

IAB Brief Report

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In brief

■ The Global Entrepreneurship Monitor (GEM) of 2010 shows that in Germany only 4.2 per cent of 18- to 64-year-olds have started up their own business during the last 3.5 years or are currently doing so. This confirms earlier findings: in comparison to other countries there are not many start-ups in Germany.

■ Migrants tend to set up their own enterprises much more often than local people. However there are signs that this is often a reaction to the comparatively poor chances they have on the labour market.

■ However this does not imply that enterprises started up by migrants are any less successful than those of non-migrants. They are on average just as innovative and are even significantly larger than start-ups by local people.

■ In other words, migrants make a virtue out of necessity: by being professionally self-employed they not only promote their personal and economic integration into Germany but also make an important contribution to the German economy.

Start-ups by migrants

A path towards economic and social integration

by Udo Brixy, Rolf Sternberg and Arne Vorderwülbecke

By starting up their own businesses, migrants are able to use their knowledge and skills to make a contribution. In doing so, they have specific advantages. For example it tends to be easier for them to also export their products and services. In addition there are signs that they have more role models than local start-up entrepreneurs. For this reason it is not surprising that migrants in Germany risk starting up their own businesses more often than non-migrants.

The findings of the Global Entrepreneurship Monitor (GEM, see info box on page 2) over the last years constantly showed that people in Germany were cautious about setting up their own businesses. In many comparable countries tendencies to do so were considerably more marked. Even during the

most recent survey in 2010 (see Figure 1 on page 2), nothing has changed significantly in this respect.

One group that sets up businesses clearly more often than the population in general is migrants. An important reason for this is likely to be their higher risk of unemployment, as the unemployment rate of foreign nationals is twice as high as that of German citizens. For migrants in particular, the path to employment is often difficult or even barred – for instance because of limited knowledge of the language or because of their cultural background, because educational qualifications are not recognised or because of stereotyping and discrimination while looking for a job (Volery 2008).

In this situation, self-employment offers a professional alternative. Hence it is hardly surprising that the share of



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self-employed persons among foreign nationals and migrants is traditionally higher than that of non-migrants – even outside Germany (Tolciu/Schaland 2008).

Another argument is that cultural factors play a role in the marked tendencies that migrants have to become self-employed. Because many

migrants come from countries where entrepreneurial self-employment is more widespread than in Germany, role models that the local population do not have may also play their part.

After all, the individual decision to move to Germany is a self-selective process. Most migrants leave their home country in the hope of finding better economic conditions here, of achieving a higher income and of increasing their wealth. In comparison to their fellow countrymen and -women they are thus characterised by personality traits such as a marked ambition, a desire to be independent and self-confidence, lower aversion to risk, high performance motivation and willingness to perform, as well as a high ability to assimilate – all traits that promote the individual decision in favour of entrepreneurial self-employment (Waldinger et al. 1990).

If the community is big enough, there is often a culturally specific demand in the host country which opens up the corresponding niches for the self-employment of migrants (for example in the food sector). Finally, migrants also tend to use their specific advantages in intercultural competency and offer the corresponding advisory services as a high proportion of the self-employed traditionally do.

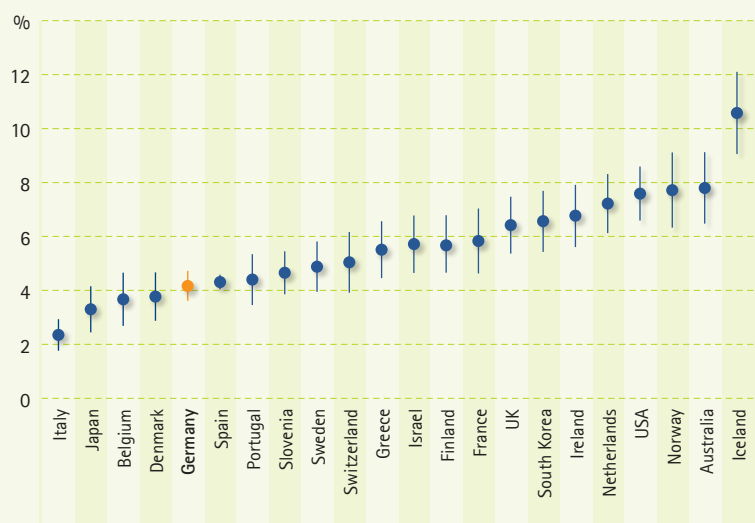
Migrants are often linked to their home countries and the culture there for a long time after immigration. For this reason they have valuable knowledge of the characteristics and cultural specialities of the markets in their home country and profit from their exclusive access to social networks and local contacts there. As migrants thus have information advantages as regards these foreign markets in comparison to local actors, businesses run by immigrants are active across national borders more often (Waldinger et al. 1990; Basu 2006).

However, along with these factors that are the reason for the high share of migrants among the self-employed, migrants are also confronted with specific difficulties and restrictions which can complicate the process of starting up a business. These include various forms of discrimination which may, for instance, hamper financing by means of credits or the access to non-migrant customers (Parker 2004).

Figure 1

Start-up activities in Germany and comparable countries 2010

Share of start-up entrepreneurs* in the population aged 18 to 64, in per cent (TEA quota)



* Persons who have set up an enterprise in the course of the last 3.5 years or who are currently in the process of doing so.

Note: Please see the info box on page 3 for average, confidence interval and significance.

Source: GEM Population Survey 2010.

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i The Global Entrepreneurship Monitor (GEM)

The Global Entrepreneurship Monitor (GEM) is an international research consortium set up in 1998. Its aim is to analyse start-up activities both internationally and intertemporally. The focus is on the comparison between different phases of the start-up activity. To do so, country teams collect data on the adult population (18-64 years) on an annual basis. Written expert questionnaires are carried out to assess framework conditions connected with start-up efforts. In 2010, 57 countries took part in the GEM. Apart from for 2007, a complete data series for Germany for the annual citizen and expert questionnaires and a German country report have been available since 1999.

The most important unit of measure in the GEM is the so-called "total early-stage entrepreneurial activity" (TEA). It comprises persons who are currently in the process of setting up their own enterprise (so-called "nascent entrepreneurs") and those who have set up an enterprise in the course of the last 3.5 years.

All country reports and overall reports providing international comparisons can be downloaded from the official internet site (www.gemconsortium.org). Reynolds et al. (2005) provides an overview of methodical details.



■ Defining migrants

Who is and who is not a migrant is not an easy question to answer. What is clear though is that a simple differentiation according to nationality is too short-sighted. For example, many people who have immigrated from the former Soviet Union have German nationality as ethnic Germans whereas many children and even grandchildren of former generations of guest-workers ("Gastarbeiter") who have been born and who have grown up in Germany do not have German passports.

To deal with this problem, the GEM Population Surveys of 2009 and 2010 asked on the one hand about country of birth and – independently of this – about whether a person felt closer to another culture than that of Germany.

In the following, all persons are defined as migrants – independently of their nationality – if they were born abroad, that is, if they have immigrated. Along with this group of immigrants of the first generation there are also, among those born in Germany, some who feel closer to the culture of their parents. These persons are also defined as migrants here and correspond to 28 per cent of the population group thus defined. Here it should be mentioned that persons with insufficient knowledge of the German language could not be interviewed.

There were not many migrants defined in this way among those interviewed. Of the 5,552 interviews in 2010, only 839 were with migrants. That is why the GEM survey waves of 2009 and 2010 have been aggregated below. The results presented here are based on 11,392 interviews, 1,709 of which were conducted with migrants. With that, the share of migrants within the total population surveyed is fairly high but nevertheless still too low to make further differentiations within the group, e.g. as regards country of origin.

As is the normal case with samples, the figures require to be grossed up if they are to be meaningful for the population as a whole. The share of migrants among the 15- to 64-year-olds thus defined – who represent the target group of the GEM survey – amounts to 15.8 per cent when grossed up. Of those who have immigrated from abroad, the people born in Turkey form the largest group at 11 per cent. This is followed by migrants from Poland (7%) and Russia (6%).

i

Confidence interval and significance in the Figures

The vertical bars in the graphs mark the area in which the average of the basic population (blue and orange dots) lies with a probability of 95% (95% confidence interval).

The differences between the two values (countries or groups of people) are only statistically significant if their confidence intervals do not overlap.

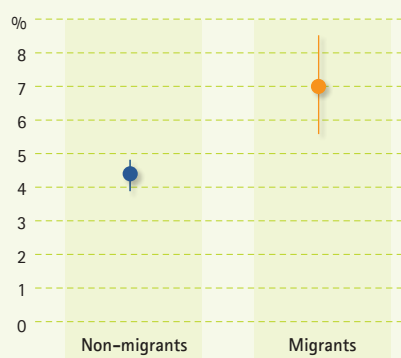
■ Results of the GEM survey for Germany

The so-called TEA quota ("Total early-stage entrepreneurial activity", see info box on page 2) shows that, as expected, migrants were in the process of building up their own self-employed businesses more often than non-migrants (see Figure 2). The difference amounts to 2.6 percentage points and is statistically significant – recognisable because the so-called confidence intervals (the vertical bars) of the two averages do not overlap.¹ With that, almost every fourth person setting up his or her own business (23.1%) has a migration background.

Figure 2

Start-up activities of migrants and non-migrants

Share of start-up entrepreneurs* in the population aged 18 to 64, in per cent (TEA quota)



* Persons who have set up an enterprise in the course of the last 3.5 years or who are currently in the process of doing so.

Note: Please see the info box above for average, confidence interval and significance.

Source: GEM Population Survey 2009/2010.

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¹ The confidence interval of the average for more than 10,000 interviews with non-migrants is much smaller than that for the roughly 1,700 interviews conducted with migrants. This means that the average of the larger sample can be estimated much more precisely than that of the much smaller one for migrants.

A possible reason why migrants are more often self-employed is – as described above – insufficient integration into the labour market and/or discrimination when looking for dependent em-

ployment. And indeed the share of persons starting up their own businesses who said that they were doing so because they had no other alternatives was higher among migrants than among non-migrants (see Figure 3). As the differences between the two population groups are not significant, no reliable further conclusions can be made.

The low tendency to take risks noted for German nationals is a fact that has been seen again and again for many years and is surely part of the reason why there are relatively few start-ups in Germany. As mentioned above, migrants are in general said to have a relatively high willingness to accept risk. This is why the result of the GEM survey is all the more surprising, namely that there is no significant difference between migrants and the local population as regards the tendency to take risks: the share of people who indicate that fear of failure would stop them from undertaking entrepreneurial activities amounts to 40 per cent in both groups (see Figure 4). Here the question is how quickly people adapt to mainstream society in their risk behaviour and how strong the influence of institutional circumstances are on people's risk tendencies – for instance, the comparatively restrictive German law on insolvency.

There is a similarly striking conformity in the estimation of the start-up opportunities that will arise in the ensuing six months. Also in the question of whether a person thinks that he/she has the necessary skills to set up and run a business, migrants do not see themselves in any different way from local people (see Figure 4).

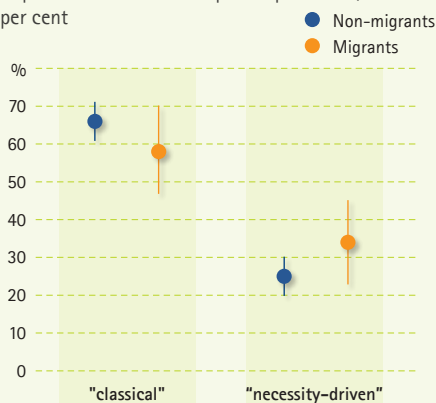
However there are significant differences in the answers given by those interviewed to the question of whether they knew anyone who had set up his/her business during the previous two years. Here it became clear that migrants often had acquaintances to whom this applied (see Figure 4). These persons can serve as role models who – as research has shown – are very important in developing the concept of one's own self-employed business (Davidsson 1995).

For some years now, migration research has shown that migrants are often well linked amongst one another (Light et al. 2004). These networks act as a form of social capital that can have a positive effect on individual tendencies to

Figure 3

Start-up motives of migrants and non-migrants

Share of the "classical" and "necessity-driven" start-up entrepreneurs¹⁾ of all start-up entrepreneurs²⁾, in per cent



¹⁾ "Classical" start-up entrepreneurs state that they want to exploit a business idea whereas "necessity-driven" entrepreneurs do not see any other way of earning a living.

²⁾ Persons who have set up an enterprise in the course of the last 3.5 years or who are currently in the process of doing so.

Note: Please see the info box on page 3 for average, confidence interval and significance.

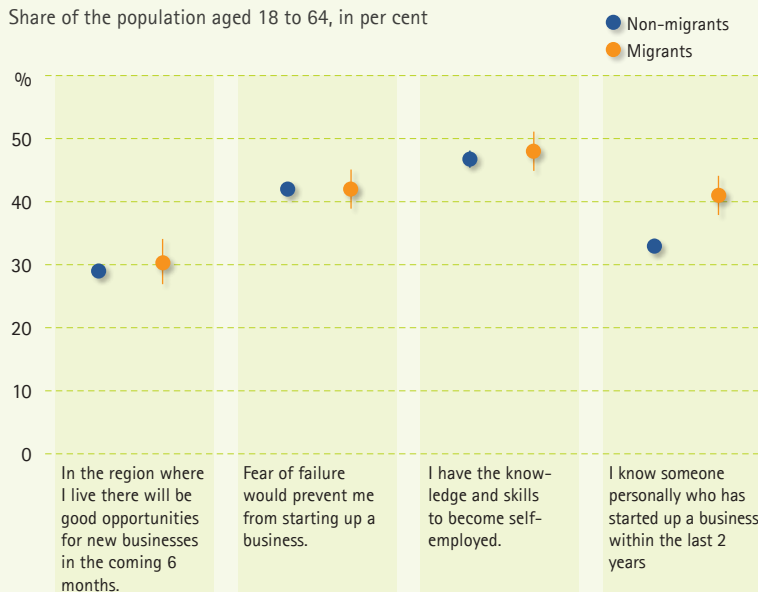
Source: GEM Population Survey 2009/2010.

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Figure 4

Attitudes of migrants and non-migrants to important entrepreneurial characteristics and framework conditions

Share of the population aged 18 to 64, in per cent



Note: Please see the info box on page 3 for average, confidence interval and significance.

Source: GEM Population Survey 2009/2010.

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set up a business. Often migrants do not get their important, if limited, resources such as financial and technical means and information about business regulations, laws or suppliers from the host society but use their social contacts in the ethnic community for this. This is usually a result of the social distance to the institutions of the host country and a preference for culturally familiar contacts and customs in organising business and everyday life in the host society (Volery 2008).

It is not least these migrant-specific networks that favour contacts to role models. Hence networks can explain the greater tendency to self-employment on the part of migrants in two ways: they supply a great many role models and they raise the social capital per se of those who participate in the network.

It is a well-established finding in research on entrepreneurial activity that people starting up their own businesses are better educated than the average of the population of the same age. Of the local start-up entrepreneurs, 37 per cent are highly qualified, that is, they have a university qualification. With migrants, this share is 12 percentage points less (see Figure 5). This would seem to imply that businesses set up or planned by immigrants are less innovative and on average smaller.

However according to the results of the interviews there are no significant differences between the degree of innovation of migrants and non-migrants setting up their own businesses (see Figure 6). This applies both to the attribute 'newness' of the products and services offered and to the competitive situation of the business that has been set up. The only difference was in the age of the technologies used, but it was one that was not statistically significant and was in favour of the businesses set up by migrants. In general, the innovative quality of businesses set up by migrants was no different from that of the local population.

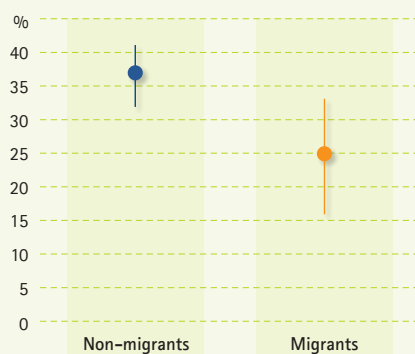
Information advantages about circumstances in their home countries give migrants the edge in selling their products and services abroad. This advantage in information could be responsible for the fact that the share of start-ups that aim at internationalisation in the form of export activities tends to be higher with migrants than in the

local population. Having said that, the differences remain just under the significance threshold of 5 per cent (see Figure 7, page 6). Nonetheless this finding points to the already mentioned advantages that migrants have with regard to internationalisation intentions and processes – especially

Figure 5

Highly qualified migrant and non-migrant start-up entrepreneurs

Share of the highly qualified of all start-up entrepreneurs*, in per cent



* Persons who have set up an enterprise in the course of the last 3.5 years or who are currently in the process of doing so.

Note: Please see the info box on page 3 for average, confidence interval and significance.

Source: GEM Population Survey 2009/2010.

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Figure 6

Level of innovation of the start-up enterprises of migrants and non-migrants

Share of start-up entrepreneurs*, in per cent



* Persons who have set up an enterprise in the course of the last 3.5 years or who are currently in the process of doing so.

Note: Please see the info box on page 3 for average, confidence interval and significance.

Source: GEM Population Survey 2009/2010.

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in connection with sales markets in their home countries.

Businesses set up by migrants tend to be larger than those of local start-up entrepreneurs. More than 70 per cent employ staff, or plan to employ staff, directly after establishing self-employment (see Figure 8). That is a good 20 percentage points more than with the businesses of local start-up entrepreneurs. Hence the start-ups of migrants have a somewhat higher employment effect than those of non-migrants. This is surprising against the background that migrants set up their business in the area of person-related services linked to small businesses and much less often than local entrepreneurs in the area of company-related services (see Figure 9).

It is a well-known fact of start-up research that men show a more marked readiness to set up their own businesses than women. This is confirmed both among local start-up entrepreneurs as with those who have immigrated. While there are less female start-up entrepreneurs among migrants than among local people, the deviation cannot statistically exclude that this is purely a matter of chance (see Figure 10).

■ Conclusions

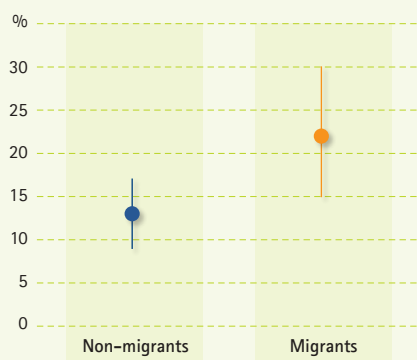
In comparison to the local population, migrants as a whole prove to be more willing to set up their own businesses – as was expected. However this often seems to be a result of their poorer chances on the labour market. This is also supported by the fact that migrants are in no way more willing to take risks than the local population. The businesses that they set up are on average no less innovative than those of other start-up entrepreneurs and are on average also clearly larger.

It would therefore seem that migrants make a virtue out of necessity in support of their own personal economic and social integration. Through their initiative, they make an important contribution to the German economy – not least because their start-up enterprises create jobs particularly often.

Figure 7

Start-up enterprises with an export share of at least 25 per cent

Share of enterprises*, in per cent



* Enterprises that were set up in the course of the last 3.5 years or are currently being set up.

Note: Please see the info box on page 3 for average, confidence interval and significance.

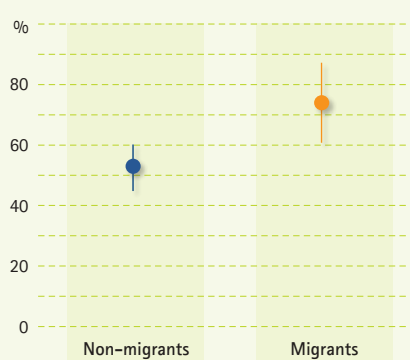
Source: GEM Population Survey 2009/2010

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Figure 8

Start-up enterprises with at least one employee

Share of enterprises*, in per cent



* Enterprises that were set up in the course of the last 3.5 years or are currently being set up.

Note: Please see the info box on page 3 for average, confidence interval and significance.

Source: GEM Population Survey 2009/2010.

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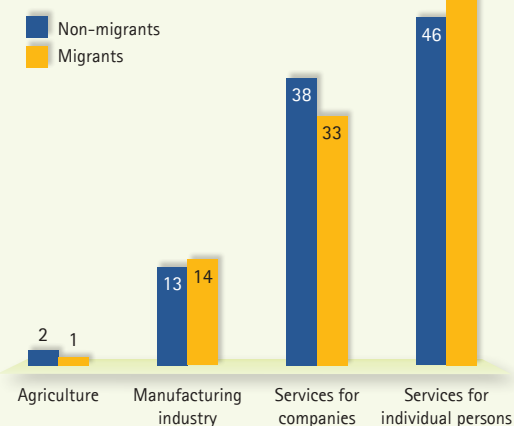
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Figure 9

Branch structure of the start-up enterprises of migrants and non-migrants

Share of enterprises*, in per cent



* Enterprises that were set up in the course of the last 3.5 years or are currently being set up.

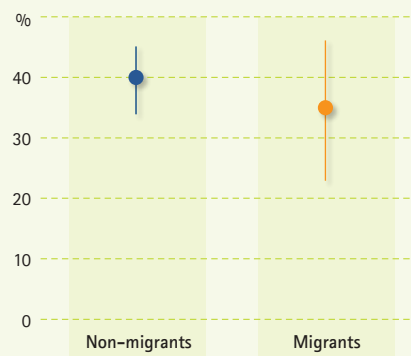
Source: GEM Population Survey 2009/2010.

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Figure 10

Share of women among migrant and non-migrant start-up entrepreneurs

Share of women among start-up entrepreneurs*, in per cent



* Persons who have set up an enterprise in the course of the last 3.5 years or who are currently in the process of doing so.

Note: Please see the info box on page 3 for average, confidence interval and significance.

Source: GEM Population Survey 2009/2010.

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You can find further interesting results of the Global Entrepreneurship Monitor in the Länderbericht Deutschland 2010 which has been issued (in German) at the same time as this Brief Report. It is available free of charge at <http://doku.iab.de/grauepap/2011/gem2010.pdf>

For an executive summary (in English, 8 pages) of the GEM Country Report Germany 2010 see: <http://doku.iab.de/grauepap/2011/gem2010-symmary.pdf>