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SUMMARY

HOW DEEP ARE IMMIGRANT ENTREPRENEURS IN GERMANY ASLEEP? A DYNAMIC MODEL OF ADJUSTING BELIEFS

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Principal Topic

The aim of the current study is to measure to what extent do entrepreneurs in Germany rely on past experience when taking decision about their business ventures, and to what extent do they utilise new information about their economic performance to learn about their true (but unknown) abilities and trading environment. The answers of the above-stated questions imply an answer to the underlying composite issue: ‘How important is learning for the entrepreneurial success?’ that we seek to examine both theoretically and empirically in this paper.

Method

We estimate the model using data over the period 2000-2001 from the German Socio-Economic Panel (GSOEP), a wide-ranging, nationally representative longitudinal study of private households conducted by the German Institute for Economic Research since 1984. A self-employed person is of interest for our analysis if s(he) has been performing a self-employment activity in both years mentioned above. The entrepreneurial effort is defined as working hours invested in the own company.

Results and Implications

The main finding suggests that on average immigrant entrepreneurs adjust their expectations of unobserved productivity in the light of new information by around 72.5 per cent whereas German entrepreneurs are slightly asleep compared to immigrants. This implies that immigrant entrepreneurs do exploit new information, and they give much more weight to present experience when forming their expectations. Moreover, several differences have been detected in terms of experienced and less experienced entrepreneurs, employers and non-employers. However, younger immigrant entrepreneurs appear to respond significantly more sensitively to new information than older entrepreneurs do, with adjustment rates of 77.9 per cent contrasted with 68.6 per cent. Finally, we go on to discuss some policy implications of these finding that might help entrepreneurs, native and immigrant, in Germany to improve their business performance.

In total, the empirical analysis has revealed that utilisation of new information by entrepreneurs in Germany is extremely fast and not modest at all, and this finding appears to hold across a variety of distinct entrepreneurial groups.

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