

Unleashing the potential of a heterogeneous society

Migrant-run companies as drivers of inclusive growth

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As compared with many of its European partners, Germany is currently in a good economic position. But looking solely at economic growth is deceptive. Growth in recent years has not been inclusive, as participation opportunities have become increasingly unequally distributed. This puts social cohesion at risk. But what might policies that achieve both goals—realizing growth potential and expanding participation opportunities—look like? As a part of its “Strategies and Investments for Inclusive Growth” project, the Bertelsmann Stiftung develops and discusses concrete recommendations for an inclusive growth model. Using current research as a basis, this discussion paper discusses the degree to which the entrepreneurial activity of immigrants and people with a migrant background are today already

serving to drive inclusive growth in Germany, and how potential of this kind can be identified.

The conditions rendering it possible to engage in entrepreneurial activity in a country have a direct effect even beyond that country’s national economic performance. Who founds companies and who does not, and the degree of sustainability displayed by the companies founded, says much about how participation opportunities are distributed within a society. Are conditions such that groups that still lack full equality of opportunity within economic processes, such as women, young people, and people with an experience of immigration or a migrant background, are able as businesspeople to become pace-setters for a successful economy? Or is their potential overlooked and unused? What specific obstacles are in place?

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Immigration and business creation

Interview

Three questions for Dr. René Leicht

Potential

Barriers and support for business startups

An agenda for inclusive growth can become concrete only when these and similar questions are posed and answered. Among other voices, the OECD has called for this in its recent report, “All on Board. Making Inclusive Growth Happen” (OECD 2015: 132). Immigrants and their children often display entrepreneurial courage that frequently remains underestimated to this day. What is the situation in Germany in this regard? What research findings are already available on this issue, and what policy recommendations are currently being discussed with an eye toward enhancing potential?

1. Business startups as economic rejuvenation and growth drivers

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The level of economic growth is still considered to be an important indicator of overall economic conditions in a country or economic area. If the economy is booming, economists, politicians and the population all regard the future with optimism; if economic growth is by contrast waning or even collapsing, it will be perceived with greater concern.

Economic growth is not achieved only through the expansion of existing companies’ production capacities, but also to a considerable extent through the creation of new enterprises within a country. Founders contribute to an improved competitive environment by developing innovative business ideas within existing sectors, or by driving the development of new economic sectors. In this way, they continually place pressure on established companies not to rest on previous successes, but to endeavor always instead to act more efficiently and creatively. In this regard, entrepreneurs drive technical progress forward, leading to a rejuvenation of the business landscape—an aspect of great importance given the progressive demographic change—while creating jobs at least for themselves, and ideally for others as well (Piegeler and Röhl 2015: 4; Metzger 2014a: 2).

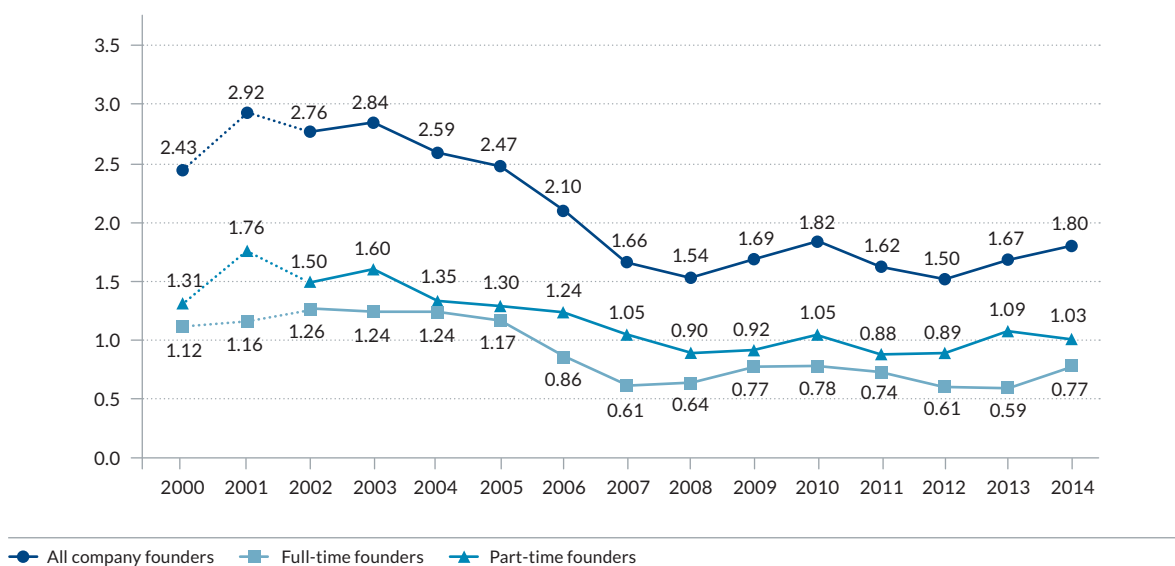
It is therefore worrisome that the number of company founders in Germany has long been on the decline or remained low. The authors of the KfW

Startup Monitor 2014 refer to this trend as a barrier to growth. To be sure, the decrease in startup rates was initially arrested in 2008, and after a low point in 2012, a revival of startup activity was seen in 2013 and 2014. However, a further decrease in the number of new companies created has already been forecast for 2015 (Metzger 2014a: 2; Metzger 2015a: 8).

The Association of German Chambers of Commerce and Industry (DCCI) Business Founders Report 2015 also offers similar news with regard to the number of business-startup interviews conducted with chambers of commerce and industry (CCI). This figure declined in 2014 for the fourth consecutive year, reaching a further record low (Evers 2015: 3).

Founder statistics in Germany 2000–2014

Proportion of company founders in the population aged 18 to 64 years, in %



Note: For the years 2000 and 2001, founder statistics are based on surveys that differed from each other, as well as from the founder questions used in subsequent years. The figures associated with these years are thus comparable only to a limited extent to one another and to the founder statistics of following years.

Figure 1 | Source: KfW Startup Monitor 2015

2. The relevance of migrants' business creation for the German economy

Against this background, the entrepreneurial activity of people with a migrant background appears as a bright spot, with a full 20 percent of startup founders belonging to this group. People with a migrant background thus make a slightly higher contribution to startup activity in Germany than corresponds to their share of the overall population (Metzger 2014b: 1). Similar findings

are also evident in other OECD states. For this reason, OECD experts attribute a stronger entrepreneurial spirit to migrants, in part due to the self-selection of the migration process. The OECD has suggested that migrants on average have a higher risk tolerance than do people who lack the experience of migration, and may consequently also have stronger entrepreneurial capacities (OECD 2010: 50).

At the same time, there are also differences between various ethnic groups with regard to company-creation behavior. While previous attempts to explain such differences often made sole reference to the “culture of independence” in various countries of origin, many studies today reject this kind of mono-causal means of explanation. Instead, a range of factors such as institutional environments and opportunity structures in destination countries, as well as group characteristics of the various nationalities, are regarded as contributing to the varying self-employment rates (Leicht and Langhauser 2014: 33 ff.).

However, the purely quantitative contribution to company creation by people with migrant backgrounds is not the only advantageous factor. The qualitative dimensions of this trend are of particularly great importance in Germany for both the economy and social coexistence more broadly. Migrants have extensive knowledge of and good relationships with their country of origin, enabling them to contribute to opening new markets and internationalizing the German business landscape. In addition, the self-employed with a migrant background manifest ties to their new country through

their investments, in many cases contributing to the creation of new jobs, and in this way themselves serve as models of successful integration (Leicht and Langhauser 2014: 8; Evers 2015: 18).

While the public often holds stereotyped images of migrant self-employment, with many people associating it primarily with niche sectors such as small döner or vegetable shops, this is in reality no longer the case. Rather, the sectoral structure of companies founded by people with a migrant background in Germany has significantly expanded and modernized (Leicht and Langhauser 2014: 6).

However, where there is light, there is also shadow. Thus, while people with migrant backgrounds found companies comparatively more often than those without a migrant background, their startups are also characterized by a lower degree of stability (Metzger 2014b: 3; OECD 2010: 53).

Accordingly, the self-employment rate among Germans without a migrant background, at 11.1 percent, is still higher than the self-employment rate among people with a migrant background (10.4 percent).

Index of foreign-born and German self-employment trends

Index 1991 = 100%

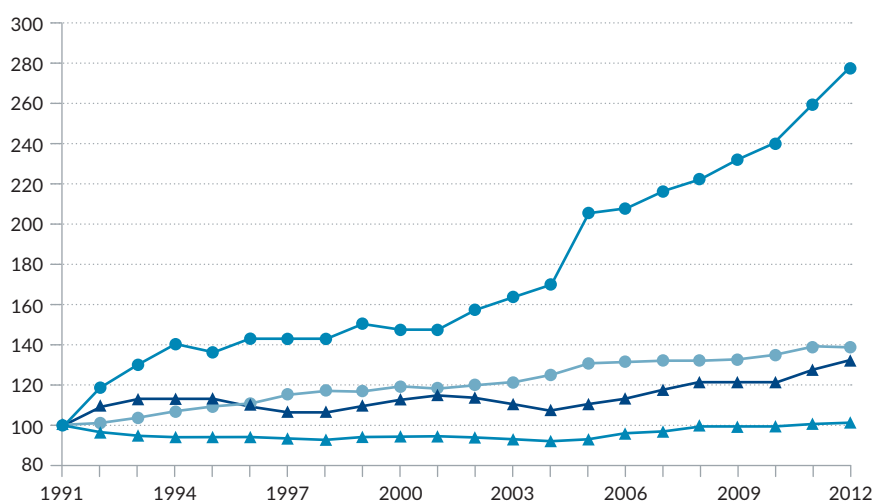


Figure 2 | Source: Leicht & Langhauser (2014), p. 23

3.

Migrant business creation in Germany: Facts and data

Given the rapid growth in the number of self-employed with a migrant background—a figure that has nearly tripled since the beginning of the 1990s while the quantity of German self-employed without a migrant background went up by only 38 percent in the same period—the issue of migrant-community economics or “ethnic entrepreneurship” has drawn growing public interest and been an increasing focus of research in recent years (Leicht and Langhauser 2014: 6; Kay und Schneck 2012: 1). In comparison with the United States, however, the issue of migrant self-employment is still relatively young in Germany. For this reason, foreigners administrations and social-welfare offices were until recently the only public agencies paying attention to the issue. However, labor-market and employment policymakers, as well as (local) economic-development agencies, have today discovered the issue for themselves as well (Floeting et al. 2004: 15).

It is problematic, however, that no valid data on the subject exists (Leicht and Langhauser 2014: 18). As yet, official statistics do not even fully capture general business startup activity in Germany (Metzger 2015b: 2). Differentiating between people with and without a migrant background is even more complicated. Studies on the issue resort to various data-generation methods, all of which carry their own advantages and disadvantages.

Thus, the Business Founders Report produced by the Association of German Chambers of Commerce and Industry (DCCI) evaluates the group’s own statistics, which address chamber of commerce and industry (CCI) consultant contacts with people interested in forming businesses, typically through introductory interviews and business-creation advisory discussions. The DCCI Business Founders Report 2015 is thus based on about 230,000 CCI consultant contacts with prospective company founders, and thus encompasses a considerable share of the company-creation activity in Germany (Evers 2015: 2, 5).

However, there are limitations with regard to the sectors considered (industry, trade and services), as well as with regard to the self-selecting nature of the process, which includes only those business-people who seek advisory services before or during the founding process. Those who create their businesses without using CCI consulting services are not included in the evaluation.

Similarly, the Founders Panel of the Institut für Mittelstandsforschung Bonn is oriented toward founders and those interested in starting a business. Here, data has been collected based on the chance conversations with visitors to founders’ conferences in various regions of Germany since 2003. These people were surveyed at intervals on the progress of their business-creation projects, in a total of three successive survey waves. This allows relevant information such as the reasons for postponing or abandoning a startup project to be obtained firsthand (Kay und Schneck 2012: 15 f.) On the other hand, the population is limited by the self-selectivity associated with the design.

Looking at potential founders with a migrant background, it can be assumed that those with comparatively poor German-language knowledge and lower education levels will in some circumstances attend founders conferences at a rate lower than their corresponding share in all those interested in creating companies.

The KfW Startup Monitor performs a representative population survey, in which 50,000 randomly chosen people resident in Germany are surveyed. Those respondents who have started commercial or freelance self-employment on a full- or part-time basis within the 36 months previous to the interview, and have either continued this activity or have already broken it off, are regarded as entrepreneurs (Metzger 2015b: 2).

Because of the many problems with these different data-collection methods, the Institut für Mittelstandsforschung Mannheim uses several methods

simultaneously, drawing from microcensus data and business-registration statistics, as well as using data from a survey it conducts itself. As an area sample—covering 1 percent of all German households—the microcensus represents a very rich source of information. However, it includes only a few business-related indicators. Fortunately, the data available through the microcensus was expanded in 2005 so as to be able to identify not only foreigners, but also German citizens with their specific migrant background.

The business-registration statistics serve as a further data source enabling analysis of both the quantity of self-employed and current business startup activities. However, these figures distinguish only on the basis of citizenship; thus, people with a migrant background who have acquired German citizenship are no longer listed as a separate category. In addition, certain sectors such as agriculture and the liberal professions are exempted from the registration requirement, so they do not appear in these statistics. In addition, several computer-supported surveys were conducted among business owners of various ethnic backgrounds between 2009 and 2014, in which German businesspeople without a migrant background served as a reference group (Leicht and Langhauser 2014: 18 f.).

Based on this presentation alone, it can be seen that the current data still shows weaknesses, and should be significantly expanded in order to provide a valid, reliable and comparable information base. Given the variety of data-collection methods, it is understandable that the various studies sometimes lead to different results.

It is thus all the more important to distinguish terms clearly. Does the data relate to:

- Foreigners (people living in Germany who lack German citizenship, with or without their own experience of migration)
- Migrants (people with their own experience of migration, with or without German citizenship)
- People with a migrant background (as defined by the German Federal Statistical Office, “all persons who have immigrated into the territory of today’s Federal Republic of Germany after 1949, and all foreigners born in Germany and all persons born in Germany who have at least one parent who immigrated into the country or was born as a foreigner in Germany”), or
- Naturalized citizens (foreigners with or without their own migration experience who have obtained German citizenship)?

To make matters more difficult, the terms “migrants” and “people with a migrant background” are used synonymously in many studies, in such a way that the latter group of people is comprehended to some extent more narrowly than in the definition provided by the German Federal Statistical Office, as it only includes persons who have themselves immigrated from abroad to Germany, or their parents (see Kay Schneck 2012: 16). Since in these cases, no more selective differentiation can be made, we also use the terms synonymously in this discussion paper, with the exception of those statements making explicit reference to foreigners or to naturalized citizens.

Finally, it should be noted that according to the DCCI Business Founders Report, many “founders with a migrant background” regard any such classification critically, as they regard themselves as facing problems similar to their German colleagues without a migrant background, and in their opinion, the differences between two groups loses significance as the length of stay in Germany increases (see Kay Schneck 2012: 16).

However, since the DCCI Business Founders Report captures only a portion of the people with a migrant background seeking to create businesses—specifically, those who have voluntarily sought counseling services—the general validity of this statement should at least be viewed with caution.

4. Who are the founders with a migrant background in Germany?

What exactly is encapsulated by the term “entrepreneurs with a migrant background?” What national-origin groups are entrepreneurially active in Germany? How are self-employment rates distributed between women and men? And what skill sets does this group of people possess?

Since the microcensus did not distinguish people with a migrant background before 2005, it is only possible to examine self-employment trends among Germans versus foreigners for this time period. In this regard, it is clear that the group of foreign self-employed persons has become significantly more diverse since the middle of the 1990s. From the mid-1990s through the early 2000s, those from the former Anwerbeländern accounted for a dominant share among the foreign self-employed. However, their relative share has fallen significantly since about 2004, despite further (albeit smaller) absolute growth. Instead, the number of self-employed persons from Eastern European countries, the Western developed countries and Asia has risen sharply.

The strong rise in the number of self-employed from the Eastern European countries is in large part due to a reaction to the specifics of the EU law. From the point of EU accession in 2004, there was a free right of settlement within the European Union for self-employed individuals; however, at least for Germany, the free movement of non-self-employed workers was restricted until 2011. Thus, many inevitably tried their luck by entering self-employment. However, a certain proportion of false self-employment must be suspected in this regard (Leicht and Langhauser 2014: 24 f.).

The free right of settlement for self-employed persons within the EU is additionally probably responsible for the fact that people from one of the EU-27 countries account for nearly half of the self-employed with a migrant background (Leicht and Langhauser 2014: 25). Third-country nationals, by contrast, have a much more difficult time, as they face strict access rules, especially when they do not yet have a residence permit (Kay and Schneck 2012: 9 f.).

Self-employment rates by country of origin in 2012 (selection)

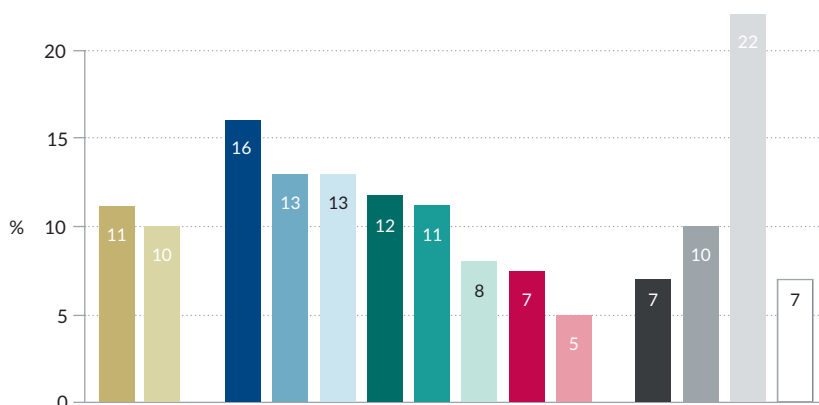


Figure 3 | Source: Leicht & Langhauser (2014), p. 34

In comparing the share of women among the self-employed both with and without a migrant background, only minimal differences can be identified. The share of women among German self-employed without a migrant background, at 31.6 percent, is only a few tenths of a percent above the share of women among German self-employed with a migrant background (31.1 percent). However, within the latter group, clear differences between individual country-origin groups are evident. Thus, the share of women among Eastern European self-employed, for example, is a full 13 percentage points above the share of women among the self-employed from former Anwerbeländern, and is still five percentage points above the share of women among the German self-employed without a migrant background (Leicht and Langhauser 2014: 28 f.).

The DCCI Business Founders Report notes by contrast that—generally considered—women are increasingly catching up with men with regard to their interest in creating companies. Thus, the share of woman participating in the CCI founders seminars has today reached 44 percent (Evers 2015: 16). However, it would be interesting to verify the extent to which this observation is actually reflected in the actual share of companies founded, or whether this percentage share is in fact an expression of a greater openness to counseling among potential women founders in comparison to their male counterparts.

If the scale of the businesses founded is also considered, it appears that women increasingly want to found part-time enterprises, as even in this day and age, reconciling family and career represents a greater barrier for them than for men (Evers 2015: 16). According to KfW data, this pattern is even more evident among migrants; while the share of women among founders with a migrant background interested in creating part-time businesses is 40 percent, the same share among those interested in creating full-time businesses is just 25 percent (Metzger 2014b: 2).

According to experts, women's comparatively high degree of reticence to found companies represents a key feature of an overall weak propensity to create new businesses in Germany. At the same time, considerable potential remains latent in the segment of self-employed women, which could in the future be enhanced through appropriate support measures. This could help slow the overall decline in

business-establishment rates in Germany, or ideally even reverse them (Piegeler and Röhl 2015: 7).

In looking at the skill levels of the self-employed both with and without a migrant background, the following observations can be made. Self-employed individuals with a migrant background in all origin-country groups have significantly higher average qualification levels than do their conventionally employed counterparts; this is at first glance a good sign, as it contradicts a widespread preconception of primarily precarious migrant self-employment. However, their qualification levels are lower than those among German self-employed without a migrant background (Leicht and Langhauser 2014: 28 f.). This finding stands in contrast to OECD data, which indicates that migrants have on average a higher education level than do their native-born counterparts (OECD 2010: 53).

Nevertheless, even according to the data from the KfW survey, the share of people in Germany without a professional qualification among founders with a migrant background is significantly higher than among founders overall (44 percent versus 23 percent), while the share of university graduates shows little difference (27 percent versus 29 percent). However, the percent shares are at least partially distorted by the fact that foreign professional qualifications, unlike foreign university degrees, are often not directly recognized. In this respect, one cannot infer genuine skill levels from the formal professional qualifications (Metzger 2014b: 2).

However, based on their experience, the CCI consultants see apparent skills shortcomings particularly in the commercial area, thus for example in the preparation of price calculations or business plans, as well as with regard to the German-language knowledge of founders with a migrant background. Here, they say, shortcomings that are to some extent significant still exist (Evers 2015: 20).

However, the mere fact that the share of startups created during a period of unemployment is higher among people with a migrant background than among Germans without a migrant background should not be regarded as a sign that people with a migrant background are more likely to found companies out of economic necessity. In 2013, just under 60 percent of this population created a company only after having a specific business idea (Metzger 2014b: 2).

In this context, it is interesting that the self-employment rate among naturalized citizens, at 7.7 percent, is only about half of the self-employment rate among foreigners, which stands at 13.1 percent (Leicht and Langhauser 2014: 34), and that among all origin-country groups, 90 percent of the self-employed have a personal experience of migration, and thus come from the first generation (ibid.: 31). This is surprising to the degree that naturalized citizens and members

of the second generation should in fact be much more familiar with German institutions and agencies, and should also tend to have better German-language skills, both factors that should make it easier to form their own companies. However, in some circumstances factors such as better labor-market opportunities among naturalized citizens or a higher risk tolerance among persons with their own experiences of migration could play a role here.

5. In which sectors are migrants active?

As previously mentioned, the sectoral structure of companies founded by people with a migrant background has changed significantly in recent years, becoming more diverse and more modern. Nonetheless, the choice of sectors made by people with a migrant background even today shows some characteristics that relate to factors such as skill levels, barriers to access within specific professional fields, or the quantity of initial investment capital needed within the sector. In addition, due to the persisting lack of recognition for foreign professional qualifications, it can be assumed that at least some migrants engage in self-employment activities in sectors for which they are actually overqualified (Leicht and Langhauser 2014: 37 ff.).

To this degree, it is not surprising that people with a migrant background still found retail or hospitality companies more often than do Germans without a migrant background (Evers 2015: 20). However, in comparison to previous years, the share of startups by migrants in these two branches has already decreased significantly (Leicht and Langhauser 2014: 38).

With regard to the choice of sectors, it is also true that the group of founders with a migrant background is not homogeneous; rather, clear differences between origin-country groups are evident. Thus, Italians and Greeks still have a very strong presence in the hospitality industry, which is likely due to certain opportunity structures, as Mediterranean cuisine continues to enjoy a high degree of popularity in Germany. Immigrants from Eastern Europe,

by contrast, are particularly numerous in the construction industry, while migrants from the developed Western countries are primarily active in knowledge-intensive services. This latter group is distinguished in comparison to other origin-country groups by a high level of education. It is also interesting that self-employed naturalized citizens also engage in knowledge-intensive services to a disproportionate degree (ibid.: 38–43).

With regard to working times, more founders with migrant backgrounds pursue earnings strategies characterized by more work and lower prices than is the case for German founders without a migrant background. However, this seems to have more to do with the varying distribution among individual sectors than with differences with regard to country of origin. Here, it is primarily the hospitality sector that experiences a higher workload (ibid.: 45).

By contrast, the Founders Panel of the Institut für Mittelstandsforschung Bonn comes to a different conclusion.

According to their surveys, founders with a migrant background have a lower workload than their German counterparts without a migrant background. Thus, their average weekly working time of 35.2 hours is significantly lower than that of Germans without a migrant background (41.9 hours). However, this may simply reflect greater initial difficulties in finding a footing in the self-employed world among founders with a migrant background—a situation that may diminish or even turn around with time (Kay and Schneck 2012: 44 f.).

Distribution of self-employed by economic sector* and national origin

*Excepting agriculture and forestry

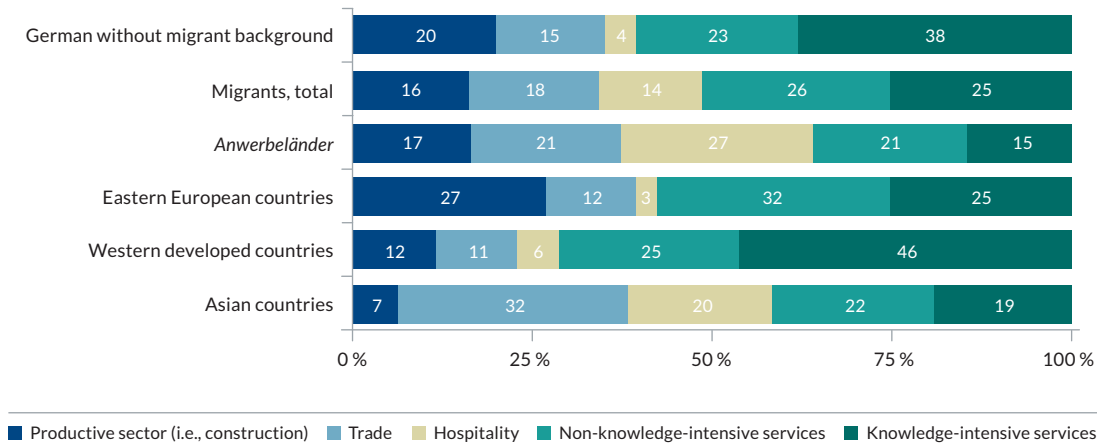


Figure 4 | Source: Leicht & Langhauser (2014), p. 38

6. The macroeconomic contributions of migrant-run businesses

In looking at the economic performance of business startups by people with a migrant background, the following questions must be answered: What earning potential does self-employment give migrants? What employment and training opportunities do they contribute? And to what degree do they put their intercultural skills to use through transnational activities?

Concerning income opportunities, self-employment seems to be profitable for people with a migrant background. Thus, in self-employment, they earn significantly more than do members of the same group when conventionally employed. This positive difference is reduced, however, when controlling for working hours expended, as the self-employed typically work more than do those in conventional employment. However, the fundamental difference remains. German self-employed without a migrant background earn somewhat more than the self-employed with a migrant background. However, this difference is primarily due to sociodemographic and occupational characteristics, such as different

education levels or activities in different economic sectors with varying profit margins.

It is also interesting that the income of self-employed migrants rises with the increasing length of stays in Germany (Leicht and Langhauser 2014:65–68).

In this regard, it could prove to be advantageous that migrants with stays of increasing length in Germany tend to have increasingly extensive social networks, which could contribute to the success of self-employment activities.

With regard to the contributions to employment made by founders with a migrant background, the literature offers mixed conclusions. While the KfW Startup Monitor concludes that migrants more often found companies as a team, or hire employees from the outset (Metzger 2014b: 3), other studies show a higher share of solo self-employment among entrepreneurs with a migrant background (61 percent) than among German entrepreneurs without a migrant background (55 percent) (Leicht and Langhauser 2014: 57).

By contrast, there is more agreement with respect to the finding that the self-employed without a migrant background lead larger companies (on the basis of employee count) than do the self-employed with a migrant background (ibid.: 58). This also corresponds with OECD data. Thus, self-employed individuals who were born abroad and operate a small or medium-sized business create an average of between 1.4 and 2.1 additional jobs, while native-born self-employed individuals in this area create 1.8 to 2.8 additional positions (OECD 2010: 53).

However, even if the employment contribution made by the self-employed with a migrant background is thus smaller than that of the self-employed without a migrant background, it should in no way be regarded as low. After all, estimates state that 2.2 million to 2.7 million jobs in Germany have been created by self-employed migrants, corresponding to a share of about 5 percent of all employment in the Federal Republic.

In this regard, it is interesting to see what factors influence whether entrepreneurs with a migrant background become employers. This is more common after successfully becoming naturalized, when they belong to the second generation, or they have already lived in Germany for some time.

Once they have decided to employ workers, education serves as an additional factor positively influencing the number of employees hired (Leicht and Langhauser 2014: 60 f.). However, the participation of self-employed people with a migrant background in worker-training programs is purportedly more difficult. Particularly if they themselves have not gone through the German education system, they may not be familiar with it, or may simply not be aware of its benefits. Moreover, in some cases they do not meet the formal requirements for being a training workplace, or at least believe they don't fulfill them (Floeting et al. 2004: 25).

Employment contribution by migrant-run businesses (extrapolation)

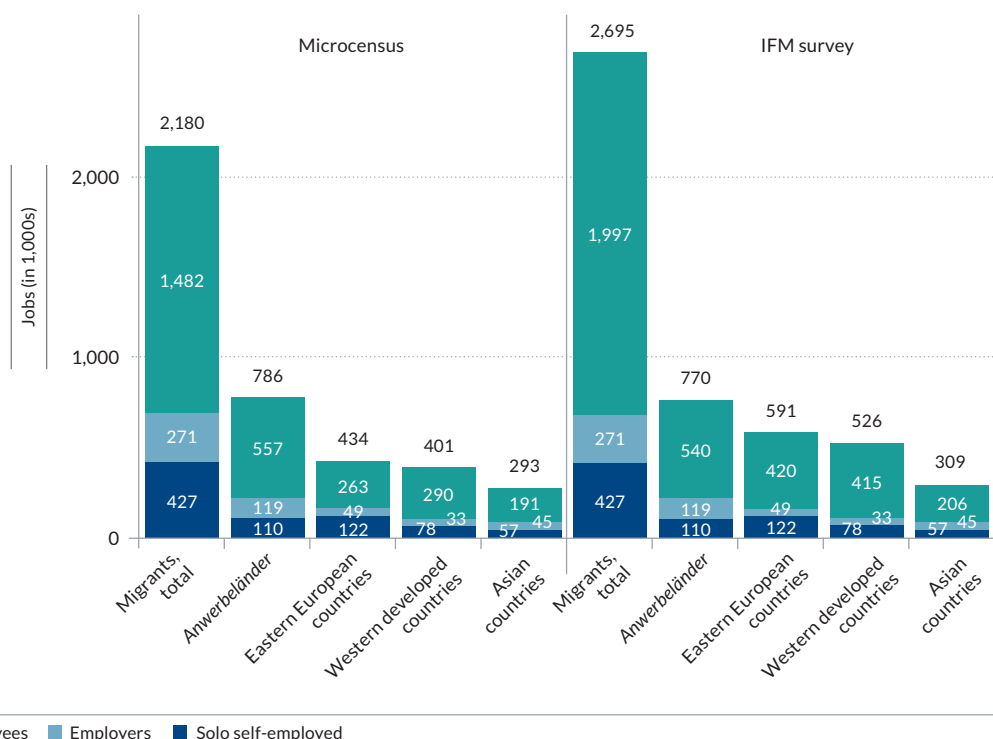


Figure 5 |Source: Leicht & Langhauser (2014), p. 59

Three questions for Dr. René Leicht ...

... head of the “New Self-Employment” research area at the University of Mannheim’s Institut für Mittelstandsforschung. In 2014, Dr. Leicht published a reference study on behalf of the Friedrich Ebert Stiftung examining the economic potential presented by migrant-run businesses in Germany.

1.

Dr. Leicht, people with a migrant background today already show above-average participation in business startup activity in Germany. What is the explanation for this?

According to what we know, a mix of various causes are at work. If the question is specifically about the motives for starting a company, then labor-market disadvantages play a significant role. People with a migrant background often hope to obtain significantly better earning opportunities, and often have experiences in which their ideas and capabilities can be only inadequately utilized in conventional employment. In addition, the composition of immigrants has changed in recent times, as have average qualification levels. However, in the public discourse on the issue, education has hardly been treated as a determinant factor. Here, there is a dominant image of migrants being more willing to take risks, and as being characterized by a culture of self-reliance. We cannot confirm this with our data. The affinity for entrepreneurial activity results less from supposed “ethnic resources,” and more often from forced courage. Processes of self-selection have to be considered here. By this I mean that those who leave their country more often see a need to do something different with their life, and thus have less to lose in comparison with members of the destination country’s society.

Migrants’ stronger tendency to engage in business startups as compared to native Germans is of course also due to labor-market changes, or the fact that “locals” benefit more strongly from improved conventional-employment offers. As a consequence,

the number of business formations declines. However, the high rate of startup activity among migrants does not automatically lead to a higher self-employment level, as many of their projects ultimately fail. Thus, the self-employment rate taken as a whole is slightly lower for people with a migrant background than for native Germans. However, rates for individual nationality groups are sometimes considerably higher.

2.

What particular contribution do migrant-run businesses make to the future viability of the German economy?

The increased level of entrepreneurial activities alone raises the prospect that migrants will compensate for the overall decline in the number of companies. In many ways, they are invigorating the small and medium-sized business sector from below, so to speak, and at least bolster the hope that the growing economic and political power of the market’s dominant corporations will in the future continue to be confronted by a decentralized and creative diversity of ideas, products and services. In a society becoming more heterogeneous, cultural and commercial diversity is a central resource for a growth model based on future viability and sustainability.

Our studies focus on indicators that are already visible. Three levels of knowledge appear important in this regard: First, migrants can greatly improve their chances for social mobility and structural integration by taking the step into self-employment. Second, migrant-run businesses are making an increasing contribution to employment, the development of

skilled workers, and the export strength of German companies overall. Third, a qualitative component is also evident here, because migrant-run companies employ groups that experience social disadvantages in the labor and apprenticeship markets to an above-average extent. They also contribute disproportionately to the internationalization of the small and medium-sized business sector, because they often have advantageous business relationships and transnational networks.

3.

In your opinion, is Germany fully realizing the entrepreneurial potential of its migrants?

Demographic change and immigration alone are already increasing the number of entrepreneurially engaged migrants, but without boosting the self-employment rate. However, the rate—and thus this group’s potential—can be further expanded. From a long-term perspective, the key to achieving more business startups lies above all in the realm of education. People with academic training, almost regardless of their ethnic origin, are about three times more likely to be self-employed than are the low-skilled. In addition, the institutional access barriers to self-employment must continue to be reduced. A first step would be to thin out the jungle of paragraphs in the residence law, and thus highlight or create some relief that enables third-country citizens with entrepreneurial ambitions to settle here in Germany on a self-employed basis. It is of little use to increase so-called administrative discretion if, for example, the immigration authorities, without any expertise in business questions, keep the doors barred shut. Another step would be to improve the information

and advisory infrastructure, which does not benefit all those interested in creating a company equally. It would also be beneficial to integrate migrants more strongly into the central economic decision-making institutions, particularly by giving them a stronger presence in the chambers, guilds and other business-related institutions.



Dr. René Leicht,
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Against this background, it is to some extent surprising that worker-training participation rates among the self-employed without and with a migrant background are relatively similar, at 23 percent versus 20 percent—although significant differences between individual origin-country groups do exist. However, if training performance is viewed in relation to overall employee counts (i.e., using the ratio of trainees to total employees in a firm), self-employed migrants even perform slightly better (6.3 percent) than do self-employed Germans without a migrant background (5.6 percent). This is particularly true for the self-employed with a Turkish migrant background, who take the top place with a training intensity of 7.6 percent (Leicht and Langhauser 2014: 64)

Thus, to the extent that the self-employed with a migrant background fulfill the necessary requirements and are allowed to host trainees, they participate comparatively intensively in this area. In this way, as still more entrepreneurs with a migrant background are empowered and encouraged to participate in training, greater potential in the training and labor markets could be realized.

However, beyond its creation of earning opportunities and contributions to training and employment, a business' economic performance is further manifested by its contribution to foreign trade. In this

regard, the OECD sees great potential within migrant communities. While domestic firms must acquire relatively time-consuming information about foreign markets before they are able to trade with them—for example regarding economic, social and political conditions; legislation and regulations; appropriate business conduct; and even cultural conventions and language—migrants already have the relevant knowledge insofar as it relates to their homelands, and therefore have easier access to these markets (OECD 2010: 273).

This can also be demonstrated using relevant figures. For example, 14 percent of the self-employed with a migrant background assess the importance of business contacts with people from their country of origin as “very great.” Moreover, 9 percent judge the importance of business contacts with people from other countries in the same manner. With regard to the share of sales made abroad, this relation is even reversed: While an average of just 3.8 percent of sales comes from countries of origin, entrepreneurs with a migrant background make 6 percent of their sales in other foreign countries. In comparison, companies run by Germans without a migrant background show a much lower degree of international orientation, with an average of just 4.6 percent of their sales being made abroad (Leicht and Langhauser 2014: 69 f.).

7. Barriers and challenges for entrepreneurs with a migrant background

The process of founding a business initially poses certain fundamental challenges for would-be entrepreneurs, regardless of their national origin. For example, great bureaucratic effort is required, including the need to negotiate numerous regulatory provisions in the course of establishing the company. In this respect, Germany does not perform particularly well by international standards: While only five days and six official registration and approval procedures are needed to start a business in the United States, or two days and three procedures in Australia, or no more

than an online registration in Canada, this process extends over 15 days and nine procedures in Germany (Piegeler and Röhl 2015: 23 f.).

There are also other barriers that either solely affect prospective founders with a migrant background, or have a particularly serious impact on them. These include regulatory barriers such as immigration rules and occupational-licensing requirements.

Immigration rules serve as barriers only for specific origin-county groups, as EEA and Swiss citizens can

at any time move to Germany and found a company, based on their freedoms of settlement and economic activity within this economic area. By contrast, non-EEA citizens experience significant limitations depending on whether they already have a residence permit or not. If they already have a residence permit, they are “only” required to undergo an approval procedure at the immigration office before being able to engage in self-employed activities.

However, if they do not yet have a residence permit, they are only allowed to move to Germany and found a company here if positive economic effects can be expected, and if the company’s financing can be regarded as secure in advance. As an additional requirement, “an economic interest or regional need” must exist (Aufenthaltsgesetz, §21).

Occupational-licensing requirements, which for example require the self-employed in certain trades to hold a master’s title, or set various qualification-related preconditions within the liberal professions, at first glance represent a very basic restriction for all persons who want to start their own businesses. However, for would-be founders with a migrant background, this proves to be particularly serious, as they often experience difficulties in winning recognition for qualifications obtained abroad (ibid.: 11 f.), or in some occupations must demonstrate that they have extensive German-language knowledge at the B2 to C1 level of the European Framework of Reference.

If prospective company founders with a migrant background have problems with the German language, it not only represents an obstacle with regard to certain occupational-licensing requirements such as medical licensing laws for pharmacists or doctors, but a fundamental barrier that comes into play in many contexts—from comprehending bureaucratic regulations to contact with authorities, chambers of commerce and other advisory institutions, to the acquisition of customers following the creation of the business.

Multilingual advisory sessions, which are sometimes offered by certain institutions, can to some degree make this process easier. On the other hand, the issue of customer acquisition, as well as of ongoing customer, supplier and government contacts—for which a certain knowledge of German is simply indispensable—should not be underestimated. For this

reason, many CCIs, for example, quite consciously offer support for advanced business-creation projects only in German (Evers 2015: 20).

Financing difficulties of various kinds, ranging up to insufficient funding for a startup, perpetually pose problems for founders of all kinds. However, a number of studies on this issue agree that prospective company founders with a migrant background are disproportionately affected (Metzger 2014b: 3; Leicht et al. 2012: 232). A number of factors contribute to this. Although the sectoral structure of companies created by people with migrant backgrounds has strongly diversified in recent years, many such entrepreneurs still focus on certain sectors (such as hospitality) that are highly competitive, and are thus considered high-risk sectors. It proves to be difficult to obtain bank loans for such startups.

In addition, assets held abroad by the migrants are not recognized by banks as collateral for loans. With the introduction of the Basel II (and III) regulations, which demand that banks increase their capital holdings, especially if they offer high-risk credit, this basic situation has been further aggravated. As an alternative, migrants thus resort more strongly to funding resources from within their own family circles to finance their self-employment activities. However, this proves to be problematic insofar as these resources are not available on a permanent basis, and can instead be reclaimed prematurely in the case of a family member’s financial need.

In addition to such difficulties, which the particular situations of would-be company founders with a migrant background make more likely, a portion of the financing problems is attributable to the banks themselves. For instance, they often lack the necessary intercultural competence, as well as a fundamental openness in dealing with this customer group (Floeting et al. 2004: 89 f.).

As the funding landscape for business startups in German is very extensive, the use of such programs by entrepreneurially minded migrants could provide real help with their financing problems. Surprisingly, however, this takes place only to a very limited extent. To the contrary, foreign-born businesspeople use this kind of funding offer comparatively rarely (Floeting et al. 2004: 90). In this regard, it is possible that the diversity of programs itself represents a problem. For example, the funding database operated by BMWi

alone holds about 190 support programs, while there around 1,800 programs in the areas of technology, small and medium-sized business, and regional funding (Floeting et al. 2004: 90).

If this already poses serious problems of orientation for German self-employed people without a migrant background, it must still more tend to appear as an impenetrable jungle of support to aspiring entrepreneurs with a migrant background (Sachverständigenrat deutscher Stiftungen für Integration und Migration 2010: 45). In addition, the complexity of the procedures often deters migrant entrepreneurs from the use of these programs, with some leveling particular criticism at the long duration of the bank-run screening process. Particularly in the case of startups being launched by unemployed people, founders are under strong financial pressure, and thus want to start their businesses as soon as possible (Floeting et al. 2004: 90 f.).

Because of these specific problems and barriers, aspiring entrepreneurs and self-employed individuals with a migrant background have special need for advisory services that help them with their situation and with the successful configuration of their ventures. In this respect too, however, there is often a mismatch between supply and demand. Although people with a migrant background in fact desire more professional advice in the startup phase of their companies, they use the consulting services offered by chambers of commerce and the chambers of crafts,

as well as banks' business-startup advisers, to only a below-average extent.

What initially sounds like a paradox can be explained through a closer examination of the situation: Migrants simply don't know about many of the offers. Interestingly, they make very little use even of regional and migrant-specific organizations. Many underrate the significance of professional external advice, and draw more readily on the practical experience of their family or friends. (Perceived) consulting costs discourage them to a greater degree than is the case for German founders without a migrant background. And finally, they often lack migrant-specific counseling services particularly at supraregional institutions such as the CCIs and chambers of crafts (Leicht et al. 2012: 213 ff.).

In conclusion, it is clear that a number of problems and barriers exist that are either migrant-specific or which are particularly serious for this group of people. These barriers can dissuade them from founding a business, or induce them to enter a sector that does not in fact correspond to their original skills and qualifications. Consequently, it can be assumed that overall business creation by migrants, due to such difficulties, is generally less sustainable than might otherwise be the case—an assumption that also corresponds with the higher failure rate shown by startups created by businesspeople with a migrant background.

8.

What measures could better support projects created by entrepreneurs with a migrant background?

Just as there are fundamental and migrant-specific problems and barriers in the business startup process or during periods of prolonged self-employment, a set of recommendations for action can be identified with regard to migrant-run startups that either aim to support new businesses overall, or seek to reduce the disadvantages of migrants in a targeted fashion. In this latter respect, a good balance in the choice of measures should be found so as to establish a condition of equality while avoiding preferences.

Strengthen the overall entrepreneurial climate

Measures that could fundamentally improve the entrepreneurial climate in Germany include a reduction in bureaucracy and regulation, a strengthening of venture-capital financing, and a strengthening of entrepreneurship in the society at large (Evers 2015: 5 f.; Piegeler and Röhl 2015: 18–24). For example, the Cologne Institute for Economic Research advocates for a more consistent implementation of the “one-stop shop” principle that bundles the various registration and approval procedures in the business-startup process; for a strengthening of the German venture-capital market with regard to funding gaps facing high-risk business startups; and for deeper integration of the issue of business creation into school curriculums, so as to reach a broad section of the population in an early and positive way (ibid.)

Recognize qualifications

With regard to measures that would support entrepreneurs with a migrant background in a targeted way, a faster recognition of qualifications granted overseas is at the top of the list. This could lead to substantially higher-quality business-startup activities among migrants, as they would no longer be forced to make detours into sectors for which they are not qualified or are overqualified, and which

may moreover be especially risky due to the high level of competition (Kay and Schneck 2012: 53 f.). Some steps in this direction have already been taken with the adoption of the Federal Recognition Act, as well as with the elimination of master’s requirements in some trades. However, there is still need for improvement here, particularly with regard to access to the liberal professions.

Strengthen German-language competency

In analyzing the problems faced by migrants in the business startup process, it was also apparent that a lack of language skills represents a significant barrier in many respects. For this reason, the DIHK’s demand that federal and state governments improve language-course offerings for self-employed people is absolutely deserving of support (Evers 2015: 5).

Intensify consulting offerings

Migrant-specific counseling services also represent an important measure that can help entrepreneurs with a migrant background as they experience difficulties. Such measures might include multilingual informational events and counseling sessions as well as cost-free, flexibly scheduled and low-threshold offers that facilitate access and build trust between migrants and consultants. Moreover, support should extend beyond the business-creation process itself, as problems may also emerge after the company has been founded. In this respect, phase-specific offerings by a single entity, which enable continuous and personal support and advice, are useful (Sachverständigenrat deutscher Stiftungen für Integration und Migration 2010: 45 f.).

For this to exist, however, the various advisory and funding institutions themselves need a stable and long-term funding base. Many are today only (partially) financed on a project basis, and must therefore

worry about their future existence or spend a portion of their time fundraising rather than on their real work (ibid: 13; Floeting et al. 2004: 98).

Strengthen training operations

In addition, enhanced migrant-specific advisory sessions on the issue of workplace training should be provided, where entrepreneurs with a migrant background could learn whether they are in fact allowed to offer training, what requirements they may need to fulfill in order to do so, and what advantages they may gain from engaging in training activities (imap 2012: 22).

Complete funding landscape

As already noted, the funding landscape for business startups in Germany is already relatively extensive. However, it would be useful as a first step to research where each offer exists, to conduct a quality review, and on this basis to determine whether or where specific needs for additional offers exist (see Sachverständigenrat deutscher Stiftungen für Integration und Migration 2010: 46).

Make funding landscape transparent

As many of the self-employed with a migrant background have also indicated that they are unfamiliar with the relevant advisory offerings, targeted

public-relations work that draws attention to what is already available would be helpful. Here, it would be interesting, for example, to collect all relevant information in a central and easily accessible online portal (Floeting et al. 2004: 97 f.; Piegeler and Röhl 2015: 23).

Strengthen steering efforts

Surveys of self-employed people with a migrant background show—as noted in the previous chapter—that regional migrant-specific advisory and funding institutions in particular remain relatively unknown. Here, the chambers of commerce and industry, which are represented throughout Germany but decline on equality-of-treatment grounds to give origin-specific advice, could assume an important steering function and refer people more strongly to regional advisory organizations oriented specifically toward migrants (Sachverständigenrat deutscher Stiftungen für Integration und Migration 2010: 46).

Improve cultural openness

Finally, a greater cultural openness in government agencies, banks and chambers should be established—if necessary by providing training for employees. Moreover, welcome structures should be instituted throughout Germany, such as welcome centers that could provide support to (entrepreneurially minded) immigrants in all issues related to life and work in Germany (Floeting et al. 2004: 99; Evers 2015: 6).

9. Outlook

Germany is not a country of startups. In 2012, it held the fourth-to-last place among all OECD countries in a comparison of the concentration of recently formed companies (OECD 2015: 132). The low business-formation rate is an impediment to growth for Germany, and should be taken seriously. In the summer of 2015, the president of the DIHK stated in an interview with Die Welt that “Germany is in a dismal situation with regard to startups.” Even under good economic conditions, the economy needs young companies that think in new ways about innovation, products and markets, and thus serve as Immigrants and their

children in particular are displaying entrepreneurial courage. Society must allow a means of access to those who do not follow the typical educational and advancement paths in their professional life, but who nevertheless have the ingredients necessary for economic success. Equal opportunity in a society also means providing a certain degree of freedom to act, and not just establishing the conditions under which all are to compete. Perhaps in some city neighborhoods with a high share of migrant residents, an angel investor could do as much good as a social worker. This should be discussed in Germany. In this way, growth can become inclusive.

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“Inclusive Growth for Germany” is a publication series from the Bertelsmann Stiftung’s Shaping Sustainable Economies program. The German economy is as strong as ever. But growth in recent years has not been inclusive. Inequalities between people, generations and regions have increased. In order to make the successful social-market-economy model fit for the future, we must rethink the relationship between growth and a socially inclusive society. The series contributes to this important debate by analyzing current developments and offering feasible recommendations for action.

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