Beyond legal entrepreneurship: the case of Austria

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Abstract: Our study of the migrants and the underground economy in Austria highlights the following features: 1) the underground economy is contextual, with its form, content and dynamic being specific to the national and other contexts in which it is used and understood; 2) the form, the content and the dynamic of the phenomenon are situational; 3) the occurrence and development of the phenomenon is gradual, influenced by many factors such as migrants’ length of residency, year of entry, gender, capitals, government policies, political and public discourse etc; 4) the phenomenon is conditional, referring to the character of the residency as being understood and dealt with by migrants themselves, and by the actual practice of formal intuitions as a formal and/or informal response to the structural need of the national economy in the era of globalisation.

Keywords: trust; migrants; self-employment; underground economy; Austria.


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1 Introduction

Entrepreneurship research in industrialised societies has focused on the entrepreneur as a risk-taker (Cantillon, 1755), as facing uncertainty (Knight, 1921), as an expresser of cultural values (Weber, 1905–1906), as a creator of opportunities (Schumpeter, 1934), as an achiever (McClelland, 1961), as an agent of social change (Barth, 1963), and as an identifier of opportunities (Kirzner, 1973; Stevenson, 1983). Usually, such literature deals with formal enterprise and often growth is implied (Carland et al., 1984). There has also been interest in small-scale self-employment in the subsistence sector of industrialised economies (Dana, 1995; Dana and Light, 2011; Light and Dana, 2013).

In Austria, self-employment has a long history in Austria. Austrian economist Joseph Schumpeter, Minister of Finance, banker and later a professor at Harvard University, was a precursor of entrepreneurship research. According to McMillan (2002, p.26), Salzburg-born “Mozart earned his living as an entrepreneur in the marketplace”. Bolton and Thompson (2004, p.229) described Mozart as “both a genius and an entrepreneur”. Austria offers a SME-friendly environment. Several public institutions support the establishment and expansion of new ventures. These include the Austria Wirtschafts service GmbH, the economic departments of every provincial government and the Austrian Federal Economic Chamber with its subsidiaries in each federal region. Well-networked, such institutions offer support with business planning and assistance with risk evaluation. Moreover, they conduct market research and provide the results in exchange for a nominal fee. In addition, the state provides grants and loans to entrepreneurs.

In all the above cases, the entrepreneurial activity is law abiding. In contrast, in this article we focus on unauthorised tax-evading self-employment in the underground economy of an industrialised economy – Austria – where the underground economy makes up approximately 10% of GDP (21 billion euro) according to our expert interviewee, economist F. Schneider.
Haberfellner (2003) argued that Austria was still a corporatist country in which entrepreneurship was limited. The lack of entrepreneurship has been attributed to the desirability of alternative livelihoods (Ulijn and Fayolle, 2004) in a country where 1,000 major firms provide employment for over 800,000 people. Among illegal immigrants, however, alternatives may be few and the underground economy is often attractive as it presents opportunities, regardless of immigration status. Hence, we became interested in the following research question: What are the circumstances of illegal or undocumented immigrants who participate in underground economic activities in Austria?

2 Austria

In 1273, the Count of Habsburg conquered Austria, which his descendants would rule for many generations. During the 16th century, the Habsburg dynasty acquired Bohemia, Spain, and parts of Hungary and Italy as well. In 1804, the Habsburgs adopted the title of emperor. In 1867, a dual monarchy was created, uniting Hungary with Austria under the realm of the Austro-Hungarian Empire. In 1878, the Ottoman provinces of Bosnia and Herzegovina became a protectorate of the Austro-Hungarian Empire, and these were annexed in 1908 (see Dana, 1999, 2010). On November 12, 1918, following the collapse of the Austro-Hungarian Empire, Austria was proclaimed a republic, within today’s borders. Bachinger (1987) described the economic situation of the Austrian relict of the Habsburg monarchy. An energy crisis was coupled with a food shortage, while the debasement of the currency accompanied an unstable political situation. However, the weak currency favoured exports, and Austria experienced remarkable economic growth until the great depression.

The republic was short-lived as Austria was annexed into the German Reich in 1938. During World War II the Nazis took over all industry of significant size in Austria. Following the war, a provisional government was set up on April 27, 1945. As noted by Dana (1992) one in three Austrians worked on a farm in 1945. In 1948, the European Recovery Programme began pumping investments and new life in Austria. In his discussion of prices and salaries, Long noted “the average in Vienna last summer being 730 schillings ($28) a month” (1951, p.752).

Until 1955, Austria was administered as four zones, occupied by France, the UK, the USA and the Soviet Union (USSR). Austria recovered full independence in 1955. Austrian economic policy envisaged a reconstruction based on large firms and reconstruction took place at an amazing pace; a discussion appears in Bowie (1959). In 1964, Innsbruck hosted the Winter Olympics.

The self-employment rate, especially in agriculture, fell sharply between the 1980s and the 1990s (Haberfellner, 2003). Austria had low self-employment and low start-up rates (Austrian Institute for SME Research, 1996). Yet, start-ups were found to have high survival rates (Wanzenböck, 1998), and so the government established initiatives to increase the relevance of entrepreneurship. This included campaigns promoting self-employment. During the late 1990s start-up rates and rates of self-employment began rising significantly. Getzner et al. (2004) noted that although there were thousands of new ventures, only a minority represented the net growth in the number of companies, as most of these were substitutes for other, closing companies.
Arguing that Austria was highly regulated, Haberfellner (2003) noted the decision by the Federal Economic Chamber to implement a quota on the number of Eastern European entrepreneurs operating in Austria. A considerable number of immigrants from Turkey and from the former Yugoslav republics became self-employed in Austria, largely in the retail and catering sectors – both of which have low barriers to entry. Kurtoglu (2007) reported on immigrant entrepreneurs in Austria.

In their global entrepreneurship monitor (GEM) report, Apfelthaler et al. (2008), noted that Austrian culture was risk-averse, making employment relatively attractive when compare to entrepreneurship. That said, it is common knowledge that many people in Austria do not have the right to be lawful employees in this country. How do they survive? Figure 1 shows immigrants outside a traditional residential building in Vorarlberg.

**Figure 1** Recently arrived immigrants; photograph by Léo-Paul Dana (see online version for colours)
3 Methodology

The objective of interviews being to reveal the views of people, unbiased by evaluative responses on the researcher’s part, we opted to conduct our data collection by means of interviews. Questions were carefully constructed (Fodd, 1993), to reduce to reduce the possibility of responses reflecting social desirability (Arnold and Feldman, 1981; Arnold et al., 1985; Crowne, 1960; Golombiewski and Munzenrider, 1975; Thomas and Kilmann, 1975; Zerbe and Paulhus, 1987). We were careful with our choice of words, and avoided yes/no responses that lack detail. Open-ended questions allowed room for explanations. We opted for structured open-ended questions (Fontana and Frey, 2003) as these are more valid and reliable and therefore more desirable than non-structured ones that run the risk of turning into conversations.

As discussed by Taylor and Small (2002), past behaviour questions (e.g., What did you when you needed to work but were not allowed to be lawfully employed?) complemented situational questions (e.g., If you are caught what will you do?).

With regards to interviewees, these can be identified and selected using various sampling methods. We found snowball sampling (Goodman, 1961) to be ideal. In-depth interviews were conducted with 30 individuals who did not have documents to work legally in Austria. We also conducted a focus group. Participants in our study included people engaged in agriculture, caring for the elderly, casual work, cleaning, construction, entertainment, food preparation, hospitality, printing, retail and waitressing – without authorisation to work in Austria. We included individuals from Africa, Eastern Europe, and Western Asia. In addition we interviewed ten Austrian experts.

Boyce and Neale (2006) provide directives for conducting in-depth interviews. Interview technique determines credibility; we made sure that members of our team controlled all reactions, not to influence interviewees. We were flexible in our approach to participants, with all interviews conducted in a non-threatening environment.

4 Findings

The Austrian Industrial Code defines business as any independent, continuous activity carried out for profit, excluding learned and artistic professions and other exceptions. Sub-contracting is important for SMEs in Austria. Austria’s Ministry of Economy and Labour has helped establish the Association of Austrian Sub-contractors, which in turn facilitates matchmaking; the result is a symbiotic (Dana, 2006; Dana et al., 2008) interdependence among partners who cooperate.

We learned from our interviewees that when a migrant may not be employed legally, an option is to become self-employed as an independent business in the underground economy, where there is less concern for immigration status. In other words, a possibility of out-sourcing responsibilities is to sub-contract to self-employed entrepreneurs, as is the case in Belgium (Rezaei et al., 2013a). In the Austrian employer’s balance-sheet, payments made to these illegal contractors are entered as expenditures (Sachaufwand). There is no mention of employment.

We focused on illegal immigrants who are self-employed as they cannot be employed legally. They do contractual work for Austrians. This relationship between undocumented
contractors who cannot be employed legally and Austrians to sub-contract to them is sustainable via two-way trust.

4.1 Mono-ethnic and inter-ethnic trust

Fink and Teodorowicz (2008) discussed trust-based cooperation as a driver for Austrian SMEs, as did Fink et al. (2008). These studies focused on the firm-type economy.

Our focus being in the underground economy, we were interested in: “How do illegal migrants find opportunities?” We were told they rely heavily on networks of people whom they trust. Informal networks can include co-ethnics or co-religionists, former colleagues, former clients, friends, relatives, and flat mates. The Polish church and the Ukrainian church in Vienna are well-known meeting points for people from Poland and the Ukraine respectively; these churches serve as an information centre for business opportunities, and even accommodation. Announcements are posted in Polish or in Ukrainian. The (Catholic) Polish church is also used by (Orthodox) Ukrainians searching for opportunities.

Former customers and networks of colleagues usually play a crucial role in opportunity seeking. Contacts via friends or ethnic communities can be very useful for finding opportunities for enterprise. The interviews with irregular workers from Turkey indicated that the fact of being Turkish can be an entrance ticket to the underground economy. Irregular employment on construction sites of companies and private households is not only common; this is normal and the rule. (Irregular means a variety of non-compliant forms of employment.) Professional construction firms often operate with subcontractors who themselves employ migrants without reporting them to the social insurance or/and tax authorities. Due to this praxis of construction companies and developers to cooperate with subcontracting firms – as is the situation in Belgium (Rezaei et al., 2013a) or Denmark (Goli and Rezaei, 2008; Rezaei et al., 2013b).

An area in Vienna is informally called the Arbeiterstrich (a word arising from prostitution), called so because men are said to be prostituting themselves for work here. Employers know this and they come here – or to Herbrasse – to hire self-employed persons who cannot legally be employed in Austria. The self-employed migrants trust the Austrians to offer them opportunities, because no party has any motive to disclose the other’s illegal activity.

Solidarity is a very effective tool among undocumented persons. Experienced connections are an important source of knowledge as they can advise recent migrants where opportunities are more promising. Individuals can then go directly to construction sites and ask whether there are opportunities for them to become ‘self-employed subcontractors’ – paid under the table, without consideration of tax requirements.

Newly arrived migrants are especially dependent on co-ethnics for information when wishing to become familiar with methods used on Austrian construction sites (e.g., working with pre-fabricated walls). Interviewees told us that they use their native tongue among co-ethnics, thus avoiding misunderstandings in German – a language they are less likely to understand well. Interviewees put much emphasis on the importance of social networks to guide and warn co-ethnics where appropriate. This is not unlike the situation in Denmark (Rezaei et al., 2013b).

In Austria, the regulation of housework and care in the current socio-demographic context has been left to the workings of the existing structures of the welfare state, the
migration regime and the gendered division of labour. Solutions are sought on an individual, household-internal basis. A common strategy is to hire a migrant ‘entrepreneur’ with the result that housework is being commoditised, although not legally. Of course this option is viable only as long as amount paid is considerably lower than earnings of the house-owners. The purchasing power of (dual-earner) families in the higher income bracket meets the supply of low-cost labour in the service sector. Such a supply exists thanks to the emergence of a specific class of women with no access to alternative sources of income. In Austria, restrictive immigration laws and the Austrian Alien Employment Law impose important limits on migrant women’s options. These laws, which regulate access to the labour market according to nationality, resonate with a parallel development towards the segmentation of the labour market along the lines of ethnicity, thus helping to reshape the hierarchy on the labour market. Domestic work is mostly performed alone. Only one interviewee (A-I12) said that if there was a lot to do she asked for help a friend of her. Colleagues mostly are female migrants. The diffusion of irregular employment in private households is widespread in the Ukrainian community in Austria. Colleagues are very important also for job searching and advising who to trust. Respondent A-I3 told us: “My people can guarantee if an employer is OK and if he will pay you”. Employers are Austrians and (settled) migrants. Domestic workers without German language skills predominantly are working in private households of (other) migrants who are able to communicate with them.

4.2 The cost of the interlocked trust relation

Our empirical data indicates that trust relations are pivotal in order to enter and stay in the underground economy, not least in domestic work, since the workers enter the core private sphere of their clients. Thus, private networks are crucial. Notes (salaries are left with) and brief telephone calls are, in many cases, the only source of contact. The unlawful ‘entrepreneur’ turns into an invisible person and the work is considered as self-evident, which is found done when the client arrives home. Another feature of the invisibility of undocumented domestic workers is that the private household is place of protected work, far from police, governmental control or prosecution, from labour inspection, in privacy, calm, and mostly regularly performed. On the other hand there is – precisely because of its invisibility – a greater vulnerability of being exploited because nobody knows and nobody looks at industrial relations in private households.

Trust can also become a burden for the domestic worker. Owning the keys of households cared for means having a big responsibility and bonds for/to the particular household migrant domestic workers often do not want to bear. Especially when childcare is part of the domestic work emotional binding becomes an important aspect among the triangle migrant domestic worker – child – parents/client. To enter one’s privacy also means to adapt to a private household’s particularities: which polish to use, where to clean first, which method of cleaning to use. Sometimes these requests are easily to fulfil and client and unlawful ‘entrepreneur’ go together without problems. Sometimes insisting on these particularities from the client’s side also means degradation of domestic worker’s skills and the simple will to exercise power over a servant. That is also the case with regard to work with elderly: Provision of long-term care in Austria is guaranteed by state, family, social and community networks or via the market. In Austria cash for care benefits are not sufficient to cover the labour cost of a caregiver, mostly
long-term care is provided for free by female relatives. It is estimated that about 30,000 remunerated informal careers are working in 24-hour-care for elderly people. The role of irregular migrant work is providing inexpensive labour for a service, which cannot be regulated by the market. When working informally, caregivers do not hold any health insurance outside their countries of origin.

Especially from the client’s view it is important to stay with one or two careers to sustain a trustful relationship between caregiver and care receiver. Jobs are provided on the one hand via private networks like colleagues (from the same hometown) or former clients. Because it is such an intimate sphere, people want somebody recommended they believe they can trust. On the other hand, job placement agencies are very common in this branch: often they are disguised as non-profit organisations placing ‘voluntaries’ to households in need for care. Agencies are charging fees, for example A-17 told us that Das Beste charges 1,500 euro – every year. Often, there is an unclear definition concerning the areas of responsibility/work. Informal caregivers have to do household tasks, medical tasks, social tasks (going for a walk, playing, cooking together with patient), and there is an unclear limitation of working hours. Officially, their main task is to work with the patients but often they are also asked to do other jobs, including household chores of and meal preparation for relatives, too. In 24-hour-care, caregivers do not have any private sphere, no room of their own; permanent availability is required.

In agriculture in Austria, different circumstances dominate; work is mainly seasonal labour. In the countryside it is very common to approach asylum seekers in boarding houses and ask them to do some casual work in agriculture or forestry and use asylum seekers as cheap and flexible irregular labour. Asylum seekers are not allowed to work legally in Austria; yet, there is the possibility to apply for limited working permit for harvest. Farmers do not want to pay social insurance and taxes and minimum wage (five euro plus incidental expenses) so they are falling back on asylum seekers who are willing to work below minimum wage. Working time is very casual and flexible. Asylum seekers are called for some days or some weeks as long as harvest lasts. Asylum seekers on countryside are largely from Afghanistan, Armenia, Chechnya, Iraq, and Iran. Asylum seekers are paid less than Austrians. Austrians are anxious to keep a distance between refugees and Austrians so that they do not compare their wages.

4.3 Earnings

On the one hand, there is a high demand for flexible low paid irregular workforce to stand in for short-term failure of permanent staff. In restaurants, for instance, during peak periods additional people are required for kitchen work and serving. Labour cost factor is decisive due to labour intensive service sector. On the other hand the function of irregular employment in the restaurant sector is to maintain a stable low paid workforce ready to work longer hours than admitted if required and to accept miserable working conditions due to the vulnerable position of irregular migrant workers.

Our empirical data indicates that earnings of our respondents can be very low: between 300 and 750 euro a month for up to 60 hours working time a week, 12 hours a day. Especially when family ties are involved, Austrians feel responsible for the whole life of people working for them, and we were told that meddling in daily routine is common. Furthermore, relatives/friends/former neighbours expect ‘gratitude’. The
situation of protégés – who are in a very vulnerable position as (irregular) migrant newcomers – can be abused.

The role of the irregular work is a stable, extensively used (12 hours a day), low paid workforce with the option of flexible lay off in periods of low business volumes. Not only ethnic ties but also professional skills can help finding work in ethnic business, as the case of interviewee A-I17, an undocumented migrant from CIS shows: In the beginning, he did little jobs for his new (Turkish) master whose PC-business was not running very well before working in his office. The first week he worked without being paid. The master knows about the vulnerable position of the undocumented migrant and is paying very little (400 euro a month for 48 and 55 hours a week) although he is earning approximately 1,500 euro a week.

Another important branch of ethnic business is cleaning services. According to Austrian data printing plants and book-binderies also seem to rely heavily on undocumented migrant labour. Work is placed via intermediaries who get a lump-sum for a specific job and search for workers, organise and pay them. For the printing plants it is easier to find and more secure to employ workers via intermediaries. The printing plant officially does not know whether people hold a work permit or not. The intermediary allocates the work, and also organises the transport to printing plants in Austria.

Casual jobs are a very important source for undocumented migrant workers to make ends meet. Examples of casual jobs are disseminating party flyers (earnings between 6.50 and 10 euro an hour, A-I12); helping people to move from one place to the other (earnings between 30 and 50 euro, A-I17, A-I1); distributing advertising material during the nightshift (at temperatures of minus 25 degrees Celsius, earning 500 euro a month, A-I23). Here, word-of-mouth recommendation but also formal channels of job placement (e.g., finding opportunities via the internet as well as newspapers) are the main searching strategies. The working hours are very variable, sometimes all night long like in the cases of disseminating flyers and advertisement material. Casual jobs also can develop to more regular ones when individuals are recommended to others.

The lack of rights of undocumented migrants is a decisive reason to hire these people and exploit their labour: “He takes me because he knows I am without rights. If I held a working permit I could go to the chamber of labour to claim... Then he has to pay. That’s the problem. He knows exactly how things are going” (target group interview).

Undocumented migrant labour is seen as cheap cost factor – even cheaper than deploying machines, when battering down walls, ceilings, stairs, e.g., in old unsound buildings. Another important argument is the flexibility in working time of (irregular) migrant workers: ‘Migrants often want to work longer [than Austrians] because they can earn more money to send home.’ They often do not have families with them and do not mind working more than 40 hours a week. In peak times, when flexible labour force is required immediately, undocumented migrant workers are welcome, even if the company ‘normally’ does not employ undocumented migrant workers. In other word the non-compliant immigrant workers are competitive.

4.4 Status

Our findings indicate that a majority of interviewees experience a downgrading of occupational status in Austria, as they are performing jobs below their skill level. Only 20% of our sample indicate a matching of skill level and performed job, meaning that their actual workplace allows them to use their skills in an adequate way.
With regards to irregular jobs we can say that nearly all jobs available to undocumented or semi-documented migrants involve unskilled, low paid work. Thus, undocumented migrants are forced to accept a de-skilling process in order to survive. Especially at the beginning of their sojourns, they have to do casual jobs, which are more or less by definition unskilled.

Undocumented work is in Austria not so common for skilled or high skilled roles and this kind of irregular work is mostly done by Austrians themselves. One case which comes very near to the common idea of a matching between skill level and job is a person with a nurse diploma and is at the moment working in a regular job in mobile elder care according to her skill level.

4.5 Chain migration and return

Before coming to Austria, the majority of our interviewees (nearly two thirds) already knew other migrants from their home country living in Austria. For them this often was the main reason why they choose Austria as destination country for their migration project. Often they were directly invited by relatives or came in order to marry in Austria. These contacts played a decisive role in the adaptation process in the first time of their arrival especially when they entered the country undocumented and afterwards also in getting access to (irregular jobs). These cases can be concerned as kinds of chain migration.

Migration need not be permanent. Some people sojourn temporarily. Especially Polish workers return in calm phases (winter) to their countries of origin.

5 Conclusions

The aim of the study was to bring about empirical insight on circumstances and factors of undocumented immigrants who participate in underground economic activities. We have departed from theoretical insight where the opportunity structure, formal as well as informal, has been emphasised as a dominant factor, influencing the individual and collective actions.

As explained by Schumpeter (1934), an entrepreneur is someone doing things in innovative ways by finding

1. new products/services
2. new methods of production
3. new markets
4. new sources of supply
5. new forms of organisation.

Our findings suggest that immigrants are engaged in entrepreneurship by combining different organisational infrastructures.

Our study indicates clearly that the lack of rights of undocumented migrants is a decisive reason to exploit their labour. The result is a specific phenomenon of mutual trust. Empirical data indicates that trust relations are pivotal in order to enter and stay in
underground economy, not least in domestic work, since the workers enter the core private sphere of their employers.

Looking at the perspectives and development in the underground economy in Austria, this study departs from an understanding of the phenomenon as a sociological one, highlighting the following features:

• The underground economy is contextual. Its form, content and dynamic is specific to the national and other contexts in which it is used and understood.

• The form, the content and the dynamic of the phenomenon are situational. Here we refer to the experiences of those people who are subject to those definitional and operational categories, in this case specifically undocumented migrants themselves.

• The occurrence and development of the phenomenon is gradual, influenced by many factors such as migrants’ length of residency, year of entry, gender, capitals, government policies, political and public discourse, etc.

• Finally, the phenomenon is conditional, referring to the character of the residency as being understood and dealt with by migrants themselves, and by the actual practice of formal intuitions as a formal and/or informal response to the structural need of the national economy in the era of globalisation.

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Beyond legal entrepreneurship


**Notes**

1 Source: Dana (2006).