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# Self-employment: Does parental cultural diversity matter?

Marianna Marino\*

Pierpaolo Parrotta<sup>†</sup>

## Abstract

We find evidence that parents with different cultural background favour self-employment experiences of their children. The effect of parental cultural diversity turns out to be stronger for children with no siblings or having at least a parent with university degree.

**JEL Classification:** L26, J21, D10.

**Keywords:** Parents' cultural diversity; self-employment experience.

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# 1 Introduction

Economists have long examined the links between family background and labour market outcomes, such as earnings, intergenerational mobility and various occupation-related characteristics, including eventual self-employment status. Models have demonstrated that parental resources are a crucial factor that affect individuals' economic opportunities by influencing parents' decisions regarding investments in the human capital of their offspring (e.g., Becker and Tomes, 1986; Haveman and Wolfe, 1995). Indeed, an individual's ability to identify and exploit opportunities within business environments is substantially influenced by knowledge developed through both educational and professional experiences (Lazear, 2004).

In addition to human capital investments, factors such as family structure, father's self-employment status and ethnicity appear to substantially affect the probability that an individual will be self-employed (see, e.g., Hout and Rosen, 2000). Several empirical studies have suggested that after controlling for a number of parental characteristics, such as age, education, occupation, earnings, family ties, siblings and culture, children raised by parents who are self-employed are more likely to start a new business than children raised by parents who are not self-employed (see Dunn and Holtz-Eakin, 2000).

However, existing studies have not explored whether individuals' self-employment decisions are linked to their parents' cultural diversity. Our objective is to fill this gap in the literature. Family experiences are frequently the source of an individual's first authentic exposure to a culturally heterogeneous (learning) environment. An important question to address is whether this type of exposure promotes characteristics relevant to entrepreneurs, such as the balanced accumulation of knowledge and skills across different fields of expertise (Lazear, 2004) and the development of creativity and a broad spectrum of perspectives (Hong and Page Scott, 2001). Furthermore, by distinguishing among a number of characteristics of parents and their offspring, we clarify how individuals' self-employment experiences are affected by the cultural diversity of their parents.

The remainder of this paper is structured as follows: data; estimation strategy; results; and conclusions.

## 2 Data

We retrieve valuable information regarding individuals and their families between 1980 and 2006 from the Danish "Integrated Database for Labour Market Research." Our final sample consists of one observation for each second-generation immigrant observed during the sample period. The focus on second-generation immigrants is grounded on the fact that these immigrants represent a relatively homogeneous group of individuals who markedly differ from Danish natives (individuals with at least one Danish parent). This

sampling choice allows us to disentangle the influence of parental cultural diversity from effects that arise because a parent’s Danish roots have led to the greater integration of an individual into Danish society.

In our data, we identify the following characteristics for each examined individual: (i) mother’s and father’s country of origin; (ii) gender and year of birth; (iii) place of residence (municipality); (iv) educational status, which was classified into three educational levels (basic, secondary and tertiary) and five fields of university degrees (engineering, humanities, medicine, social sciences and natural sciences, accounting for degrees at the bachelor’s level or beyond); (v) parents’ self-employment experience; and (vi) labour market status (unemployed or employed) prior to an eventual transition to self-employment. Furthermore, we define 34 language groups<sup>1</sup> and 16 area groups<sup>2</sup> used to determine parents’ cultural diversity (a dummy variable) by categorizing the countries of origin of the parents of examined individuals based on information from the “Ethnologue: Languages of the World” language encyclopedia and the United Nations “Standard Country or Area Codes for Statistical Use” country classification system, respectively. Thus, we use the geographical area and main language<sup>3</sup> of parents’ countries of origin as proxies for parents’ cultural backgrounds. Information regarding the characteristics of the examined individuals and their parents refers to the year before an individual is randomly selected or becomes self-employed.

Descriptive statistics are reported in Table 1. The final sample consists of 83,915 subjects. Statistical analysis indicated that 8.8 % of the examined individuals have experienced at least one transition to self-employment; 5.4 % (3 %) of the examined individuals have parents belonging to different language (geographical) categories; 47.7 % of the examined individuals are female; 28.6 % of the examined individuals are firstborn children; and only 6.9 % (4.7 %) of the examined individuals had obtained a university (secondary) degree. The correlation between the two variables of interest that indicate the cultural diversity of a subject’s parents is approximately 75.7 % and is highly significant. Differences in mean values between individuals with and without self-employment experiences are statistically significant, too. However, these differences do not indicate the expected signs of the estimates because in our regression models we control for further variables like father’s and mother’s language or geographical group dummies.

### 3 Estimation strategy

We utilize a linear probability model (henceforth LPM) to investigate whether the cultural diversity of an individual’s parents affects this individual’s propensity to become self-employed. In this model, the dependent

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<sup>1</sup>Please see the Appendix for additional information regarding the language categories.

<sup>2</sup> The geographical groups are Oceania, Northern America, Southern America, Central America, Northern Europe, Southern Europe, Eastern Europe, Western Europe, Northern Africa, Southern Africa, Eastern Africa, Western Africa, Central Asia, South Asia, Western Asia, and Eastern Asia. For more details, please consult the following website: <http://unstats.un.org/unsd/methods/m49/m49.htm>.

<sup>3</sup>See Parrotta et al. (2013) and Marino et al. (2012).

variable indicating whether a worker experiences self-employment is regressed on the aforementioned variables of interest, with a set of standard controls (dummies for birth year, firstborn child status, femaleness, education level, the field of an eventual university degree, municipality of residence, and each parent’s language or area of provenience groups). The standard errors of this model are corrected for heteroskedasticity and clustered by family identifier.

## 4 Results

Table 2 reports results obtained for the entire sample and for sub-samples separated by parental characteristics when the aforementioned language categories are used to describe the diversity in the cultural backgrounds of subjects’ parents. The first two columns, which provide estimates for the full sample, indicate the positive and significant effect of our key variable. In particular, it appears that culturally diverse parents increase the likelihood that an individual will become self-employed by approximately 1 %. This effect enlarges for “only children” (1.5 %) and for subjects “with at least one parent with a university degree” (3 %) but diminishes to insignificance in both complementary cases. This finding is unsurprising because both the absence of siblings and the presence of a highly educated parent can mitigate the impact of financial constraints. Estimates for the parameter of interest in the full sample appear to mainly reflect contributions from “males” and individuals who are “lower than tertiary” in educational level (see Table 3). In Tables 4 and 5, the variable of interest is determined based on the aforementioned geographical categories, and all regressions utilize the specifications and sub-sampling criteria of Tables 3 and 4, respectively. Examinations of Tables 4 and 5 produce findings that are qualitatively similar to the results discussed above, indicating that the results of this study are not sensitive to the measure of cultural diversity that is utilized. Finally, crucial checks are performed in Table 6. In particular, in columns (1) and (5), we exclude transitions from unemployment to self-employment to ensure that we are evaluating the effect of interest in the context of true entrepreneurial behavior rather than choices that reflect desire to escape unemployment (i.e., perceptions of poor employability). In columns (2) and (6), we verify that individuals’ self-employment decisions are not simply driven by the self-employment experiences of their parents by excluding individuals with at least one parent with self-employment experience from the analyses. Columns (3) and (7), and (4) and (8) report estimates of Probit and Logit regressions, respectively. Probit and Logit estimates of the parameter of interest are significant and greater than those discussed in the main analysis, indicating thus that LPM estimates represent lower-bound results. These robustness checks produce results consistent with our main findings and therefore support the conclusion that parental cultural diversity positively affects individuals’ self-employment choices.

## 5 Conclusions

Analyses of a sample of second-generation immigrants in Denmark from the 1980-2006 time period reveal evidence that parental cultural diversity influences individuals' self-employment experiences. Exposure to greater cultural diversity positively affects entrepreneurship and appears to promote the creativity and knowledge accumulation required to start a business. Specifically, we find that culturally diverse parents increase the likelihood that an individual will become self-employed by approximately 1 %. The effect of interest appears to be stronger among individuals who have no siblings or at least one parent with a university degree.

## Acknowledgments

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## Appendix: Language categories

*Linguistic groups:* **Germanic West** (Antigua Barbuda, Aruba, Australia, Austria, Bahamas, Barbados, Belgium, Belize, Bermuda, Botswana, Brunei, Cameroon, Canada, Cook Islands, Dominican Republic, Eritrea, Gambia, Germany, Ghana, Grenada, Guyana, Haiti, Ireland, Jamaica, Liberia, Liechtenstein, Luxemburg, Mauritius, Namibia, Netherlands, Netherlands Antilles, New Zealand, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Seychelles, Sierra Leone, Solomon Islands, South Africa, St. Helena, Suriname, Switzerland, Trinidad and Tobago, Uganda, United Kingdom, United States, Zambia, Zimbabwe); **Slavic West** (Czech Republic, Poland, Slovakia); **Germanic Nord** (Denmark, Iceland, Norway, Sweden); **Finnic-Permic** (Finland, Estonia); **Romance** (Andorra, Angola, Argentina, Benin, Bolivia, Brazil, Burkina Faso, Cape Verde, Chile, Colombia, Costa Rica, Cote D'Ivoire, Cuba, Djibouti, Dominican Republic, Ecuador, El Salvador, Equatorial Guinea, France, French Guyana, Gabon, Guadeloupe, Guatemala, Guinea, Guinea Bissau, Holy See, Honduras, Italy, Macau, Martinique, Mexico, Moldova, Mozambique, Nicaragua, Panama, Peru, Portugal, Puerto Rico, Reunion, Romania, San Marino, Sao Tome, Senegal, Spain, Uruguay, Venezuela); **Attic** (Cyprus, Greece); **Ugric** (Hungary); **Turkic South** (Azerbaijan, Turkey, Turkmenistan); **Gheg** (Albania, Kosovo, Republic of Macedonia, Montenegro); **Semitic Central** (Algeria, Bahrain, Comoros, Chad, Egypt, Irak, Israel, Jordan, Kuwait, Lebanon, Lybian Arab Jamahiria, Malta, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Tunisia, Yemen, United Arabs Emirates); **Indo-Aryan** (Bangladesh, Fiji, India, Maldives, Nepal, Pakistan, Sri Lanka); **Slavic South** (Bosnia and Herzegovina, Croatia, Serbia, Slovenia); **Mon-Khmer East** (Cambodia); **Semitic South** (Ethiopia); **Slavic East** (Belarus, Bulgaria, Georgia, Mongolia, Russian Federation, Ukraine); **Malayo-Polynesian West** (Indonesia, Philippines); **Malayo-Polynesian Central East** (Kiribati, Marshall Islands, Nauru, Samoa, Tonga); **Iranian** (Afghanistan, Iran, Tajikistan); **Betai** (Laos, Thailand); **Malayic** (Malasya); **Cushitic East** (Somalia); **Turkic East** (Uzbekistan); **Viet-Muong** (Vietnam); **Volta-Congo** (Burundi, Congo, Kenya, Lesotho, Malawi, Nigeria, Rwanda, Swaziland, Tanzania, Togo); **Turkic West** (Kazakhstan, Kyrgystan); **Baltic East** (Latvia, Lithuania); **Barito** (Madagascar); **Mande West** (Mali); **Lolo-Burmese** (Burma); **Chadic West** (Niger); **Guarani** (Paraguay); **Himalayish** (Buthan); **Armenian** (Armenia); **Sino-Tibetan** (China, Hong Kong, Singapore, Taiwan); **Japonic** (Japan, Republic of Korea, Korea D.P.R.O.).

Table 1: Descriptive Statistics

Variable	Mean values		
	All	Self-employed	Non self-employed
<i>Dependent variable</i>			
Self-employment experience	0.0880	1	0
<i>Variables of interest</i>			
parents with different cultural background (language categories)	0.0540	0.0499	0.0563
parents with different cultural background (geographical categories)	0.0432	0.0386	0.0436
<i>Main control variables</i>			
female	0.4765	0.2323	0.5008
first child	0.2863	0.3757	0.2785
vocational education	0.0473	0.0375	0.0488
university degree	0.0688	0.1000	0.0664
engineering (if university education, ref. cat. natural sciences)	0.0168	0.0088	0.0177
medicine (if university education, ref. cat. natural sciences)	0.0056	0.0050	0.0056
social sciences (if university education, ref. cat. natural sciences)	0.0151	0.0142	0.0154
humanities (if university education, ref. cat. natural sciences)	0.0086	0.0035	0.0092
Observations	83,915	7,413	76,502

Note: The correlation between the two alternative variables of interest is 0.7569 with significance level at 1 %.

Table 2: Results, full sample and by parents' characteristics (language categories)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
parents with different cultural background	0.0092* (0.0048)	0.0101** (0.0048)	0.0168** (0.0078)	0.0147* (0.0077)	0.0052 (0.0059)	0.0066 (0.0059)	0.0301*** (0.0099)	0.0319*** (0.0098)	-0.0003 (0.0057)	-0.0010 (0.0057)
female	-	-0.0799*** (0.0019)	-	-0.0295*** (0.0031)	-	-0.0889*** (0.0021)	-	-0.0877*** (0.0047)	-	-0.0655*** (0.0024)
first child	-	0.0069*** (0.0021)	-	-	-	0.0017 (0.0022)	-	0.0143*** (0.0053)	-	0.0051* (0.0027)
vocational education	-	-0.0906*** (0.0044)	-	-0.0686*** (0.0122)	-	-0.0925*** (0.0047)	-	-0.0625*** (0.0103)	-	-0.0934*** (0.0057)
university degree	-	-0.0083 (0.0074)	-	-0.0568*** (0.0098)	-	0.0217** (0.0093)	-	-0.0508*** (0.0090)	-	0.0173 (0.0142)
engineering	-	-0.1115*** (0.0079)	-	-0.0447** (0.0194)	-	-0.1358*** (0.0090)	-	-0.0688*** (0.0149)	-	-0.1303*** (0.0114)
medicine	-	-0.0911*** (0.0139)	-	0.0354 (0.0505)	-	-0.1299*** (0.0150)	-	-0.0152 (0.0241)	-	-0.1110*** (0.0212)
social sciences	-	-0.0057 (0.0098)	-	0.0761*** (0.0254)	-	-0.0347*** (0.0110)	-	0.0389** (0.0191)	-	-0.0325** (0.0146)
humanities	-	-0.0442*** (0.0093)	-	-0.0038 (0.0168)	-	-0.0661*** (0.0111)	-	0.0092 (0.0165)	-	-0.0793*** (0.0147)
Family controls	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Individual controls	no	yes	no	yes	no	yes	no	yes	no	yes
Adj R-squared	0.1695	0.1919	0.1443	0.1586	0.1515	0.1832	0.1379	0.1637	0.1445	0.1714
Observations	83,915	83,915	12,794	12,794	71,121	71,121	16,610	16,610	67,305	67,305

Note: Full sample: (1) and (2); only child: (3) and (4); with siblings: (5) and (6); a parent with university degree: (7) and (8); both parents with lower than tertiary education: (9) and (10). Family controls include father's and mother's language group dummies. The set of individual controls includes the control variables reported in the table and dummies for birth year and municipality of residence. Significance levels: \*\*\*1%, \*\*5%, \*10%.

Table 3: Results, by own characteristics (language categories)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
parents with different cultural background	0.0134* (0.0076)	0.0139* (0.0075)	0.0062 (0.0053)	0.0067 (0.0053)	-0.0046 (0.0126)	0.0013 (0.0127)	0.0095* (0.0051)	0.0099** (0.0051)
female	-	-	-	-	-	-0.1049***	-	-0.0776***
first child	-	-	-	-	-	(0.0084)	-	(0.0019)
	-	0.0084**	-	0.0051**	-	0.0184**	-	0.0056**
vocational education	-	(0.0035)	-	(0.0024)	-	(0.0088)	-	(0.0022)
	-	-0.1310***	-	-0.0491***	-	-	-	-0.0905***
universitary degree	-	(0.0077)	-	(0.0044)	-	-	-	(0.0044)
	-	0.0021	-	-0.0081	-	-	-	-
engineering	-	(0.0113)	-	(0.0087)	-	-	-	-
	-	-0.1720***	-	-0.0425***	-	-0.1131***	-	-
medicine	-	(0.0126)	-	(0.0087)	-	(0.0095)	-	-
	-	-0.1590***	-	-0.0364**	-	-0.1049***	-	-
social sciences	-	(0.0241)	-	(0.0159)	-	(0.0153)	-	-
	-	-0.0182	-	-0.0070	-	-0.0208*	-	-
humanities	-	(0.0152)	-	(0.0111)	-	(0.0111)	-	-
	-	-0.0555***	-	-0.0384***	-	-0.0553***	-	-
Family controls	-	(0.0204)	-	(0.0096)	-	(0.0109)	-	-
Individual controls	yes no	yes yes	yes no	yes yes	yes no	yes yes	yes no	yes yes
Adj R-squared	0.2024	0.2130	0.1015	0.1060	0.1744	0.2229	0.1572	0.1818
Observations	43,881	43,881	40,034	40,034	3,841	3,841	78,093	78,093

Note: Male: (1) and (2); female: (3) and (4); with university degree: (5) and (6), with lower than tertiary education: (7) and (8). Family controls include father's and mother's language group dummies. The set of individual controls includes the control variables reported in the table and dummies for birth year and municipality of residence. Significance levels: \*\*\*1%, \*\*5%, \*10%.

Table 4: Results, full sample and by parents' characteristics (geographical categories)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
parents with different cultural background	0.0142** (0.0066)	0.0157** (0.0066)	0.0246** (0.0101)	0.0218** (0.0099)	0.0094 (0.0083)	0.0120 (0.0083)	0.0265** (0.0115)	0.0274** (0.0114)	0.0130 (0.0089)	0.0140 (0.0088)
female	-	-0.0815*** (0.0019)	-	-0.0287*** (0.0032)	-	-0.0909*** (0.0022)	-	-0.0888*** (0.0049)	-	-0.0664*** (0.0024)
first child	-	0.0064*** (0.0022)	-	-	-	0.0012 (0.0023)	-	0.0138** (0.0055)	-	0.0050* (0.0028)
vocational education	-	-0.0906*** (0.0045)	-	-0.0663*** (0.0127)	-	-0.0927*** (0.0048)	-	-0.0607*** (0.0107)	-	-0.0942*** (0.0058)
university degree	-	-0.0017 (0.0077)	-	-0.0497*** (0.0104)	-	0.0278*** (0.0096)	-	-0.0449*** (0.0095)	-	0.0228 (0.0145)
engineering	-	-0.1150*** (0.0082)	-	-0.0537*** (0.0202)	-	-0.1377*** (0.0093)	-	-0.0731*** (0.0154)	-	-0.1309*** (0.0118)
medicine	-	-0.1049*** (0.0137)	-	0.0500 (0.0543)	-	-0.1460*** (0.0146)	-	-0.0287 (0.0242)	-	-0.1232*** (0.0214)
social sciences	-	-0.0091 (0.0100)	-	0.0752*** (0.0265)	-	-0.0382*** (0.0112)	-	0.0355* (0.0195)	-	-0.0347** (0.0151)
humanities	-	-0.0471*** (0.0097)	-	-0.0031 (0.0180)	-	-0.0687*** (0.0115)	-	0.0110 (0.0177)	-	-0.0831*** (0.0151)
Family controls	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Individual controls	no	yes	no	yes	no	yes	no	yes	no	yes
Adj R-squared	0.1501	0.1786	0.1517	0.1840	0.1370	0.1624	0.1370	0.1624	0.1456	0.1727
Observations	83,915	83,915	12,794	12,794	71,121	71,121	16,610	16,610	67,305	67,305

*Note:* Full sample: (1) and (2); only child: (3) and (4); with siblings: (5) and (6); a parent with university degree: (7) and (8); both parents with lower than tertiary education: (9) and (10). Family controls include father's and mother's geographical group dummies. The set of individual controls includes the control variables reported in the table and dummies for birth year and municipality of residence. Significance levels: \*\*\*1%, \*\*5%, \*10%.

Table 5: Results, by own characteristics (geographical categories)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
parents with different cultural background	0.0198* (0.0105)	0.0218** (0.0104)	0.0109 (0.0074)	0.0129* (0.0074)	-0.0184 (0.0152)	-0.0064 (0.0156)	0.0168** (0.0072)	0.0163** (0.0071)
female	-	-	-	-	-	-0.1034***	-	-0.0792***
first child	-	-	-	-	-	(0.0086)	-	(0.0019)
vocational education	-	0.0075** (0.0036)	-	0.0045* (0.0025)	-	0.0152* (0.0090)	-	0.0054** (0.0023)
university degree	-	-0.1320*** (0.0079)	-	-0.0488*** (0.0045)	-	-	-	-0.0906*** (0.0045)
engineering	-	0.0111 (0.0116)	-	-0.0041 (0.0091)	-	-	-	-
medicine	-	-0.1779*** (0.0130)	-	-0.0436*** (0.0090)	-	-0.1197*** (0.0098)	-	-
social sciences	-	-0.1803*** (0.0235)	-	-0.0430*** (0.0162)	-	-0.1229*** (0.0152)	-	-
humanities	-	-0.0228 (0.0156)	-	-0.0112 (0.0114)	-	-0.0213* (0.0114)	-	-
Family controls	-	-0.0553*** (0.0214)	-	-0.0410*** (0.0101)	-	-0.0588*** (0.0116)	-	-
Individual controls	yes no	yes yes	yes no	yes yes	yes no	yes yes	yes no	yes yes
Adj R-squared	0.2038	0.2146	0.1019	0.1062	0.1761	0.2265	0.1576	0.1826
Observations	43,881	43,881	40,034	40,034	3,841	3,841	78,093	78,093

Note: Male: (1) and (2); female: (3) and (4); with university degree: (5) and (6), with lower than tertiary education: (7) and (8). Family controls include father's and mother's geographical group dummies. The set of individual controls includes the control variables reported in the table and dummies for birth year and municipality of residence. Significance levels: \*\*\*1%, \*\*5%, \*10%.

Table 6: Robustness checks

	Language categories			Geographical categories				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
parents with different cultural background	0.0095** (0.0047)	0.0093** (0.0046)	0.0881** (0.0416)	0.1021** (0.0475)	0.0152** (0.0065)	0.0117*** (0.0047)	0.1330** (0.0503)	0.1671** (0.0710)
Family controls	yes	yes	yes	yes	yes	yes	yes	yes
Individual controls	yes	yes	yes	yes	yes	yes	yes	yes
Adj or Pseudo R-squared	0.1766	0.1202	0.2713	0.2853	0.1781	0.1197	0.2786	0.2803
Observations	79,168	61,119	83,915	83,915	79,168	61,119	83,915	83,915

*Note:* Parents with no self-employment experience: (1) and (5); only transitions from employment: (2) and (6); Probit: (3) and (7); Logit: (4) and (8). Family controls include father's and mother's geographical or language group dummies, alternatively. The set of individual controls includes the control variables reported in the table and dummies for birth year and municipality of residence. Significance levels: \*\*\*1%, \*\*5%, \*10%.