

Why do immigrant-owned start-ups fail more often, and what does foreignness cost them?

Interviews with eleven failed founders in Finland trace how foreignness drains capital and closes firms

IMRAN M. ILYAS · KRISTÍNA NÉMETHOVÁ

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Start-ups founded by immigrants close more often than those founded by natives. The gap has been documented in Portugal, Spain, Norway and the United States, and earlier work has blamed thin resources, ethnicity and race. Much less is known about how the disadvantage works day to day, from the founder's side of the table.

A new study borrows a concept from international business to find out. Multinationals operating abroad pay costs their local rivals never face, a burden scholars call the liability of foreignness. Recent research has started applying the idea to people: an immigrant founder carries foreignness into every bank meeting, sales call and funding application, and the young firm inherits it. The researchers set out to identify where that liability comes from and how it turns into failure.

WHAT WE STUDIED

In February 2022 the researchers interviewed founders of failed, opportunity-driven ventures in Finland. They began with 15 cases, then dropped four whose collapse had nothing to do with the founder being foreign. That left 11.

The firms were young and small, mostly one to four years old, with between one and twelve people. Their founders came from Germany, Russia, Lithuania, Spain, Vietnam, Hong Kong, Bangladesh, the United States, Serbia and Tanzania. The ideas were just as varied: importing well-kept used cars from Germany, selling Hong Kong bubble tea, a food-delivery app, customer-analytics software, a domestic travel app, and a circular venture shipping abandoned Finnish bicycles to South Africa. Many founders held Finnish

degrees, and four were serial entrepreneurs. The interviews were coded using thematic analysis.

One caution belongs up front. The sample was chosen for failure linked to foreignness, so it can show how the mechanism operates but cannot say how common it is.

KEY INSIGHTS

Five sources of foreignness

The most influential source was **unfamiliarity with the local environment**. Founders assumed Finnish customers and institutions would behave like those at home, and they imported models that did not fit. A Russian founder offering event marketing and sales services discovered there was simply no market in Finland for what had worked in Moscow. The car importer misjudged what Finns buy and at what price; he knew the business model needed changing and never changed it. Because this source distorts opportunity recognition itself, it does damage before a single sale is attempted.

Lack of legitimacy and discrimination came next, and foreign names did much of the work. A Spanish homeopath spoke Finnish, yet prospective customers asked a shop owner who had recommended her whether she spoke Finnish at all and whether she was any good. An American founder heard that her Finnish co-founder had dismissed her objection to a large financial decision as passion from her "Italian blood."

Finnish **institutions** added their own costs. A Tanzanian founder whose plan for exporting used bicycles had been approved by a regional enterprise agency was refused a business bank account by more than one bank, which classed the venture as high risk

under anti-money-laundering rules. Others struggled with layered tax and accounting requirements. They either paid for expensive outside help or drafted their own contracts; the bubble-tea founder did the latter with a franchise agreement and later regretted how little it protected the firm.

Cultural integration and **local language skills** often worked together. Directness that read as honest at home read as rude in Finland, and the Spanish founder says it cost her customers. A software start-up lost its most promising lead when the prospective client refused to continue in English. To cope, founders hired costly local professionals, took on less capable Finnish partners, bought cheap and risky outsourced services, or pushed documents through Google Translate.

How foreignness turns into failure

The study's process model has three steps. The five sources starve the venture of social, human and financial capital. Those gaps produce operational failures, from a poorly fitted business model to broken customer relationships and conflict inside the leadership team. Closure follows.

Social capital was the first casualty. Founders without a Finnish spouse or prior work experience in Finland had almost no route into local networks. Two who contacted the start-up ecosystem looking for Finnish partners heard back only from other foreigners. One founder watched her network evaporate after her divorce from a Finnish husband.

Human capital gaps were quieter but costly. Following generic advice from a public employment office, the homeopath registered as a full-time rather than part-time entrepreneur and paid higher insurance contributions as a result. A Serbian founder accepted the first Finnish partner who showed interest, discovered he lacked relevant experience, and lost him anyway when he withdrew.

The finance story is the one readers will remember. A serial entrepreneur applied seven times to Business Finland and was rejected each time. For the eighth application she added five Finnish names alongside her own and, by her account, changed nothing else in the text. It was funded. This is the most damning detail in the paper, and anyone who designs or runs public funding instruments should sit with it.

The pattern repeated in sales. A Lithuanian founder selling Japanese diapers sent a Finnish collaborator to visit shops, where managers liked the idea. When the founder then phoned in English, interest disappeared. It happened three times in a row.

By the end, founders described exhaustion and a strong wish to try elsewhere. Several named Ireland,

the United States or another English-speaking market as the place they would start again.

TAKEAWAYS

For immigrant founders

- Treat foreignness as a cost line. Ask which of the five sources applies to your venture before committing capital.
- Validate the market with local customers early, instead of assuming that what worked at home will travel.
- Choose local partners on competence. A weak Finnish co-founder can be worse than none.
- Borrow legitimacy. Referrals from respected locals generate word of mouth that a foreign name alone will not.

For ecosystem leaders and policymakers

The researchers argue for start-up information and training in English as well as the local language, advice tailored to individual situations, and funding instruments reserved for promising immigrant-owned ventures. They also suggest giving immigrant founders space at major events such as Slush, running long-term media campaigns featuring successful immigrant entrepreneurs, and appointing officials with immigrant backgrounds to senior roles in the ecosystem.

Where business families come in

The study does not examine family firms. Its lessons still apply to business families who partner with, invest in, buy from or hire immigrant entrepreneurs, since their own trust and networks can lend the legitimacy these founders lack. Families with recent migration histories, or those launching ventures in a new country, may also recognize these costs from the inside.

IMPACT

The paper adds detail to a concept that has mostly been measured from a distance. Earlier individual-level work modeled contextual factors in registry data and focused on established firms with employees. This study goes to the founders, and it captures ventures that died during the founding period, before national statistics would ever record them. It also adds language and cultural integration as sources of foreignness alongside unfamiliarity, legitimacy and institutional constraints.

The limits are real. Eleven cases in one country, all selected for failure, cannot say how widespread these mechanisms are. Founders explaining their own failure may also lean toward external causes. Even so, the Business Finland episode is the kind of evidence a

larger study could test directly, and Nordic funding bodies would be wise to check their own data before someone else does.

RECOMMENDATIONS

1. Founders: map your exposure to the five sources of foreignness before launch, and budget time and money against each one.
2. Founders: spend the first months testing demand with local customers before scaling an imported model.
3. Founders: recruit local co-founders and staff for their skills, and seek local mentors who can open doors.
4. Funding agencies: review whether applicant names influence outcomes, and consider instruments dedicated to immigrant-owned ventures.
5. Banks and regulators: apply anti-money-laundering rules in proportion to actual risk, not to a founder's origin or a customer market in a developing country.
6. Ecosystem organizations: publish start-up guidance in English and offer tailored advice instead of generic checklists.

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CEFEO AUTHORS



Imran M. Ilyas

Jönköping International Business School

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