

IAB Brief Report

25/2013

Up-to-date analyses by IAB

In brief

■ Migrants set up their own businesses more often than local persons: that is the result of previous research. In 2012 this only applied to migrants immigrating from the states bordering on Germany from the west and north. Above all male immigrants from these countries display a considerably higher tendency to set up businesses in comparison to local persons. Migrants from other countries, e.g. Southern and Eastern Europe, do not become self-employed any more often than local persons.

■ Albeit, migrants generally start up their own business more often because they lack other perspectives as it is relatively difficult for them to find a job. Self-employment may be a way to market a qualification that is not certified according to German standards.

■ More often than local persons, migrants see self-employment as a good career option. They tend to have more role models at their disposal, that is, they know persons who have recently become unemployed. However their willingness to take risks is not higher than that of local persons. Migrants believe less often that they have the necessary skills to run a business.

Global Entrepreneurship Monitor 2012

Business start-ups by migrants

by Udo Brixy, Rolf Sternberg and Arne Vorderwülbecke

Migrants above all come to Germany because they expect that their life will be better here. They want to achieve something and are willing to learn and work. They do this as workers and employees but also by becoming the entrepreneur of a new business. Such start-ups create jobs – for local workers as well – and make an important contribution to the economic development in this country.

Many countries have recognised the economic potential offered by migrants. That is why Germany finds itself in a competition for immigration, especially when it is a question of well-educated migrants. Above all because the share of highly qualified persons has risen strongly in the last decade, they have had a positive effect on the growth of the German economy and the financing of the welfare state. There is a

wide consensus of opinion in the research community in relation to this point (Brückner 2013).

Studies, such as the one mentioned, always restrict themselves to the effect of migrants on the labour market. In other words, migrants are mainly perceived as dependent employees. At the same time it has been known for a long while that

i The definition of „migrants“ in this report

Migrants in the sense of this study are persons who state that they were not born in the country in which the survey is being carried out. That means that the frequently used concept of „Staatsbürgerschaft“ (citizenship, nationality) does not apply here. Foreign citizens who were born in the country where the survey is taking place are dealt with as nationals („local persons“).



Leibniz Universität Hannover

Institut für Wirtschafts-
und Kulturgeographie



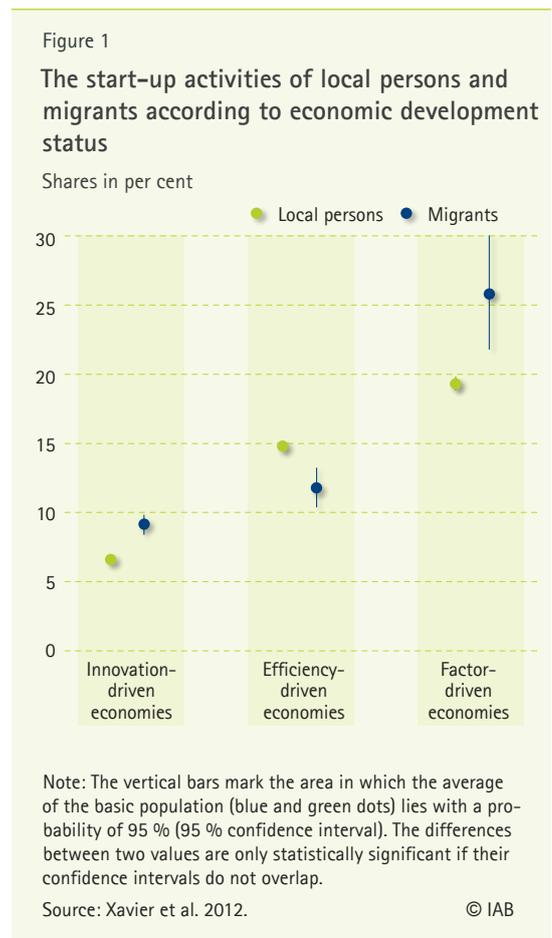
migrants become entrepreneurs at least as often as local persons. In this, they make a contribution to the internationalisation and structural change of the German economy.

Yet the topic "Start-ups by migrants" is not only the focus of great interest in Germany. The experts from 69 countries – who jointly issue the "Global Entrepreneurship Monitor" (GEM, see info box on page 3) as the worldwide largest research programme on business start-ups – in the recent cycle laid special emphasis on this topic (Xavier et al. 2012). The results confirm that in many countries migrants set up their own enterprises to a considerable extent and in this way support the economy of the country of destination (see the info box on page 1 for the definition of "migrants" used here). In numerous countries, migrants even set up a business more often than local persons. This applies especially to the highly developed countries and developing countries (see Figure 1).

■ Why migrants tend to set up businesses more often than local people

Although the reasons migrants have for starting up a business basically differ little from those of the local people, some constellations do appear more often with immigrants (see Kay/Schneck 2012 for details). For instance, it is more difficult for migrants to find dependent employment under the same conditions than for local persons, not only in Germany but also in many other countries. This is reflected in the above-average unemployment figures for foreigners. But even if they have employment, they are paid less than local persons (Lehmer/Ludsteck 2013). That is the reason why migrants benefit financially to a special extent from a start-up. The self-employed earn more on average than dependent employees. This also applies when one only looks at the income of persons who are truly comparable. The difference in income is clearly greater in the case of migrants than in the case of local persons (Constant/Shachmurove 2006). Both the poor employment chances and the lower incomes are the reasons which encourage migrants to carry out a self-employed activity rather than non-migrants.

There are a number of personal characteristics or dispositions whose constellation influences the decision between a dependent activity and a self-employed one. If parents are or were self-employed, the



probability is considerably higher that the said person will also become self-employed – independent of the chance of taking over the parental business. Put more generally: Role models play a very important part in the decision in favour of a self-employed or a dependent activity. So if migrants come from societies where self-employed forms of earning a living are more widespread than in Germany, they can fall back on the corresponding role models much more frequently than local persons.

Further important influential factors are caused by the self-selection of migrants. The fact that someone emigrates in order to build up a new existence in another country already shows a considerable measure of openness to risks and self-assertion. Both are characteristics that distinguish entrepreneurs in particular.

■ Attitudes of migrants and local persons relevant to starting up a business

In the GEM several questions are asked that at least make possible an approximate estimation of the attitudes and skills that are relevant to starting up an enterprise. Figure 2 shows how migrants and local persons answered six of these questions.

Surprisingly there are not statistically relevant divergencies in aversion to risks. In comparison to the sections of the population in the countries of origin which do not migrate, migrants are perceived as persons who are generally especially willing to take risks (Heitmueller 2005). In Germany the fear of failure when setting up one's own business is traditionally more pronounced than in many other countries (Sternberg et al. 2013). It is remarkable that immigrants to Germany show just as high an aversion to risk as the local population. Bonin et al. (2009), who come to a similar result in their study, see the possible cause in the fact that the image of migrants was above all characterised by the former so-called Gastarbeiter (guest workers): such persons were recruited in a targeted way for certain jobs and thus did not need to accept any considerable economic risk.

Where the tendency to set up one's own enterprise is concerned, institutional barriers also exist in Germany. The worry of possible failure can indeed be reasonable. In particular, here there are comparatively restrictive regulations relating to remission of debts when a company fails. Migrants in particular could tend to expect risks to be higher if they are not experienced in dealing with German administrations and see the necessary administrative processes as daunting.

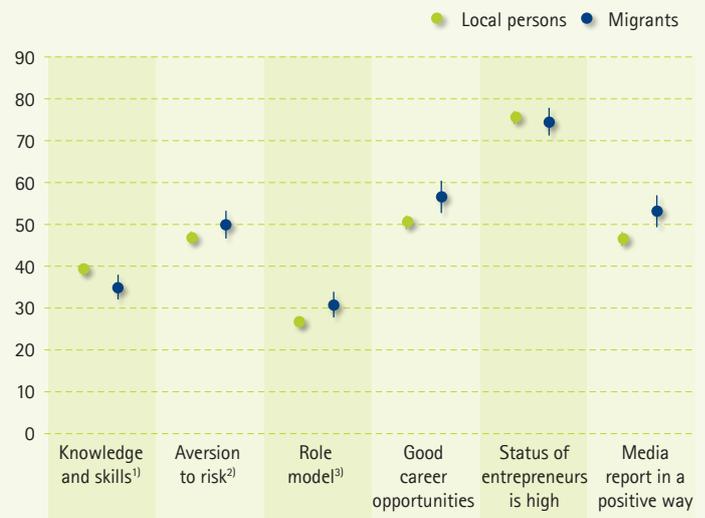
Although local persons and migrants both take the view that entrepreneurs are held in high esteem, it is migrants who see in self-employment good career chances more often. Likewise, they perceive the reporting on start-up activities in the media on average in a more positive way than local people.

Knowledge of how a business should be run is of course of central importance for (potential) entrepreneurs. This is where migrants do more badly than local persons, at least in their perception of themselves: on average they are less often of the opinion that they have the necessary knowledge for setting up a business. This is presumably also a problem of cultural distance, as migrants from innovation-dri-

Figure 2

Statements made by local persons and migrants concerning start-ups

Share in per cent



¹⁾ I have the knowledge and skills to become self-employed.

²⁾ Fear of failure would prevent me from starting up a business.

³⁾ I know someone personally who has become self-employed over the last 2 years.

Note: The vertical bars in the graphs mark the area in which the average of the basic population (blue and green dots) lies with a probability of 95 % (95 % confidence interval). The differences between the two values are only statistically significant if their confidence intervals do not overlap.

Source: GEM Survey in Germany 2010 to 2012.

© IAB

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 2012, 69 countries took part in the GEM. Apart from 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 measurement 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. For the so-called TEA quota, their number is set in relationship to the total population between 18 and 64 years in the country in question.

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.

Please see the following website for the current Country Report Germany 2012 with further interesting results:

<http://doku.iab.de/externe/2013/k130606302.pdf>



ven countries are 47 per cent – that is 8 percentage points more than local people – of the opinion that they have the necessary skills at their disposal (see the info box on page 4 for the definition of "innovation-driven countries").

Finally, role models have an important function to play in the development of the notion of starting up one's own self-employed existence. This is where migrants have a clear advantage as they indicated more often that they know someone personally who has made him- or herself self-employed in the recent past.

■ Institutional framework conditions for start-ups by migrants

Citizens from countries belonging to the European Economic Area (EEA) can in principle start up a business because they are entitled to economic freedom. Iceland, Norway and Liechtenstein belong to the EEA, as well as, in relation to the possibilities of

starting up an enterprise, de facto also Switzerland. Citizens from states outside the EEA as a rule require a residence permit. However they have the possibility of receiving a residence permit if they start up an enterprise in Germany which is based on a specific minimum investment. While it may be true that this constellation is not very frequent, it is also not an isolated case, as Block and Klingert (2012) show.

Yet in Germany there are restrictions to economic freedom in a number of trades. It is said that proof of specific qualifications is required which is often difficult to get hold of if migrants have not undertaken a special training in Germany (for details, see Kay/Schneck 2012). First and foremost this applies to craftsmen's trades to the extent that require licensing, as well as the free professions. The legislature has recognised these difficulties and has tried to alleviate this problem somewhat by way of the "Anerkennungsgesetz" (Recognition of qualifications law)¹. As this law has only been in force since April 2012, the findings documented here could not however have been influenced by it.

■ Start-up activities of local persons and migrants in a multivariate comparison

A simple comparison of the activities of migrants and local people does not show any significant differences between the groups. The structural variations between them are, nevertheless, so complex that a purely descriptive and univariate analysis would not do justice to the situation. For instance, the differences in the age structure are also dependent on the country of origin and on many other factors. That is why multivariate processes (Probit analyses) were carried out which allow various influences to be observed at the same time. These models help to estimate how high the probability is that a person will have just recently initiated a start up or is currently on the way to becoming self-employed (TEA-Konzept, see the info box on page 3).

The multivariate comparison shows that migrants do indeed start up their own businesses more often than local persons; nonetheless, at just a little above one percentage point, the disparity is not particu-

¹ Law on the improvement in the assessment and recognition of professional qualifications gained abroad. For more information, see Bundesministerium für Bildung und Forschung (2012).

i

The country categories of the Global Competitiveness Report

The 69 countries that took part in GEM in 2012 are divided into three groups according to the categorisation of the Global Competitiveness Report 2012-2013 (Schwab/Sala-i-Martin, 2012) based on the argumentation of Porter et al. (2002). This is particularly the right way of going about it because the start-up activities in these three groups have very different functions. In other words: the same quota level for start-ups has a very different significance in the various groups.

The first group consists of countries with low economic power. Because they largely achieve their growth from the increased mobilisation of primary production factors (land, supplies of raw materials, low-skilled workers, etc.) they are termed „factor-driven economies“.

The second group covers political economies which have managed to increase their standard of living with the help of foreign direct investment (FDI). As further growth is primarily achieved through increasing efficiency, these countries are termed „efficiency-driven economies“. The technologies necessary to do this usually require to be imported, as the capacities for the generation of own innovations have not yet been sufficiently developed.

The differentiation to an "innovation-driven economy", the third and last group, is the most difficult according to Porter et al. (2002). Even in efficiency-driven economies, macroeconomic stability and the guaranteed protection of private property (both material and intellectual) are important preconditions for attracting FDI. Additional characteristics for innovation-driven economies are discernible investment activity in the areas of education, research, and development – both by the state and private actors.

Like all OECD countries, Germany belongs to the group of innovation-driven economies. Of the 69 economies participating in the GEM 2012, 23 – apart from Germany – belong to the innovation-driven group. In the current report they form the reference group against which Germany is measured.

larly large. On the other hand, at roughly three per cent, the difference between genders in both groups is more conspicuous: women set up their own businesses noticeably less often than men. However female migrants do not decide to become self-employed less often than women born in Germany.

A university qualification raises the likelihood that one will start up an enterprise considerably; here the divergence vis-à-vis persons without a university qualification likewise amounts to three percentage points. This also applies to local persons and migrants to the same degree.

And finally, young people start up businesses more often than older persons, independent of migration status. Nonetheless the difference is not serious; an increase in age of ten years lowers the probability of a start-up by only 0.8 percentage points.

Such percentual information can be easily added up so that differences between persons with differing socio-demographic and education-related characteristics quickly become visible. For example, the probability of starting a business for male migrants with a university qualification is about 7 per cent higher than for a local women without a university qualification.

Differences according to countries of origin

A precise breakdown according to countries of origin of migrants reveals that only people who immigrate from an economically highly developed country have a significantly higher level of starting up a business than the average local population. The gap between them and local persons amounts to just under three percentage points. That said, this does not apply to women immigrating from these countries: they have a 3.7 per cent lower probability of starting up a business than men. Through this it can be stated for the record that the increased tendency to set up one's own business, characteristic of migrants, can essentially be traced back to male migrants from highly developed industrial states. It may be presumed that this group of persons also in many cases already intended to start up a business when they immigrated to Germany.

Migrants from countries with a fairly low level of economic development start up businesses not more often – but also not less often – than the local population. This also applies to Eastern European EU-countries as well as immigrants from the crisis-ridden Euro countries of Ireland, Spain, Greece

and Italy. Migrants from these states as a rule work as dependent employees and do not start up their own business more often than local persons.

The highest positive divergences are shown by the migrants from the EU states that border Germany on the west and north. If one lumps the EU countries without expansions to the east and south, but with a northern expansion (former EFTA States) together then these immigrants have a more than 4 percentage points higher tendency of starting up a business.

Necessity-driven and opportunity entrepreneurship

As already explained, migrants have more difficulties integrating themselves adequately into the labour market. This is also due to formal handicaps: not least the obstacles in the recognition of foreign qualifications and certificates which make it more difficult for them to find qualified places of work. A possibility of avoiding these difficulties is the setting up of one's own business.

In GEM, participants are asked about the motives that led to the desire to become self-employed. Here a differentiation is made between "opportunity entrepreneurs" and "necessity-driven entrepreneurs". The first kind look for a path to self-employment for instance to improve their own income or also for

i

The data on which the survey is based

People who are currently in the process of starting up a business or intend to do this in the near future always form a very small section of the population. This makes it very difficult to make statistically reliable – that is, significant – statements about this group. And this is particularly the case when one wishes to make assertions about a minority within the group of start-up entrepreneurs, for instance migrants. Nevertheless, despite this and in order to make estimations concerning the start-up activities of migrants in Germany, a further survey was started in Germany alongside the actual GEM survey. This adhered precisely to the GEM questions but was centred on migrants.

This overproportional surveying of migrants makes possible more precise statements about the start-up activities within this small group. In addition, the GEM surveys of the years 2010 and 2011 were consulted while presuming that in this fairly short time no large-scale shifts took place. This total of four individual surveys, on which the assessment for Germany rests, consists of 14,861 interviews. The share of migrants from the first generation in this sample lies at 16 per cent for the target group of 18- to 64-year-olds⁵.

⁵ With this, the share of migrants lies 3 percentage point above the share of immigrants („Zuwanderer“) indicated by the Federal Statistical Office (Expertise series 1, series 2.2 „Bevölkerung mit Migrationshintergrund 2011“). This is presumably because of the more comprehensive survey concept in the GEM (see info box page 3).

reasons of self-fulfilment. This is different for the "necessity-driven entrepreneurs" who start up their business more because of a lack of alternatives and who would, if in doubt, prefer dependent employment rather than self-employment. Such a correlation is naturally not conclusive. That is why there is also a group which cannot be clearly allotted to either of these two motivations. In addition to this, one must also presume that the way those interviewed answer the question can change over time. Someone who is planning to set up his/her business initially because of a lack of perspective can later become a convinced "opportunity entrepreneur". Nevertheless, the questions asked within the GEM framework allow motives to be roughly classified.

What actually becomes apparent is that migrants start up a business neither more often nor less often for "classical" entrepreneurial motives than local persons. Having said that, they are more often to be found among the entrepreneurs who set up a business because they have a lack of other prospects. While the divergence from local entrepreneurs may indeed be significant, it only amounts to one percentage point. All in all, the variation between the motives of local persons and migrants is fairly small.

The authors

■ **Dr Udo Brix**

is a researcher in the "Regional Labour Markets" Research Department of the Institute for Employment Research (IAB).

udo.brix@iab.de

■ **Professor Rolf Sternberg**

holds the Chair at the Institute of Economic and Cultural Geography of the Leibniz University, Hannover

sternberg@wigeo.uni-hannover.de

■ **Arne Vorderwülbecke**

is a researcher at the Institute of Economic and Cultural Geography of the Leibniz University, Hannover.

vorderwuelbecke@wigeo.uni-hannover.de

The start-ups of migrants are just as innovative and export-orientated as those of the local population

Start-ups are important for the renewal of the entrepreneurial basis. Even if not every start up is really innovative, nevertheless it does represent a challenge to firms that are already active on the market. Through this, competition is stimulated and productivity in general increased. If start-ups are successful then they create permanent jobs.

Whether a start-up is innovative is ascertained within the GEM through questions relating to process and product innovations. In this, the start-ups belonging to migrants do not differ from those of local persons. As regards export-orientation one would expect that the start-ups of immigrants exported more often to abroad than those of the local population, however here no significant distinctions can be demonstrated.

■ Conclusions

In many ways start-up entrepreneurs are similar to one another, independently of whether they have immigrated into a country or not. On the other hand, migrants are on the whole more often among those starting up businesses than corresponds to their share of the population. This is also a reaction to a lack of perspectives on the labour market. Starting up a business can be an opportunity to use skills and knowledge that are not formally recognised in Germany.

What should be noted here as an important result is the fact that migrants do not only offer potential as dependent employees; rather, they also present themselves as entrepreneurs, thus making an important contribution to economic development in Germany. At the same time, though, this potential is not independent from the land of origin of the migrants: above all, it is immigrants from western industrial nations that do indeed start up businesses more often than local persons. Moreover it must not be overlooked that persons with university-level qualifications – both migrants and local people – set up their own businesses more often. A higher contribution to development can be expected from such entrepreneurs.

References

- Block, A. H.; Klingert, I. (2012): Zuwanderung von selbstständigen und freiberuflichen Migranten aus Drittstaaten nach Deutschland. Working Paper No. 48 of the Bundesamt für Migration und Flüchtlinge (Federal Office for Migration and Refugees), Nuremberg.
- Bonin, H.; Constant, A.; Tatsiramos, K.; Zimmermann, K. F. (2009): Native-migrant differences in risk attitudes. *Applied Economics Letters* 16, 1581-1586.
- Brücker, H. (2013): Auswirkungen der Einwanderung auf Arbeitsmarkt und Sozialstaat: Neue Erkenntnisse und Schlussfolgerungen für die Einwanderungspolitik. Gütersloh, 38 pages. (Bertelsmann Stiftung: http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-EBB50DC5-A317F306/bst/xcms_bst_dms_37927__2.pdf).
- Bundesministerium für Bildung und Forschung (Federal Ministry of Education and Research) (2012): Erläuterungen zum Anerkennungsgesetz des Bundes (http://www.anerkennung-in-deutschland.de/media/20120320_erlaeuterungen_zum_anerkennungsg_bund.pdf).
- Constant, A.; Shachmurove, Y. (2006): Entrepreneurial ventures and wage differentials between Germans and immigrants. *International Journal of Manpower* 27: 208-229.
- Heitmueller, A. (2005): Unemployment benefits, risk aversion, and migration incentives. *Journal of Population Economics* 18, 93-112.
- Kay, R.; Schneck, S. (2012): Hemmnisse und Probleme bei Gründungen durch Migranten. IFM-Materialien 214 (http://www.ifm-bonn.org/uploads/tx_ifmstudies/IfM-Materialien-214_2012.pdf).
- Lehmer, F.; Ludsteck, J. (2013): Lohnanpassung von Ausländern am deutschen Arbeitsmarkt: Das Herkunftsland ist von hoher Bedeutung. *IAB-Kurzbericht (Brief Report) No. 1*, Nuremberg.
- Porter, M.; Sachs, J.; McArthur, J. (2002): Executive summary: Competitiveness and stages of Economic Development. In: Porter, M.; Sachs, J.; Cornelius, P. K.; McArthur, J.; Schwab, K. (Eds.): *The Global Competitiveness Report 2001-2002*. New York: Oxford University Press, 16-25.
- Reynolds, P. D.; Bosma, N.; Autio, E.; Hunt, S.; Bono, N. D.; Servais, I.; Lopez-Garcia, P.; Chin, N. (2005): *Global Entrepreneurship Monitor: Data Collection Design and Implementation 1998-2003*. *Small Business Economics*, 24, 205-231.
- Schwab, K.; Sala-i-Martin, X. (2012): *The Global Competitiveness Report 2012-2013 of the World Economic Forum (Full Data Edition)*, Genf (http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf).
- Statistisches Bundesamt (Federal Statistical Office) (2012): *Bevölkerung mit Migrationshintergrund 2011*. Expertise series 1, series 2.2 Wiesbaden (https://www.destatis.de/DE/Publikationen/Thematisch/Bevoelkerung/MigrationIntegration/Migrationshintergrund2010220117004.pdf?__blob=publicationFile).
- Sternberg, R.; Brixy, U.; Vorderwülbecke, A. (2013): *Global Entrepreneurship Monitor, Länderbericht Deutschland 2012*. Hannover, Nuremberg (<http://doku.iab.de/externe/2013/k130606302.pdf>).
- Xavier, S. R.; Kelly, D.; Kew, J.; Herrington, M.; Vorderwülbecke, A. (2012): *Global Entrepreneurship Monitor 2012, Global Report* (<http://www.gemconsortium.org/docs/download/2645>).

