreneur. Mateschitz spent considerable time overseas as a marketing salesman prior to

founding Red Bull. Musk migrated from South Africa to the U.S. as young adult. Brin left the Soviet Union with his family after facing growing anti-Semitism and moved to the U.S., where he later cofounded Google.

Their stories are prominent examples of a widespread pattern. In the U.S., immigrants are almost twice as likely to start a business than natives. Immigrants present 27.5% of the countries' entrepreneurs but only around 13% of the population. Similarly, about one-fourth of all technology and engineering companies started in the U.S. between 2006 and 2012 had at least one immigrant cofounder. And this pattern extends beyond the U.S. – data from the 2012 Global Entrepreneurship Monitor showed that the vast majority of the 69 countries surveyed reported higher entrepreneurial activity among immigrants than among natives, especially in growth-oriented ventures.

Research has suggested that selection and discrimination effects may be driving this phenomenon. It appears plausible that entrepreneurial individuals are more likely to migrate and that immigration policies in many countries favor highly motivated and capable individuals. Additionally, discrimination against immigrants in labor markets may exert pressure on them to seek self-employment.

In a recent study, we investigated a different explanation: Cross-cultural experiences may increase individuals' capabilities to identify promising business ideas. By living in different cultures, they encounter new products, services, customer preferences, and communication strategies, and this exposure may allow the transfer of knowledge about customer problems or solutions from one country to another. By applying this kind of arbitrage, a temporary or permanent migrant can decide to replicate a profitable product or business model available in one country but not in another. Successful companies such as Starbucks (inspired by coffeehouses in Italy) and the German online retailer Zalando (inspired by Zappos) exemplify the potential of this strategy.

Cross-cultural experiences may also stimulate creativity. Interacting with two or more cultural contexts can help immigrants combine diverse ideas, solutions, and customer problems in order to create something entirely new. This principle is illustrated by the origin story of Red Bull. When Dietrich Mateschitz traveled to Thailand in the 1980s, he observed the popularity of a cheap energizing drink called Krating Daeng among truck drivers and construction workers. Finding that it

helped ease his jet lag, he decided to license the product and sell it in Austria under the name Red Bull Energy Drink. Rather than simply importing the product, Mateschitz realized the opportunity to combine the newly obtained knowledge about a product (a drink popular among truck drivers) and the knowledge about his home market (conservative beverages market, growing clubbing scene) into an entirely new business idea. By adapting size, taste, and brand, he created the first energy drink for the alternative clubbing scene – something previously unseen in the Thai and Austrian markets.

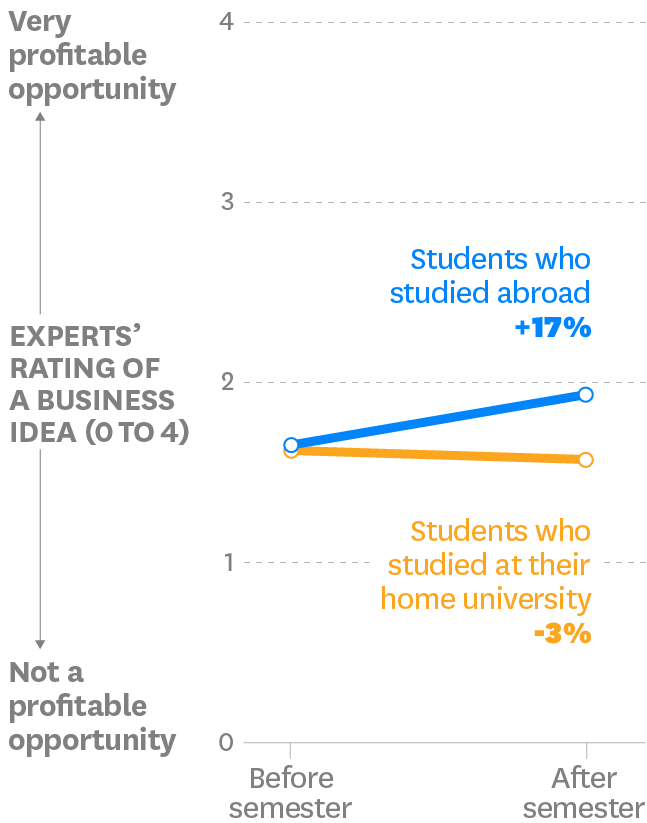
We conducted two experiments to find evidence that these effects can make immigrants more entrepreneurial. First, we analyzed the effects of short-term cross-cultural experiences in a longitudinal field experiment. We tested the entrepreneurial capabilities (i.e., the ability to identify profitable business opportunities) of 128 students before and after a semester of living and studying abroad by asking them to come up with business ideas in the context of media and food retailing. We did the same for a control group of 115 students that continued their studies at their home university. The business opportunities they came up with were rated by four venture capitalists and industry experts blind to the source. Results showed a clear pattern (see Figure 1): The group that gained cross-cultural experience received significantly higher VC and expert ratings (+17%) on their business ideas after their semester abroad, while the ratings of the control group's business ideas actually declined slightly (-3%) at the end of the semester.

We also conducted a laboratory experiment in which we tested these same effects with a sample that had long-term cross-cultural experiences – 96 migrant entrepreneurs in Austria. We randomly assigned them to two groups. Applying a technique called *priming*, we asked the experimental group to recall particular experiences while living abroad, thereby activating the memories and associations connected to their cross-cultural experience. The control group was asked to recall neutral experiences that were not related to cross-cultural memories. Both groups were invited to come up with business ideas that were then rated by experts. The business ideas of the group with activated cross-cultural experience were rated significantly higher (27%) by experts than the ideas of the control group.

In order to better understand this phenomenon, we interviewed all 96 participants after the experiment, asking them to describe how they generated ideas. These interviews were coded independently by two raters. Results showed that many participants had indeed applied knowledge

Students Are Able to Come Up with Better Business Ideas After Studying Abroad

A study of 243 undergraduates shows that cross-cultural experience increases students' ability to recognize profitable opportunities, as assessed by four VCs and other industry experts.



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arbitrage (e.g., “Innovative shop concepts such as [name of Asian supermarket chain] are missing in Vienna”) and creative recombination (e.g., “In France, I have seen supermarkets that were so big that all employees were wearing rollerblades....In my concept I also tried to use space as design concept to impress”) to identify profitable business opportunities.

The finding that cross-cultural experiences increase opportunity recognition capabilities has clear implications for businesses, entrepreneurs, and policy makers. It highlights the value of cross-cultural work experience or a migration experience for entrepreneurs and entrepreneurial companies. Entrepreneurs and managers can actively seek to build such experiences by living abroad and systematically comparing what they observe in other markets. In multinational businesses, human resource management tools such as expatriate assignments or international job rotations can help build opportunity recognition skills. To make these

tools even more effective, managers can complement them with entrepreneurship training prior to an international assignment. Furthermore, priming instruments like the ones in our experiments could be used while living abroad and afterward to spur business ideation.

For companies, ignoring the positive effect of cross-cultural experience on opportunity recognition may be harmful. If expatriates with good ideas receive no chance to exploit them within a company, they might choose to do so outside of it. Previous research has identified that many expatriates choose to leave their organizations soon after finishing an overseas assignment, when they suffer from a lack of promotion opportunities, career counseling, and status. Our results suggest that some of them might do this in order to exploit opportunities to become entrepreneurs.

Implications of our research also extend to the field of immigration policy. The United Nations estimates that there are over 240 million temporary and permanent migrants and refugees worldwide. Our results help explain the above-average entrepreneurial activity of this group and highlight the positive effects that immigration can have on an economy. We show that migration does not need to be a zero-sum game or a “war for talent,” with migrating entrepreneurs increasing entrepreneurial activity in one country at the expense of another. Instead, migration can help nurture entrepreneurial abilities by fostering the learning and application of cross-cultural knowledge that helps someone identify profitable opportunities.

Since immigration is increasingly seen by some people as a threat, the insight that more immigration may result in an overall gain in entrepreneurial activity may be a useful reminder of the opportunities associated with migration. It suggests that public money may be better spent on building incubators for migrant entrepreneurs than on building border walls.



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

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Tolkin Yunusov 9 months ago

Futher research can be done on positive/negative cross-cultural experience. In addition, more clear definition of opportunities should be considered. Do immigrants recognize, create or just identify them.

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