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**Research Report**

## Immigrant Entrepreneurship in Finland

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# Immigrant Entrepreneurship in Finland



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## Abstract

Immigrant entrepreneurship is the subject of a prolific economic literature, as well as a source of wide public debate. This is because the participation of immigrants to the business community can provide a significant contribution to innovation and to market dynamics. This report touches multiple aspects of immigrant entrepreneurship in Finland, looking at the years from 2006 to 2014.

I find that while the number of self-employed immigrants has increased dramatically, the entrepreneurial rate has been stable. Moreover, the immigrant self-employment rate is similar to the one of natives. I find that the median earnings of foreign entrepreneurs are lower than the ones of Finnish entrepreneurs, but this is driven by the different industry distribution. Finally, I find an overrepresentation of foreign workers and entrepreneurs in the Helsinki region, while the immigrants' self-employment rate is higher in poorer areas.

I gather multiple evidence pointing toward the fact that difficulties in the job market push foreign residents to self-employment. For example, I find a negative correlation between the employment rate and the foreign share of entrepreneurial inflows, and a strong negative relationship between the employment rate and the immigrant self-employment rate at the regional level.

# Tiivistelmä

## Maahanmuuttajien yrittäjyyttä Suomessa

Raportissa tarkastellaan maahanmuuttajien yrittäjyyttä Suomessa vuosina 2006–2014. Maahanmuuttajien yrittäjyyttä on pidetty tärkeänä akateemisessa kirjallisuudessa sekä julkisessa keskustelussa. Maahanmuuttajat voivat tarjota esimerkiksi merkittävän panoksen innovaatioihin ja markkinadynamiikkaan.

Ulkomaalaistaustaisten yrittäjien määrä on kasvanut selvästi viime vuosina, mutta yrittäjien osuus maahanmuuttajataustaisen työvoiman keskuudessa on pysynyt vakaana. On myös huomattava, että maahanmuuttajien yrittäjyysaste on samaa luokkaa kuin kantaväestöllä. Kantaväestön yrittäjätulot ovat selvästi korkeammat kuin maahanmuuttajilla. Ero kuitenkin kapenee, kun toimiala otetaan huomioon. Havaitaan, että maahanmuuttajataustaiset yrittäjät ja työntekijät ovat voimakkaasti keskittyneet Uudellemaalle, mutta maahanmuuttajien yrittäjyysaste on korkea sellaisilla alueilla, joilla työllisyysaste on matala.

Tämä analyysi tarjoaa näyttöä siitä, että maahanmuuttajien vaikeudet työllistyä työmarkkinoilla lisäävät heidän yrittäjyyttään. Tästä kertoo havainto, että työllisyyden muutoksen ja maahanmuuttajien yrittäjäksi ryhtymisen välillä on negatiivinen yhteys. Samasta asiasta kertoo myös alueen työllisyysasteen ja maahanmuuttajien yrittäjyysasteen välillä havaittu negatiivinen yhteys.

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**Key words:** Immigrants, self-employment, earnings differentials

**Avainsanat:** Maahanmuuttaja, yrittäjyys, tuloerot

**JEL:** J24, J61, M13

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# Contents

<b>1</b>	<b>Introduction .....</b>	<b>4</b>
<b>2</b>	<b>Literature review .....</b>	<b>4</b>
<b>3</b>	<b>Data sources .....</b>	<b>6</b>
<b>4</b>	<b>Immigrant self-employment patterns in Finland .....</b>	<b>6</b>
<b>4.1</b>	Self-employment propensity.....	6
<b>4.2</b>	Immigrant self-employment and entrepreneurial income .....	10
<b>4.3</b>	Regional aspects of immigrant self-employment.....	12
<b>5</b>	<b>Conclusions.....</b>	<b>15</b>
	<b>References .....</b>	<b>16</b>

# 1 Introduction

The economic impact of immigration has been a widely discussed subject, especially during the last couple of decades. The increasing attention on this matter can be explained by the surge in migration flows that many OECD countries have experienced. For example, Arslan et al. (2014) show that the share of foreign-born residents has substantially increased for most OECD countries, in the period going from 2000 to 2010, with the stock of migrants increasing by 38% during the same period. The rising inflow of immigrants to a country affects multiple aspects of the host economy, ranging from the labour market (on this point, Kerr and Kerr, 2011, provide a comprehensive survey of the literature), innovation (see, for example, Alesina et al., 2016) and the creation of new businesses, to name a few.

This report is concerned with the immigrant contribution to the entrepreneurial activity of the Finnish economy. Foreign-born residents have been shown to be a major factor behind the creation of new businesses in the host country, contributing to the generation of new jobs and to the creative destruction process related to the entry and exit of enterprises. This study focuses on the phenomenon of immigrant self-employment, meaning that we use a loose definition of entrepreneur (e.g. not requiring the status of employer) and that we study individual-level behaviour, omitting aspects related to firms.

In this study, we seek to answer few questions, which have been recurring in the immigrant entrepreneurship literature, covered in Section 2. Firstly, do foreign-born residents have a higher propensity to be self-employed, compared to natives? Additionally, what are the dynamics of immigrant entrepreneurship, i.e. how do immigrants contribute to the inflow and outflow of entrepreneurs? Another point which is highly studied is whether there is an income gap between native and immigrant entrepreneurs, and how this is affected by the different industry distribution. Moreover, given the heterogeneity of the immigrant entrepreneurship phenomenon, it is important to look at different groups of foreign residents, based on their origins. Finally, we examine how self-employed immigrants are distributed across the different Finnish regions.

We find that the self-employment rate of immigrants is similar to the natives' one and has been relatively stable over time. However, this apparent stability masks a strong upward trend of the number of foreign workers and entrepreneurs. Immigrants of different geographical origins display varying self-employment rates, going from the 38% of residents of Turkish origins to the 4% of immigrants from Sub-Saharan Africa. With respect to the foreign residents' contribution to the inflow and outflow of entrepreneurs, we find an upward trend, reflecting the growing number immigrant workers and self-employed persons. Interestingly, the contribution of immigrants to the inflow of entrepreneurs displays a strongly counter-cyclical pattern, which supports the view of immigrant entrepreneurship as "forced" (i.e. foreign residents are pushed toward self-employment due to difficulties in the job market). The results concerning entrepreneurial income evidence a large gap between natives and immigrants, but this income difference is largely driven by the different industry distribution of these two groups. Finally, the regional analysis displays a large concentration of immigrant entrepreneurs in Uusimaa, the region where Helsinki is located, due to the large share of foreigners in the population. However, we find a negative relationship between the regional employment rate and the self-employment rate of immigrants, giving additional evidence of push factors underlying the self-employment decision.

The remainder of this paper is structured as follows: In Section 2 we present a short overview of the literature on immigrant entrepreneurship, while Section 3 contains a brief description of the data sources. We report the results of the analysis in Section 4 and Section 5 concludes.

## 2 Literature review

Given the central role that firms play in the economy, it is not surprising that a considerable research effort has been concentrated on immigrant entrepreneurship. The literature has been especially focused on determining whether the immigrant status is correlated with a higher likelihood of owning a business (or being self-employed) and, related to this, whether foreign-born residents are more likely to start an enterprise. Moreover, studies on immigrant entrepreneurship have been particularly keen on determining the characteristics of immigrant business-

es, such as the typical sectors in which immigrant firms tend to operate or whether migrants from certain countries tend to cluster in the same industry. Finally, there has been a clear interest on the contribution that immigrants and their businesses have on innovation, with a particular focus on high-skilled migration.

Multiple studies have indicated that the business ownership rate tends to be higher among immigrant. For the US, Fairlie and Lofstrom (2015) show that immigrants' business ownership rate is 11.0 percent, against the 9.6 percent of natives. However, this higher propensity of migrants to own a business does not hold universally. In the report OECD (2010), it is shown that while the business ownership rate of immigrant is higher in the US, the UK, Australia, Canada, France and the Nordic Countries (Denmark, Finland, Norway and Sweden), the opposite is true for countries like Austria, Germany, Greece, Italy, Switzerland, Spain and Portugal. Moreover, as pointed out in studies like Clark and Drinkwater (2000, 2009), or Fairlie and Lofstrom (2015), the propensity of being self-employed drastically changes based on the country of origin of the migrants.

The literature has also been interested in the propensity of immigrants to start an enterprise. This kind of research question is harder to tackle empirically, because it requires datasets that cover multiple time points. Clark and Drinkwater (2009), examine the change in self-employment probability between 1991 and 2001, for immigrants residing in the UK. Fairlie (2013) examines the US business formation rates between 1996 and 2007 and find that immigrants are more likely to start an enterprise. A similar result is found in Kerr and Kerr (2016). OECD (2010) reports the ratio of firm births to closure in Germany, finding that this ratio is considerably higher for certain immigrant groups, compared to natives. One of the standout examples is represented by immigrants from Eastern Europe, which have a firm creation to destruction ratio almost three times as large as the natives' one.

There has been a considerable effort in determining the factors behind the self-employment decision made by immigrant. For example, Clark and Drinkwater (2000) analyse so-called push factors, such as the reduction in the opportunity cost of becoming self-employed due worse labour market conditions faced by immigrants, or pull factors, such as better business opportunities derived

from the existence of ethnic enclaves, are the main drivers of immigrant entrepreneurship. They find evidence supporting both push factors (such as discriminatory wages in the paid-employment sector) and pull factors (such as higher self-employment rates for individuals belonging to religions that value entrepreneurship). Fairlie (2013) investigate the role that capital markets play in terms of influencing the migrant decision to own a business, highlighting the positive role that home ownerships has on business formation.

On the side of the main characteristics of immigrant-owned businesses, the literature has identified clear discrepancies in terms of the industry in which migrant entrepreneurs operate. For the US, Fairlie (2013) shows that the immigrant business ownership rate, relative to natives, is higher in industries such as retail trade and health care and social assistance. On the other hand, immigrants are less likely to start businesses in industries such as manufacturing or constructions. Clark and Drinkwater (2006) find that immigrants of different origins tend to set up their businesses in specific industries. Finally, Kerr and Mandorff (2016) develop a model of social interactions to explain the clustering of immigrant businesses in specific industries. There are multiple other firms' characteristics which have been studied in the immigrant entrepreneurs' literature. Fairlie (2008) finds that the business income of immigrants, in the US, is substantially lower than the one of natives. A similar result is presented in Kerr and Kerr (2016) and Fairlie and Lofstrom (2015). Akee, Jaeger and Tatsiramos (2013) find that immigrants who have been entrepreneur in their countries of origin exhibit a higher propensity to own businesses and tend to have higher earnings after migration. Åslund, Hensvik and Skans (2014) use Swedish data to study the propensity of immigrant managers and business owners to hire foreign-born residents compared to natives. They find that businesses which are owned by an immigrant are much more likely to hire immigrants. Looking at US data, Fairlie (2013) finds that immigrant-owned firms export more and tend to be smaller than native-owned ones. Finally, he points out that immigrant tend to start businesses in industries which require a lower start-up capital.

Another aspect that has been widely investigated is the degree to which immigrants contribute to the innovation process of an economy. Kerr (2014) shows that im-

migrants represent 16 percent of the US workforce with a bachelor's degree, with a particularly high contribution to the Science, Technology, Engineering and Mathematics (STEM) fields. Hunt and Gauthier-Loiselle (2010) find that immigrants in the US have a higher patenting rate, which is explained by the higher propensity to hold a degree in the STEM fields. Ozgen, Nijkamp and Poot (2012) study the effect of immigration on patenting activity in Europe and find that diversity has a positive effect on patent applications. Interestingly, they observe that the number of immigrants does not have a significant impact, indicating that having migrants from different backgrounds is more important than having a higher immigrant population. A similar result is found in Bosetti et al. (2015).

The literature on the contribution of immigrant business to the economy of the host country is somewhat scarcer. Notable examples are Fairlie (2008) and Fairlie and Lofstrom (2015). In these two works, the authors use a number of nationally representative surveys of the U.S. economy, to estimate the contribution of immigrant enterprises to total business income, what is the fraction of new businesses is started by foreign-origin persons and what is the share of total employment stemmed from immigrant firms. In particular, Fairlie and Lofstrom (2015) show, using 2007–2011 data based on the Current Population Survey, that almost 25 percent of new business owners in the U.S. are immigrants. Moreover, they find that immigrant businesses account for around 15 percent of total business income and almost 10 percent of total employment (these figures are based on the Survey of Business Owners of 2007). For the U.S. economy, Kerr and Kerr (2016) construct a novel data platform based on the Census Bureau administrative data, such as the Longitudinal Employer-Household Dynamics database and the Longitudinal Business Database and utilize it to provide evidence on many aspects of immigrant entrepreneurship, including their contribution to business creation and employment growth.

### 3 Data sources

The main data source of our analysis is the Finnish Longitudinal Employer-Employee Data (FLEED), a linked employer-employee dataset, containing individual-level

information such as employment status, profession, age, citizenship, region and municipality of residence, work and entrepreneurial income, and so on. One of the nice features of FLEED is that it is registry based, allowing for a full coverage of the working population. We combine the FLEED with a dataset containing information on whether an individual is of foreign origins. This data is available from 2006 onward, hence our analysis starts from 2006 and ends in 2014.

We consider as immigrant any individual of foreign origins. Specifically, we include in this category foreign citizens, people who became Finnish citizens after coming to Finland and second-generation immigrants. This latter choice might be questionable, because second generation immigrant might be closer to natives in terms of human capital and other factors driving self-employment decisions, but, in our case, they represent a small fraction of the total number of foreign-origin individuals. We follow the Statistics Finland's definition of self-employed person, i.e. individuals who have a self-employed person's pension insurance and have entrepreneurial income larger than the wage income. This definition might be stricter than the one used in surveys, where respondents define their main activity themselves, and thus our results might differ from the ones of previous research based on surveys (e.g., OECD, 2010).

## 4 Immigrant self-employment patterns in Finland

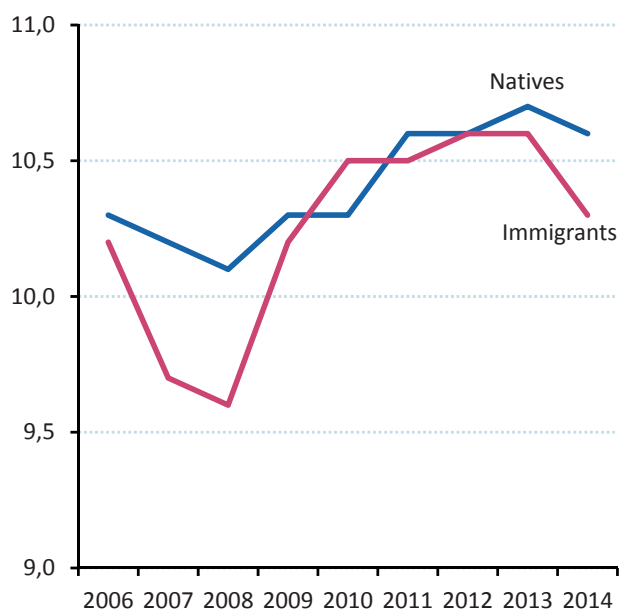
### 4.1 Self-employment propensity

One of the most, if not the most, studied questions in the immigrant entrepreneurship literature, is whether natives and foreign-origin individuals have a similar propensity to be self-employed. To investigate this issue, we report the self-employment rate for natives and immigrants, from 2006 to 2014, to see how they compare and whether they have changed substantially over time.

Figure 1 indicates some interesting features of immigrant self-employment. First of all, there seem to be no significant difference between the self-employment rate of natives and the one of immigrants, on average. The two

series are very close, except for 2007 and 2008, with a mean of 10.4 percent for natives and 10.2 percent for im-

**Figure 1 Self-employment rate in Finland, %**



Self-employment rate for natives and for persons of foreign origins. The immigrant group comprises all people of foreign origins, including second generation immigrants.

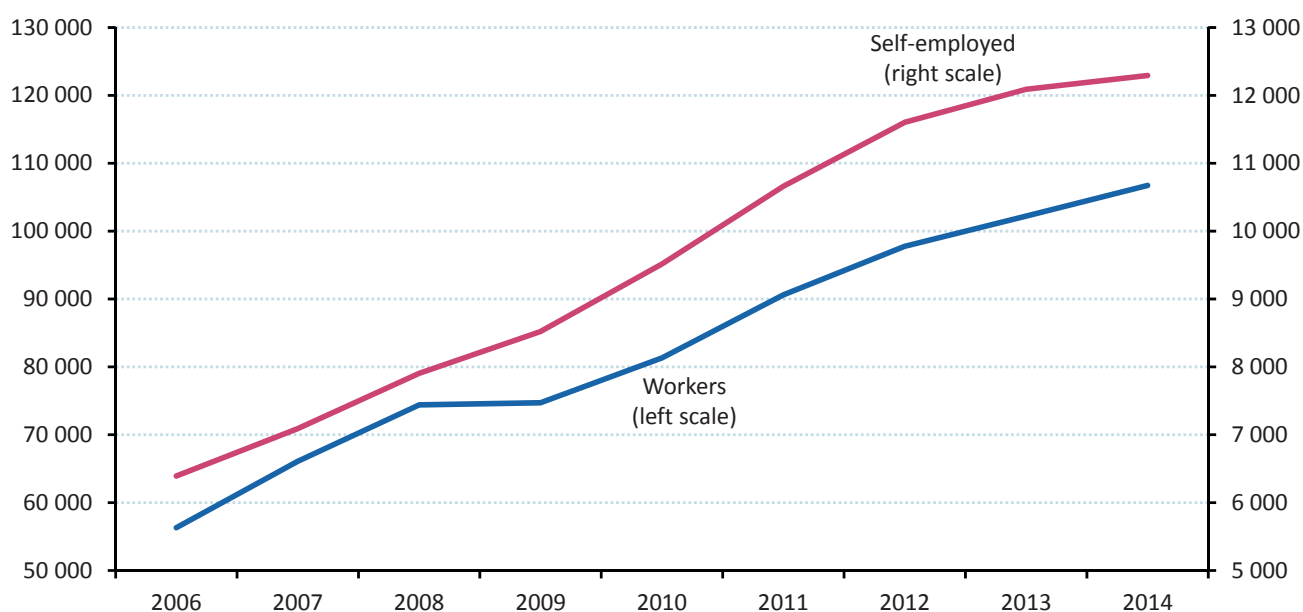
**Source:** Statistics Finland and author's own calculations.

migrants. This contrasts with what has been found for the US and the UK, where individuals of foreign origins tend to have significantly larger self-employment rates, while our result resembles the one found for other European countries. We get another interesting finding from Figure 1, i.e. that the self-employment rates for both natives and immigrants have been relatively stable over time. However, the rate for immigrant is substantially more volatile than the one for Finnish persons, where the standard deviation of the former is around 0.35 against 0.20 for the latter.

The stability of self-employment rates might hide some more pronounced dynamics driving the immigrant workforce thus, to see this, we plot the number of workers of foreign origins together with the number of immigrants in self-employment, from 2006 to 2014.

Figure 2 shows that the number of immigrant workers and entrepreneurs has increased substantially in the span of eight years. The number of immigrant employees has grown by almost 90 percent from 2006 to 2014, while the number of foreign origin persons in self-employment has increased by 92 percent. The similarity of the growth rates of these two series reflects the results of Figure 1, i.e. the stability of the self-employment rate. These figures are

**Figure 2 Number of immigrant workers and in self-employment**



**Source:** Statistics Finland and author's own calculations.



remarkable and underline the large increase in the influx of immigrants to Finland, and in general to many European countries, during the recent years.

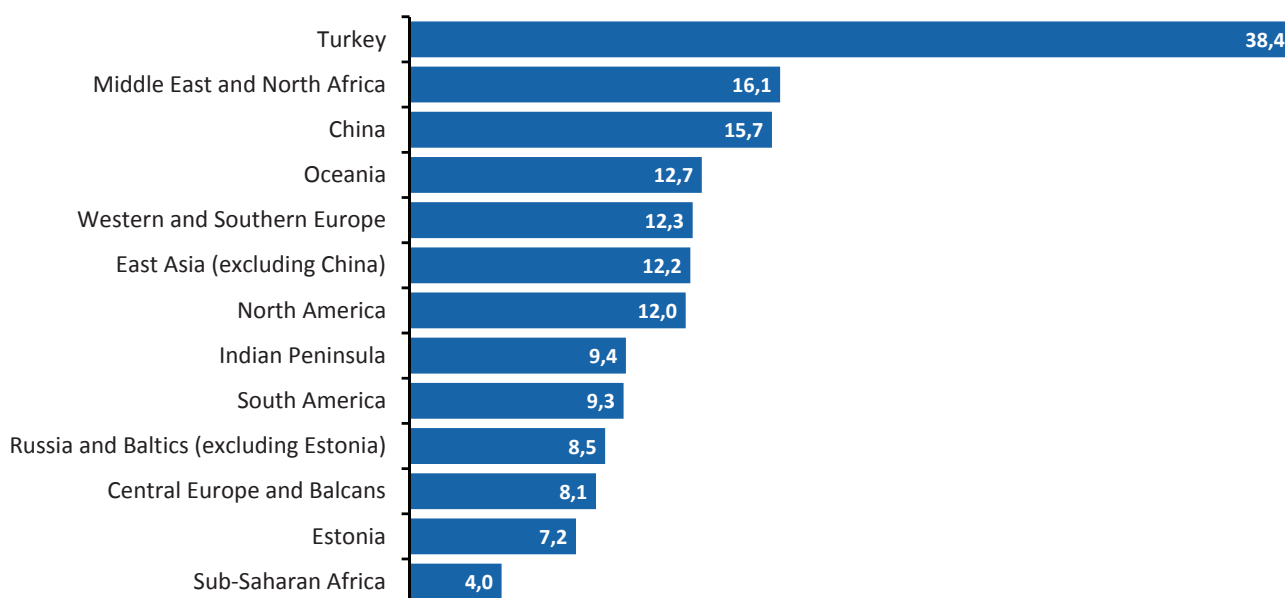
As pointed out in many empirical studies, geographical origins are an important factor behind the different entrepreneurial rates within the immigrant group. To tackle this issue, we split the immigrant population based on the following geographical categories: Western and Southern Europe, Central Europe and Balkans, Russian and former members of the Soviet Union excluding Estonia, East Asia excluding China, Indian Peninsula, Middle East and North Africa, North America, Oceania, South America and Subsaharian Africa. We examine separately immigrants from three specific countries: Estonia, due to the very large presence of workers and entrepreneurs from this country, China and Turkey. These latter two groups are separated from the others because of their particularly large self-employment rate. We report the self-employment rates for immigrants of different geographical origins, specifically the average over the years 2006–2014, in Figure 3.

As shown in previous empirical evidence for various economies, the self-employment rate of persons of foreign-or-

igins is extremely heterogeneous. At the lower end, we have immigrants coming from Subsaharian African countries (including Somalians, one of the largest immigrant communities in Finland) with a 4 percent entrepreneurship rate. At the other end of the spectrum, the largest self-employment rate is the one of immigrants from Turkey, reaching almost 40 percent. Residents of Estonian origins have a 7 percent entrepreneurship rate, while the latter is 16 percent for Chinese immigrants. Somewhat surprisingly, foreign residents originally from Western and Southern Europe have a slightly higher entrepreneurship rate (12 percent), compared to the self-employment rate of the whole immigrant group. Another large entrepreneurship rate is found for immigrants coming from Middle Eastern countries and North Africa.

Differing entrepreneurship rates for immigrants of different geographical origins reflect a large number of factors which impact the decision to turn to self-employment. For example, the low entrepreneurship rate for immigrant from Sub-Saharan Africa might be explained by lower startup capital compared to, e.g., persons from Western Europe or China. Moreover, cultural factors can be at work in this setting. As pointed out in Clark and Drinkwater (2000), religions such as Islam value entre-

**Figure 3 Self-employment rates (out of the working population) for immigrants of different geographical origins, average over the years 2006 to 2014, %**



**Source:** Statistics Finland and author's own calculations.

preneurial activity and this can be a factor behind the large entrepreneurial rate of immigrant from North Africa and the Middle East. It is important to underline the fact that different self-employment rates are difficult to judge in normative fashion. For example, the very large entrepreneurship propensity of Turkish immigrants might be the result of difficulties in finding a job in the paid-employment sector.

It can be useful to compare the propensity of self-employment, for immigrants of different geographical origins, with the unemployment rate associated to the different groups examined in Figure 3. I do this by plotting the average unemployment rate and self-employment rate (in this case measured out of the total active population, rather than the working population) over the years 2006 and 2014.

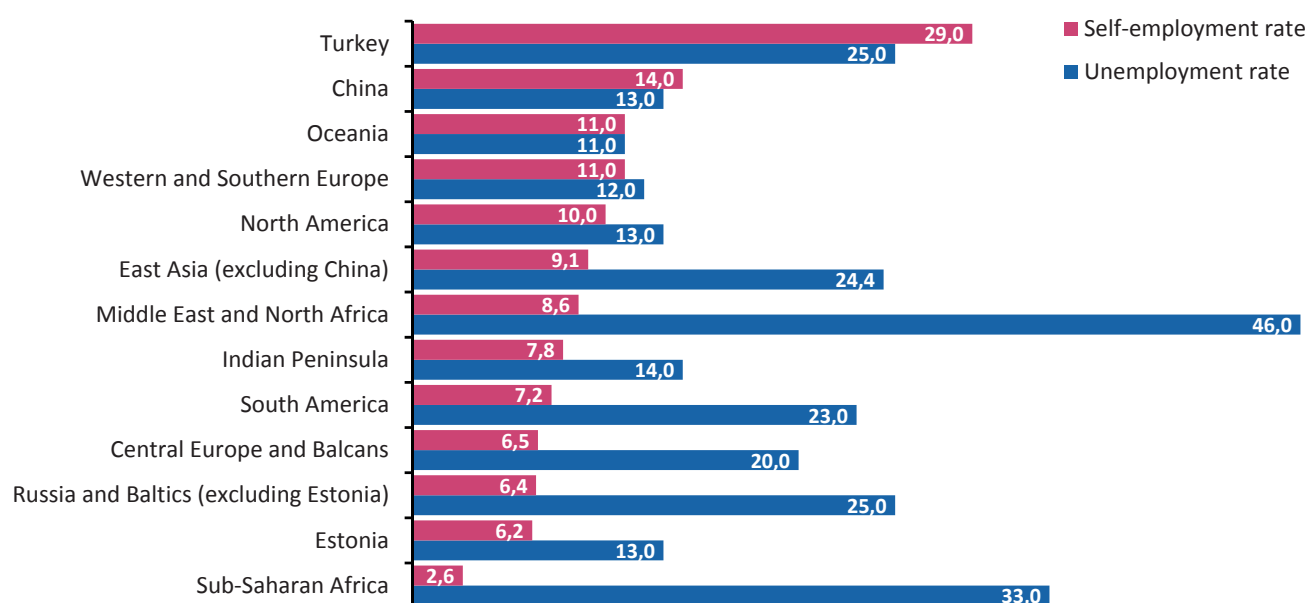
As it can be expected, the unemployment rate differs considerably among different groups of immigrants, going from the 46% of foreign residents from middle eastern countries (notice that many immigrants from this region, as well as the ones coming from Subsaharian Africa, are asylum seekers, which can explain their difficulties in the labour market), to the 12% of immigrants from Western

and Southern European countries. While the rather high unemployment rate among immigrants of Turkish descent (25%) is associated to a very large self-employment rate (29% of the active population), and thus supports the view of immigrant entrepreneurship as a “forced” phenomenon, the opposite can be said for immigrants coming from Subsaharian Africa. This group has the second largest unemployment rate (33%) and the lowest self-employment rate (3%), indicating that, for some group of immigrants, problems in entering the job market are associated to difficulties in establishing businesses. Overall, it is hard to find a relation between the success in the job market and the tendency to be self-employed, when looking at immigrants of different origins.

We conclude this subsection by looking at the contribution that immigrants bring to the formation of new businesses, or, to be more specific, at the share of new self-employed workers that are of foreign-origins. At the same time, it is interesting to see the immigrants’ contribution to the outflow of entrepreneurs. We report these measures over the years 2007–2014, in Figure 5.

The results in Figure 5 indicate a steady increase in the contribution of the immigrant group to the flow of en-

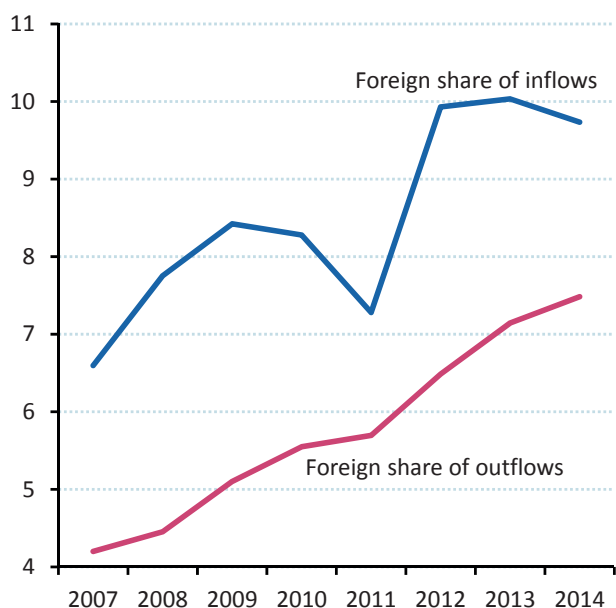
**Figure 4** Self-employment and unemployment rates (out of the active population) for immigrants of different geographical origins, average of the years 2006 to 2014, %



**Source:** Statistics Finland and author’s own calculations.

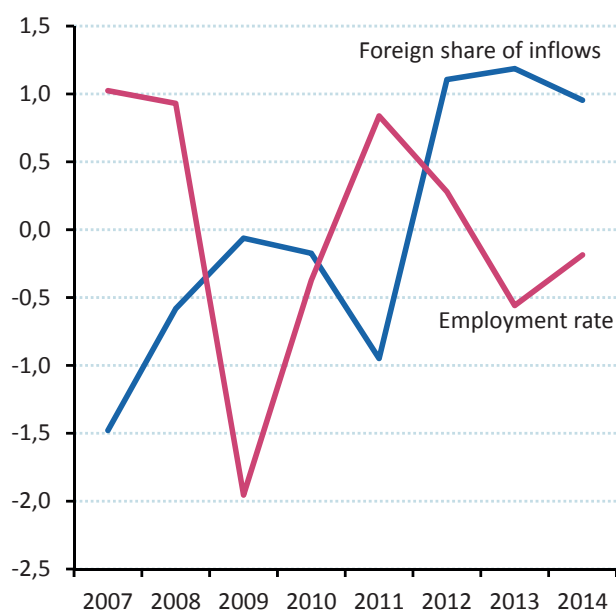
trepreneurs. This is expected, given the growing number of foreign entrepreneurs (shown in Figure 2) and the stable share of native entrepreneurs (see Figure 1).

**Figure 5 Entrepreneurial inflows and outflows, share of persons of foreign origins, %**



Source: Statistics Finland and author’s own calculations.

**Figure 6 Entrepreneurial inflows, share of persons of foreign origins, and the employment rate**



Both indicators are standardized.

Source: Statistics Finland and author’s own calculations.

However, it is interesting to see that the role of immigrants in the renovation of the entrepreneurial market has become more and more important, albeit much lower than the one found for the US economy (see Fairlie and Lofstrom, 2015).

The visible drop in the share of immigrants in 2011 warrants further discussion, as it relates to the discussion on whether immigrant entrepreneurship is driven by “push” or “pull” factors. In 2011, the Finnish employment rate increased by almost a percentage point, after two consecutive declining years. Below, I depict the standardized values of the share of new immigrant entrepreneurs (out of total new entrepreneurs) and the change in the employment rate.

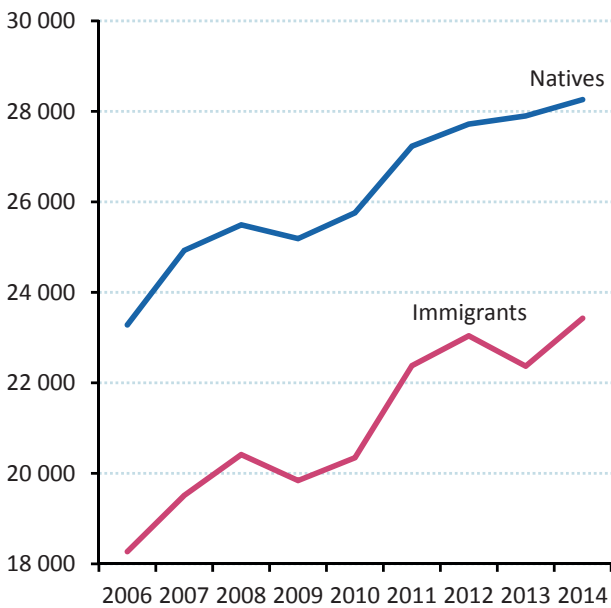
Figure 6 shows a clear countercyclical pattern of the immigrant share of new entrepreneurs, reflected by a -0.46 correlation between the two series. When the labour market conditions improve, foreign residents contribute less to the inflow of new entrepreneurs, and the opposite occurs in times where the employment rate drops (as in 2012 and 2013). This countercyclicity suggests that the so-called “forced” entrepreneurship phenomenon plays a role in the self-employment decision of immigrants.

## 4.2 Immigrant self-employment and entrepreneurial income

The gap between the income of native entrepreneurs and immigrant ones is often examined in the economic literature and in the public debate. The difference between the earnings of these two entrepreneurial groups is not only a good indication of how self-employed persons of foreign origins fare in the Finnish business environment, but provides some additional signals on whether immigrant entrepreneurs are pushed to self-employment. We start our description of the natives vs. immigrants’ entrepreneurial income by looking at the overall business sector, i.e. we do not differentiate between industries. We report the median entrepreneurial income for Finnish entrepreneurs and immigrant ones from 2006 to 2014, in Figure 7.

As it can be seen from Figure 7, there is a sizable gap between the entrepreneurial income of natives and immigrants. Moreover, it seems that this income differential has been fairly stable over time, or at least there is no noticeable income convergence. These results, at a first

**Figure 7 Median entrepreneurial income for natives and persons of foreign origins, eur**



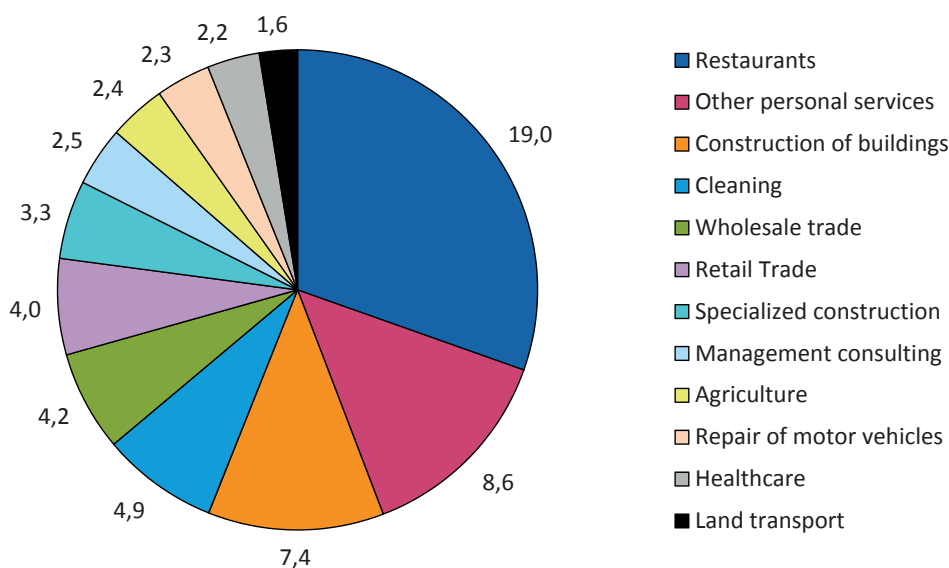
**Source:** Statistics Finland and author's own calculations.

glance, are worrying because they point toward a difficulty of immigrants in generating a similar income as the one of natives, possibly because of less productive businesses, which can be in turn an indication of “forced” entrepre-

neurship. On this point, it is interesting to see the large increase in median income of immigrant entrepreneurs in 2011 (when the employment rate increased, and the immigrant share of new entrepreneurs decreased) and the subsequent drop in 2013 (when the employment rate dropped). However, the correlations between entrepreneurial income and the aggregate employment rate are similar for natives and immigrants.

The large income gap depicted in Figure 7 might be driven by some firm-level characteristics, which we should control for. For example, immigrant businesses might be younger and smaller, which can lead to lower earnings. Another important missing control is the industry in which entrepreneurs operate. The gap shown in Figure 7 might not be the result of a lower performance of immigrant businesses, rather the outcome of a different industry distribution of natives and of persons of foreign origins. We investigate this matter by looking at the median income of Finnish and immigrant entrepreneurs, for different industries. To keep things somewhat compact, we consider only those industries in which there is a sizable number of foreign entrepreneurs. We first show the top-10 industries in terms of immigrants' presence, i.e. the 10 sectors with the largest share of foreign entrepreneurs, in Figure 8. Figure 9 shows the median entrepre-

**Figure 8 Top-10 industries in terms of the number of foreign entrepreneurs in 2014, %**



**Source:** Statistics Finland and author's own calculations.

neurial income for natives and immigrants in these 10 industries. For this analysis, we consider data from 2014.

First of all, a brief comment on the results depicted in Figure 8. The industry with the largest share of immigrant entrepreneurs is the restaurant business. The other prominent sector is other personal services, which includes a wide variety of activities such as hairdressers, beauty salons, dry-cleaners and more. These, as the rest of the industries reported in Figure 8, are not commonly known as being fast-growing sectors, such as, e.g., ICT. Moreover, these sectors have a tendency to have smaller and less productive businesses. These are all factors that can explain the large income differential in Figure 7.

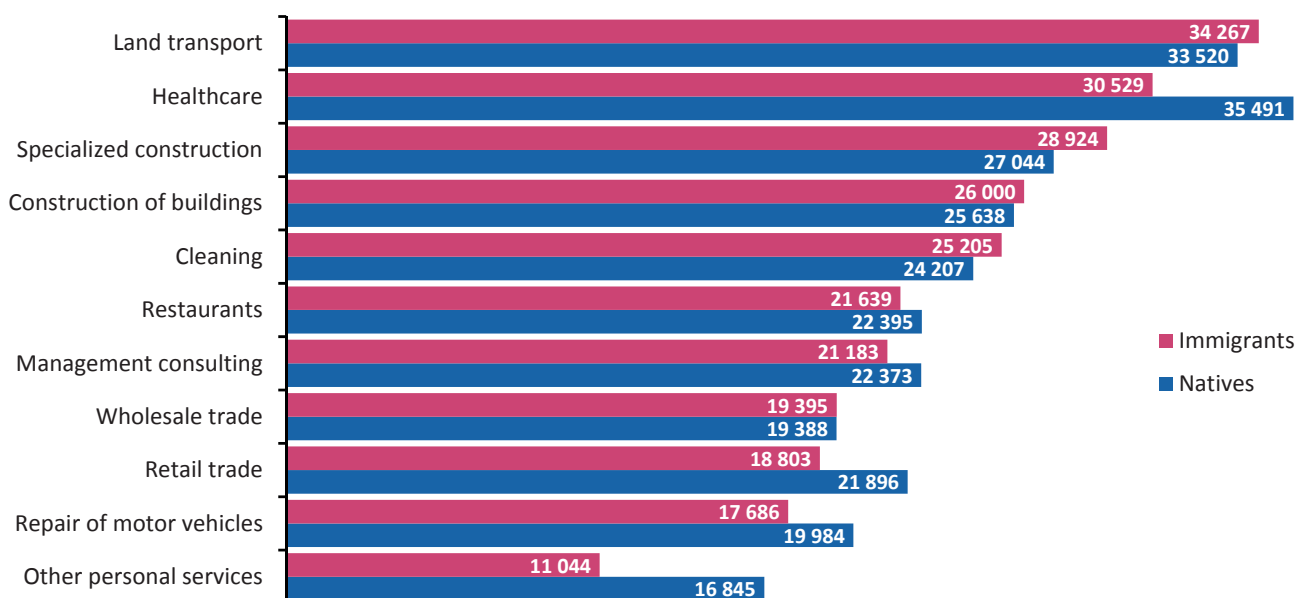
Figure 9 follows up on this intuition. The income differential is much narrower when looking at these prominent (in terms of foreigners' presence) industries, compared to the overall entrepreneurial population. For industries such as restaurants, retail trade, wholesale trade and repair of motor vehicles, the difference between median incomes is small, albeit the earnings are still higher for natives. The largest gap in favour of Finnish entrepreneurs is found in other personal services and healthcare. This income gap can be explained by the very wide definition

of this industry, which encompasses many different professions. It might be that foreign entrepreneurs are concentrated in less profitable jobs, and a narrower industry definition can close the gap even further. Finally, in construction of buildings, specialized construction (which includes, e.g., plumbing) and land transport the median income is larger for immigrant entrepreneurs. These results indicate that businesses owned by persons of foreign origins are not less remunerative due to intrinsic characteristics, once controlling for the industry of operation. It seems that immigrants tend to establish their businesses and professions in sectors with lower earning potential, which can still be a worrying fact. Immigrant entrepreneurs might lack the capital (either financial or human) to establish their firms in sectors with more growth opportunities and higher earnings, which could hamper their contribution to the Finnish economy.

### 4.3 Regional aspects of immigrant self-employment

The literature on immigrant entrepreneurship has underlined how immigrant self-employment is a geographically-clustered phenomenon (a typical example is the large share of immigrant entrepreneurs in California,

**Figure 9 Median income for natives and immigrant entrepreneurs in 2014, eur**



Data is for the top-10 sectors in terms of immigrant entrepreneurs' presence.

**Source:** Statistics Finland and author's own calculations.

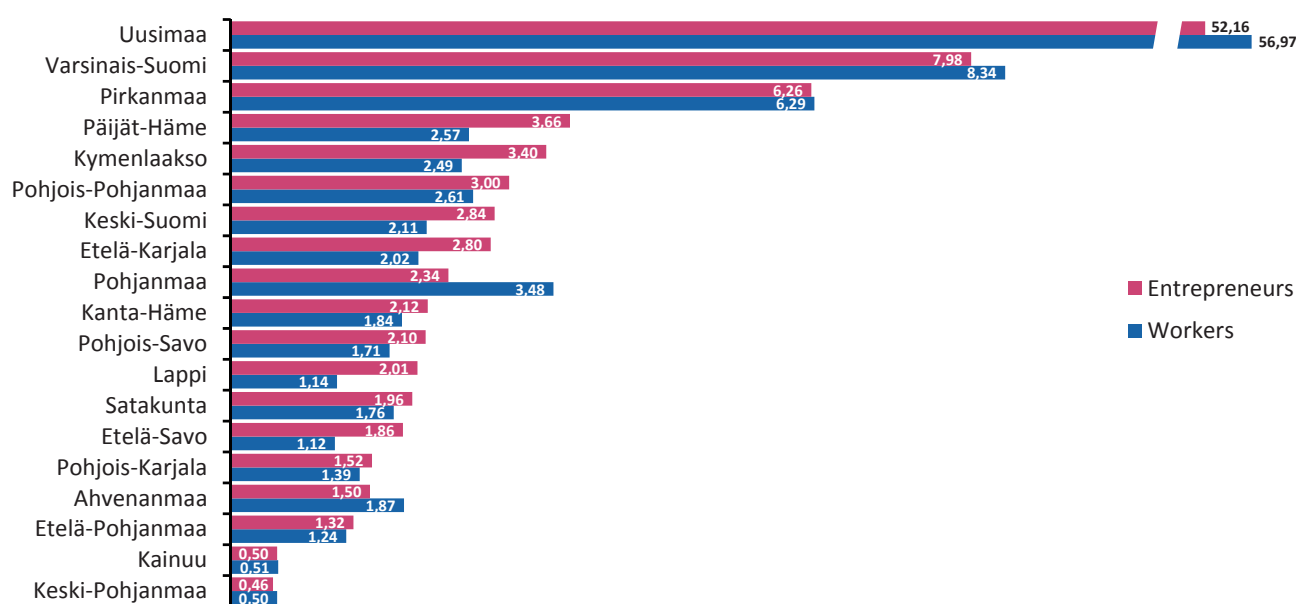
for the US). In many nations, there are some areas that are inherently more attractive to immigrants who want to start a business, for example due to the presence of large immigrant communities. We investigate this aspect in this subsection, by looking at the self-employment rates of persons of foreign origins at the regional level and at the distribution of immigrant entrepreneurs across Finnish regions. We start from the latter analysis, by plotting the share of total immigrant workers and entrepreneurs by Finnish region, in Figure 10. The data refers to the year 2014.

The most evident result that we can gather from Figure 10 is that immigrant workers and entrepreneurs are heavily concentrated in Uusimaa, the region which comprises the Helsinki metropolitan region. Specifically, 56 percent of immigrant workers and 51.5 percent of entrepreneurs live in Uusimaa. This region accounts for roughly 30 percent of the Finnish population, meaning that immigrant workers and entrepreneurs are substantially overrepresented in this area. While these numbers are impressive, the result are not surprising. The Helsinki metropolitan area is the location where the largest Finnish firms and financial institutions are established. Moreover, the largest Finnish universities are in Uusimaa, making it an at-

tractive destination for immigrants who want to acquire a high-level education and, possibly, start a business subsequently. Finally, and perhaps most importantly, it is the region with the largest share of population of foreign origins. Immigrants that want to come to Finland are likely to prefer locations where they can find persons with shared culture and language and where they can find advice regarding the start of a new business. Moreover, the presence of a large immigrant group might spur businesses which offer products or services targeted to that group, a phenomenon referred in the literature as “enclave economies”.

Another, less noticeable, result evidenced in Figure 10 is that immigrant entrepreneurs are slightly less concentrated around the largest Finnish regions (namely Uusimaa, Varsinais-Suomi and Pirkanmaa), compared to paid employees. This is especially evident for Uusimaa, where the difference between the regional share of immigrant employees and entrepreneurs is around 5 percentage points. This fact might indicate the immigrants who are planning to start up a business are more willing to look for opportunities in smaller regions, while foreign persons who are interested in finding a job might be more attracted to larger cities.

**Figure 10** Share of workers and entrepreneurs across Finnish regions in 2014, %

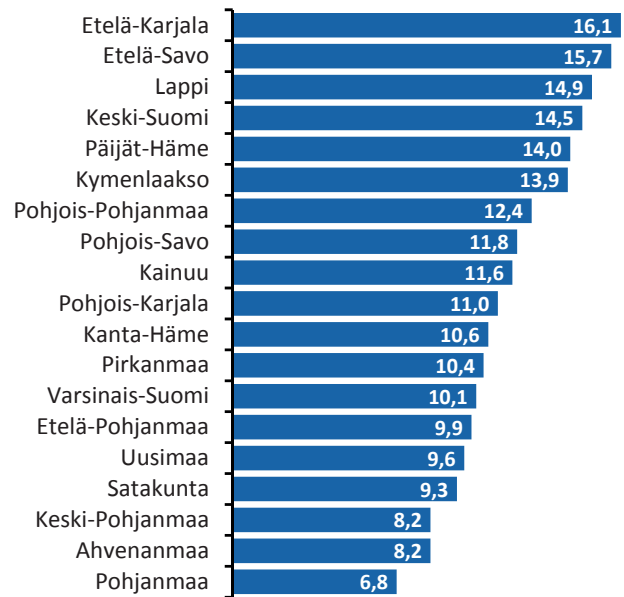


**Source:** Statistics Finland and author’s own calculations.

We now turn to the description of the immigrant self-employment rates at regional level. In other words, we look at whether the propensity to become self-employed is the same for foreigners living in different parts of Finland. The results are reported in Figure 11 and refer to the year 2014.

There is a lot of regional heterogeneity in terms of the tendency of immigrants to start a business. The largest self-employment rate is found in smaller (and relatively poorer) regions such as Etelä-Savo, Lappi and Etelä-Karjala. At the other end of the spectrum, the immigrant entrepreneurial rate in Uusimaa and Pohjanmaa is below the national value, especially for the latter (with a self-employment rate at 6.8 percent). At a first glance this result might be surprising, because we could expect that in regions with more business opportunities, such as Uusimaa, there should be a higher entrepreneurial rate. However, Figure 11 highlights a phenomenon that can be related to the existing literature, i.e. the fact that immigrants might be pushed to self-employment because of difficulties in the job market. To investigate this point further, I depict the scatter plot relating the employment rate of Finnish regions and their corresponding entrepreneurship rate of

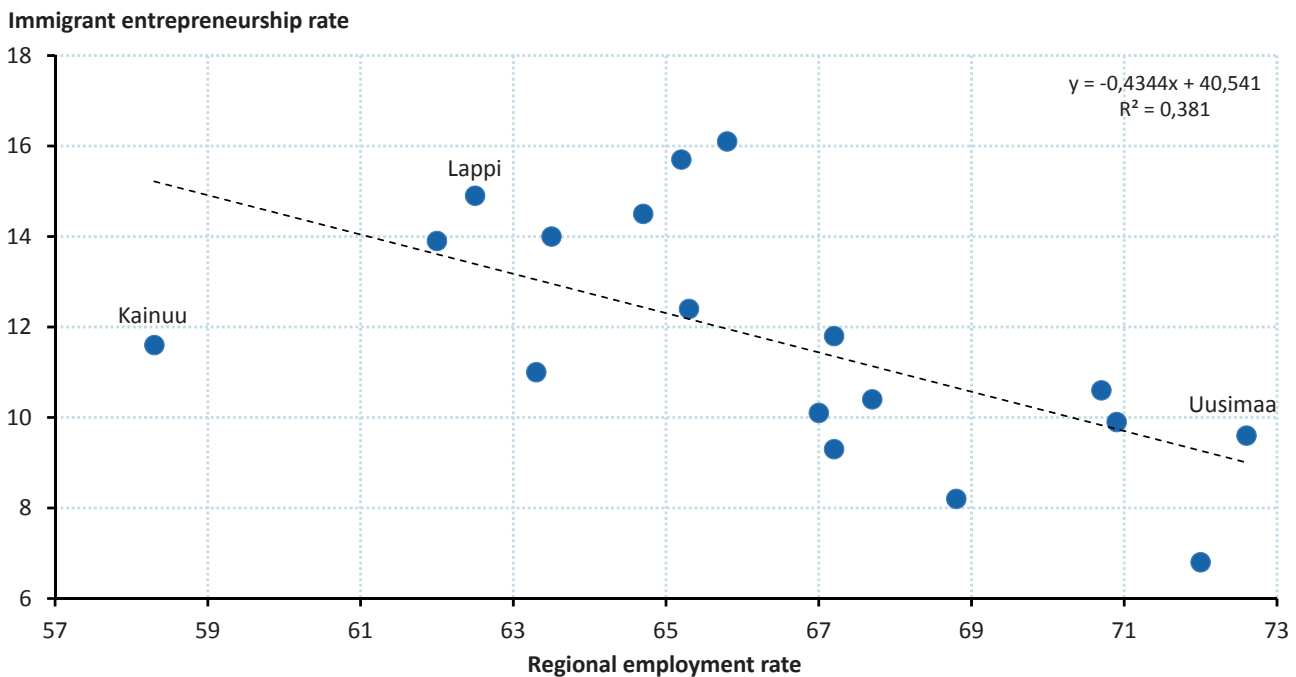
**Figure 11 Regional self-employment rate for persons of foreign origins, data from 2014, %**



**Source:** Statistics Finland and author’s own calculations.

foreign residents, considering the year 2014 and removing Ahvenanmaa from the data.

**Figure 12 Regional employment rate and immigrant entrepreneurship rate, %**



Data for 2014, excluding Ahvenanmaa.

**Source:** Statistics Finland and author’s own calculations.



Figure 12 gives some additional evidence regarding the importance of “push” factors driving immigrant entrepreneurship. Regions with better functioning job-markets and high employment rates, such as Uusimaa, have a lower entrepreneurship rate for foreign residents, while the immigrant entrepreneurship phenomenon is stronger in regions with lower employment rate (e.g. Lappi). The regression coefficient is negative, statistically significant at the 1% level, and meaningful in economic terms (a percentage point increase in the employment rate is associated to almost half a percentage point drop in the foreign entrepreneurship rate).

## 5 Conclusions

In this report, we describe some of the most salient features of immigrant entrepreneurship, in Finland. We focus on self-employed persons, allowing for a loose definition of entrepreneur, which should encompass the vast majority of the phenomenon. We examine the intensity of foreign entrepreneurship, the difference in the entrepreneurship rate between immigrant groups of different origins, the contribution of foreign residents to the flow of new business activity, the entrepreneurial income gap between natives and immigrants (also controlling the industry distribution of self-employed persons) and some aspects of the geographical clustering of entrepreneurs of foreign origins among Finnish regions.

We find that the entrepreneurship rate of natives is very close to the one of immigrants, and that the latter has been stable over time. However, the number of foreign entrepreneurs has dramatically grown over the years from 2006 to 2014, as well as the number of employees. This entrepreneurship rate varies widely among immigrant groups of different origins, from the almost 40% share of self-employed persons in the Turkish group, against the 4% for immigrants coming from Sub Saha-

ran countries. We find that the contribution of foreign residents to the inflow and outflow of entrepreneurs has grown over time. Moreover, it is interesting to see that the share of immigrants of the inflow of entrepreneurs is negatively correlated with the employment rate. The entrepreneurial income gap between natives and immigrants is large and it has been stable over time. Once we compare the earnings of entrepreneurs operating in the same industries, the gap closes substantially, indicating that the large income gap between immigrant and native entrepreneurs is mainly driven by the fact that the former group tend to cluster in less lucrative industries. Finally, immigrant workers and entrepreneurs are disproportionately concentrated in Uusimaa, but the highest entrepreneurship rates for foreign residents are found in poorer regions. In particular, we find a negative and statistically significant relationship between the regional employment rate and the self-employment rate of immigrants.

This study is descriptive, aimed at providing a comprehensive picture of immigrant entrepreneurship in the Finnish context. However, the results of our analysis give us multiple elements supporting the presence of push factors driving the decision of immigrants to become self-employed. The high countercyclicality of the contribution of immigrants to the inflow of entrepreneurs, the large concentration of migrants in slow-growing industries, as well as the higher self-employment rates in regions with worse job market conditions, point toward the fact that at least a part of foreign residents start a business in response to the difficulties in obtaining a job. Unfortunately, to evaluate thoroughly the important of push factors against some other, more positive and innate, drivers behind immigrant self-employment would require a great deal of information concerning language skills, religion and more, which is not present in our data sources. This, together with an analysis of the contribution of immigrant businesses to aggregate productivity growth and job creation, is left for future studies.



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