

What do immigrant entrepreneurs know about finance and accounting? An international study

by

Marco Trombetta

(IE University)

Julio de Castro

(IE University)



Outline

- Motivation
- Financial literacy and entrepreneurship
- Financial literacy and *immigrant* entrepreneurship



Refugees make great entrepreneurs and workers

If only they are allowed to



Immigrant entrepreneurs

Motivation

- Immigration is an unstoppable force in Europe
- Many immigrants end up being self employed
 - Could be the key to integration
- Drivers of success of immigrant entrepreneurs is a key research topic
 - Aliaga-Isla & Rialp (2013)



Financial literacy & entrepreneurship



Who is an entrepreneur?

Is any self-employed person an entrepreneur?

- *Opportunity* entrepreneur
 - those that voluntarily choose to start a business because they are able to identify a good business opportunity and act on it
- *Necessity* entrepreneur
 - those forced to become entrepreneurs because of lack of other alternatives



Cumurovic and Hyll (2019)

- 2009 German SAVE study
- Wage earners vs self employed
- Some IV available (mother education)

Financial literacy has a positive effect on the probability of being self-employed



Brindusa et al. (2021)

- OECD survey for small enterprises
- Administered to a Spanish sample in 2021
 - Less than 50 employees

- Main finding

Financial literacy is higher for relatively bigger enterprises (between 20 and 49 employees)

- Is financial literacy associated with performance?
 - Not investigated in the study



Alperovych et al. (2021)

- Survey to a Dutch panel of entrepreneurs in 2016
- Self reported level of accounting and finance literacy
- Finding

Self-reported financial literacy correlates
positively with business performance



Trombetta (2023)

1. New measure of Accounting and Finance literacy
 - 5 new questions on the top of the “Big Three/Four”
2. Does financial literacy differ among entrepreneurs in Italy, Spain and the UK?
 - Yes it does
3. Is financial literacy associated with entrepreneurial resilience and success?
 - Yes, but in a peculiar way



Accounting & Finance literacy

Trombetta (2023)

- 6 additional questions
- Basic

Q4 Cost of Debt (additional basic) (finance)

- Advanced

Q5 Debt as a mean of financing (finance)

Q6 Growth and financial health (finance)

Q7 Cash vs Accrual (accounting)

Q8 Investment and depreciation (accounting)

Q9 ROA vs ROE (accounting & finance)

- “Inspired” by Van Roij, Lusardi & Alessie, 2011, JFE
 - Advanced literacy





Trombetta (2023): sample

- 3 countries: Italy, Spain, UK
- 1200 self-employed individuals
 - 400 for each country
 - Representative of the population of self-employed people in the country
- Survey administered by a market research company



Financial management profiles

Basic Financial Literacy

		Low	High
<i>Advanced (Acc. & Finance) Literacy</i>	Low	<i>Naïve</i>	<i>Conservative</i> Italy 
	High	<i>Risky</i> UK 	<i>Sophisticated</i>

Spain ? 



Financial literacy & *immigrant* entrepreneurship



Malki (2022)

- Financial ambidexterity of IE
 - The *“ability to explore and exploit financing opportunities, either simultaneously across the contexts...or alternately in one context when the barriers occur in the other”*
- P7
 - *“The higher the IEs’ financial literacy is, the greater their financial ambidexterity across their multiple contexts in host countries”*



This study

Research questions

- How much do *immigrant* entrepreneurs know about Accounting and Finance?
- Is Accounting and Finance literacy a key to entrepreneurial success for immigrants?



Sample

- 450 immigrant entrepreneurs
- Telephone survey
 - Containing a section on A&F literacy
- Year: 2019
- 4 “host” countries
 - F, E, I, UK
- Remittance industry
 - Running “kiosks” part of an international network for remittances



The sample (I)

Panel A							
	Asia	Africa	LatAm	Europe	Others	n.a.	Total
	58.89	17.11	18.67	4.00	0.67	0.67	100.00
Gender							
Male	93.58	87.01	61.90	50.00	100.00	100.00	84.89
Female	6.42	12.99	38.10	50.00	0.00	0.00	15.11
Education							
Primary	11.70	25.97	13.10	11.11	0.00	0.00	14.22
Secondary	16.23	10.39	11.90	33.33	0.00	0.00	14.89
High School	61.13	48.05	50.00	38.89	66.67	100.00	56.22
Univ. Degree	10.94	15.58	25.00	16.67	33.33	0.00	14.67
Residence							
Spain	26.79	29.87	58.33	16.67	33.33	100.00	33.33
France	24.15	22.08	14.29	27.78	66.67	0.00	22.22
Italy	27.55	16.88	13.10	16.67	0.00	0.00	22.22
UK	21.51	31.17	14.29	38.89	0.00	0.00	22.22
Age							
18_24	3.40	3.90	10.71	0.00	0.00	0.00	4.67
25_34	20.75	20.79	23.81	5.56	0.00	0.00	20.44
35_44	49.06	42.86	36.90	61.11	100.00	66.67	46.00
45_54	23.40	27.27	25.00	27.78	0.00	33.33	25.11
55_64	3.02	5.19	2.38	0.00	0.00	0.00	3.11
>64	0.38	0.00	1.19	5.56	0.00	0.00	0.67



The sample (II)

Panel B							
	Asia	Africa	LatAm	Europe	Others	n.a.	Total
Will migrate to							
Low 1	1.13	7.79	7.14	11.11	0.00	0.00	3.78
2	5.28	5.19	5.95	0.00	33.33	0.00	5.33
3	30.57	13.38	30.95	22.22	0.00	33.33	27.56
4	36.98	38.96	26.19	44.44	33.33	66.67	35.78
High 5	26.04	32.47	29.76	22.22	33.33	0.00	27.56
Source of funds							
Own money	61.13	54.55	55.95	72.22	100.00	100.00	60.00
Friends	12.08	10.00	11.29	16.67	0.00	0.00	13.33
Family	20.75	22.08	25.00	5.56	0.00	0.00	20.89
Bank loan	3.40	3.90	2.38	0.00	0.00	0.00	3.11
Other	2.64	2.60	2.38	5.56	0.00	0.00	2.67
Fear of Failure							
Low 1	19.25	16.88	14.29	11.11	0.00	0.00	17.33
2	21.13	27.27	15.48	22.22	33.33	33.33	21.33
3	32.45	32.47	38.10	50.00	66.67	33.33	34.44
4	21.89	14.29	22.62	16.67	0.00	33.33	20.44
High 5	5.28	9.09	9.52	0.00	0.00	0.00	6.44
Years of residency							
1 to 5	9.43	5.19	15.48	22.22	0.00	33.33	10.44
6 to 10	30.19	14.29	17.86	16.67	0.00	33.33	24.44
11 to 20	48.68	59.74	59.52	55.56	66.67	33.33	52.89
more than 20	11.70	20.78	7.14	5.56	33.33	0.00	12.22



Basic financial literacy

	Our sample	Trombetta (2016)	Trombetta (2023)
FL1 Diversification	30.67	56.20	55.70
FL2 Compund Interest	26.67	85.20	82.70
FL3 Nominal vs Real	30.89	70.00	69.70
FL4 Revolving Debt	48.44	43.20	46.50
Basic3Right	3.11	44.80	43.80
All3BasicWrong	34.00	9.00	9.17
World FL (3 out of 4)	13.00	58.60	56.50



Advanced A & F literacy

	Our sample	Trombetta (2016)	Trombetta (2023)
FL5 Zero Debt?	5.78%	29.00%	26.30%
FL6 Sales Growth	4.00%	48.80%	51.30%
FL7 Accrual vs Cash	6.44%	43.00%	49.70%
FL8 Depreciation	32.44%	52.40%	48.90%
FL9 ROE vs ROA	6.00%	8.80%	9.20%
All Advanced Correct	0.00%	1.40%	1.60%
All Advanced Correct exc. ROA vs ROE	1.30%	13.80%	11.50%
3 out of 5 correct	2.22%	35.00%	34.73%



Crucial topics

■ FL Q4: Debt

Suppose you need to borrow 100 Euros. Which is the lower amount to pay back: 105 Euros or 100 Euros plus three percent?

105 Euros 100 Euros plus three percent don't know

■ FL Q7: Depreciation

A business has just bought a piece of equipment that has cost €200. This equipment is going to be used for 5 years. The profit of the current year will be reduced by:

More than 200 Euro Less than 200 Euro Exactly 200 Euro



“Entrepreneurial” financial literacy (?)

Answering well on Debt (FL Q4) and Depreciation (FL Q8)

- Good understanding of the cost of debt
- Good understanding of the economic meaning of an investment



Determinants

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>BasicFL</i>	<i>AdvFL</i>	<i>TotFL</i>	<i>WorldFL</i>	<i>EntFL</i>	<i>EntFL2</i>
<i>Gender</i>	-0.0521 (0.244)	0.0123 (0.282)	0.0916 (0.244)	0.437 (0.383)	0.285 (0.253)	0.127 (0.244)
<i>Age</i>	0.0155 (0.0106)	0.00391 (0.0124)	0.0154 (0.0106)	0.0270 (0.0179)	0.00689 (0.0113)	0.00478 (0.0108)
<i>Education</i>	0.246** (0.101)	0.529*** (0.126)	0.459*** (0.102)	0.502*** (0.190)	0.335*** (0.108)	0.346*** (0.104)
<i>WillToMig</i>	-0.121 (0.0855)	-0.147 (0.0960)	-0.173** (0.0855)	-0.0714 (0.136)	-0.160* (0.0907)	-0.106 (0.0868)
<i>FearFailure</i>	0.0180 (0.0807)	-0.0393 (0.0911)	-0.0212 (0.0789)	-0.251* (0.135)	0.00260 (0.0831)	0.0236 (0.0802)
<i>YearsResident</i>	-0.00951 (0.0124)	-0.0107 (0.0148)	-0.0142 (0.0123)	-0.0341 (0.0228)	-0.00568 (0.0133)	-0.0101 (0.0126)
<i>Country (host) dummies</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	450	450	450	450	450	450
<i>chi2</i>	17.29	42.07	44.38	24.86	40.01	53.16
<i>p</i>	0.0444	0.0000	0.0000	0.00313	0.0000	0.0000
<i>Pseudo R2</i>	0.0139	0.0528	0.0304	0.0703	0.0440	0.0470

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1



Remittances

	(1) <i>Remittances</i>	(2) <i>Remittances</i>	(3) <i>Remittances</i>
<i>BasicFL</i>		0.0173 (0.0908)	
<i>AdvFL</i>		0.0343 (0.119)	
<i>TotFL</i>	0.0237 (0.0710)		
<i>EntFL</i>			0.279** (0.132)
<i>Age</i>	-0.00773 (0.0108)	-0.00770 (0.0108)	-0.00794 (0.0108)
<i>Education</i>	0.0138 (0.102)	0.0131 (0.102)	-0.0113 (0.101)
<i>WillToMig</i>	0.172** (0.0865)	0.172** (0.0865)	0.188** (0.0867)
<i>FearFailure</i>	0.0561 (0.0794)	0.0565 (0.0794)	0.0572 (0.0794)
<i>YearsResident</i>	-0.0330** (0.0129)	-0.0329** (0.0129)	-0.0332** (0.0129)
<i>Country (host) dummies</i>	Yes	Yes	Yes
<i>Observations</i>	450	450	450
<i>chi2</i>	31.00	31.01	35.36
<i>p</i>	0.000586	0.00110	0.000108
<i>r2_p</i>	0.0184	0.0184	0.0210

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1



Preliminary result

- “Entrepreneurial” financial literacy has a positive effect on business performance
 - More money sent home to their families

Open questions

- Why immigrant entrepreneurs know more about these two topics?
- Why does “entrepreneurial” financial literacy favour success?



Thank you!

