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## IMMIGRANT ENTREPRENEURSHIP AND HOST MARKET UNFAMILIARITY (SUMMARY)

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## SUMMARY

### IMMIGRANT ENTREPRENEURSHIP AND HOST MARKET UNFAMILIARITY

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#### **Principal Topic**

International business literature points out that foreigners operating in host countries face extra costs compared to natives due to unfamiliarity with the local environment (Hymer 1976). Nevertheless, recent research argues that immigrants have a higher likelihood to become an entrepreneur due to higher risk attitudes resulting from a self-selection process. In this regard, we study the role of risk attitudes for foreigner in comparison to local people.

Decisions under uncertainty are affected by perceptions of ambiguity (Ellsberg, 1961). Following the comparative ignorance hypothesis ambiguity matters more, if people can make comparisons with less ambiguous but similar and similarly relevant situations (Fox and Tversky, 1995). Because foreigners can compare their host market situation with both their home country and with locals, there are ample opportunities for immigrants to feel less knowledgeable and, therefore, to perceive more ambiguity than locals. Their reasoning is thus more based on ambiguity rather than risk considerations. This can result in less rational decision-making leading to potentially suboptimal outcomes.

Further, the comparative ignorance hypothesis requires comparisons, which involve additional cognitive effort. According to Chen and Chaiken (1999), people might not be willing to investigate a situation at such a detailed level if there is no real commitment required. As result, we propose that foreigners' perceptions of ambiguity matters more for their behavior than for statements about attractiveness or willingness to start a business.

#### **Method**

We test our hypotheses on two distinct data sets. First, we use a representative panel dataset for Germany to investigate the effects of risk attitude on individual decisions to become self-employed. In addition, we examine the hypotheses on a second dataset from a survey on the nascent entrepreneurial activities of German scientists.

#### **Results and Implications**

The empirical results confirm our theoretical reasoning. Foreign migrants' entrepreneurial behaviour is less driven by risk preferences as they are more likely to interpret uncertainty as ambiguity. Further, this effect is particularly relevant for explaining individuals' behaviour related to strong commitments. Finally, we contribute to the concept of liability of foreignness. We suggest that the economic disadvantage of being foreign can also be caused by foreign individuals' perceptions that may substantially differ from local individuals' perceptions in the way that foreigners perceive more ambiguity that makes them deciding in a way more susceptible to biases and potential pitfalls resulting in less optimal decision-making.

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