



# Start-up potential among people with foreign roots.

## Trends, drivers, obstacles

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Study commissioned by the  
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(BMWi)

## Executive summary

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## 1. Background and issues addressed

New business ventures are a key driver of economic development. Yet the momentum behind company start-ups in Germany has slackened in recent years, partly because the labour market is thriving and society is ageing. Looking beyond this generally gloomy trend, though, we can discern plenty of positives. Immigration to Germany, and the resulting shift in the country's demographics, is increasing cultural diversity and, with it, the number of people who bring new ideas, courage and creativity to the task of building a career. More and more people of foreign origin are setting up their own business. The evidence strongly suggests, however, that much more can be made of this entrepreneurial potential.

With this in mind, the Federal Ministry for Economic Affairs and Energy (BMWi) commissioned the institute for SME research and entrepreneurship (ifm) at the University of Mannheim<sup>1</sup> to explore these issues in greater depth. The ifm addressed the question of "what trends, success factors and obstacles exist, and what actions are needed on the part of entrepreneurs and policymakers to leverage the considerable start-up potential of people with foreign roots, to move their start-up projects forward and to improve company sustainability."

The analyses undertaken in this study are based *inter alia* on the data from Germany's annual Microcensus (*Mikrozensus Deutschland*), from the ifm's own business surveys and from the Start-Up Panel (*Gründungspanel*) of the Centre for European Economic Research (ZEW).

## 2. Development and structure of start-ups and the self-employed

### 2.1 Overall trend in self-employment

The development of the number of businesses across Germany is accompanied by strong fluctuations in both new firm registrations and liquidations. These comings and goings on the market are not adequately measured by official statistics. A more reliable indicator, and one that is more relevant to economic policymaking, is the development of the stock of **self-employed** persons. Measured by this indicator, people with foreign roots are seen to be extremely active when it comes to launching new business ventures: the Microcensus finds that, between 2005 and 2016, the number of self-employed **with a migrant background** in Germany rose by 189,000 to 755,000.<sup>2</sup> This amounts to an increase of 33%, which contrasts starkly with the figures for self-employed **without a migrant background** over the same period. The latter group actually saw a decline by 128,000, or 3%. This economic shift means that between one in five and one in six entrepreneurially active persons now has a foreign background. Within this migrant-background cohort, it is found that persons holding a **foreign** passport play a slightly bigger role in the start-up boom than those who have already

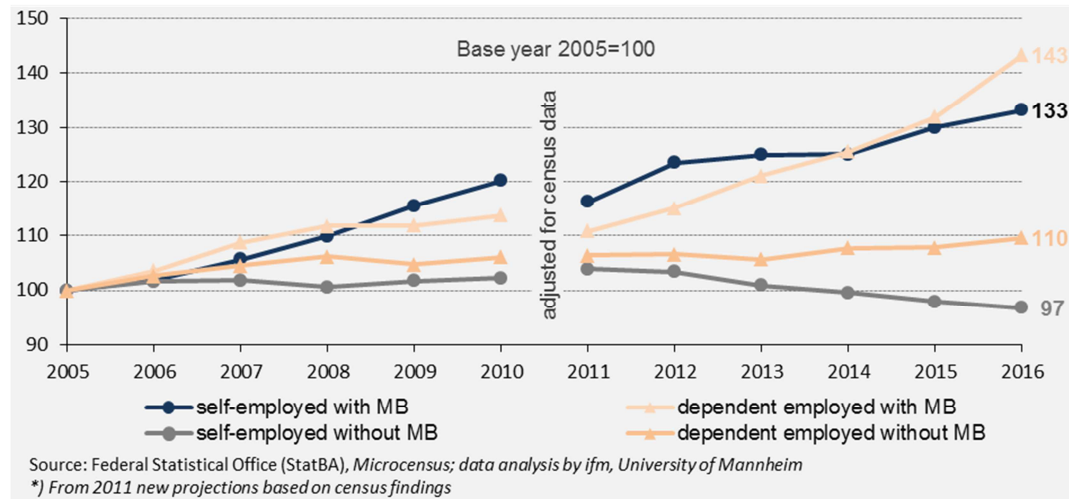
*Sharply rising self-employment among persons with a migrant background, especially those with direct personal experience of migration. Although:*

<sup>1</sup> In cooperation with the Institut für Sozialpädagogische Forschung Mainz (ism).

<sup>2</sup> In view of new projections based on the 2011 census, a comparison between the two years is problematic, but there can hardly be any doubt that growth here has been enormous.

taken **German citizenship**. However, a factor more decisive than citizenship is the type of **migration experience**. The data shows that there are few signs of entrepreneurial ambition among the second generation while the drive to start a business is strong among foreigners with first-hand experience of immigration to Germany.

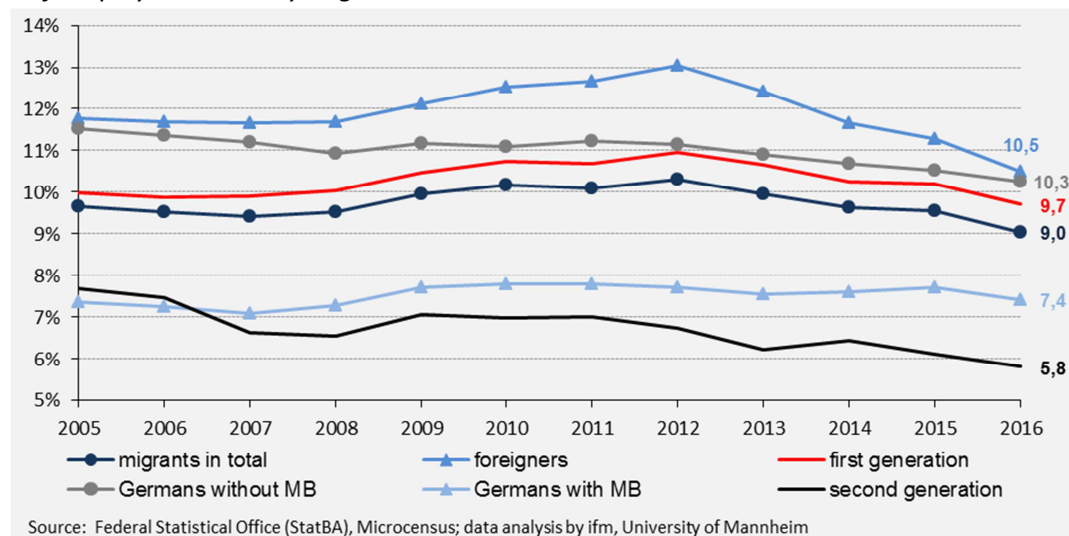
*Trends in numbers\* of self-employed with and without a migrant background (index)*



*a buoyant labour market is increasingly attracting people into dependent employment. As a result ...*

The rise in migrant self-employment is accompanied, however, by a strong influx into the labour market and thus into dependent employment. As a consequence, the start-up boom has had little effect on the **self-employment rate**, which measures the self-employed as a proportion of persons in employment. Following a small rise from 2007 to 2012, the rate for the self-employed among all migrants slipped back again, from 10.3% to 9.0% in 2016. This puts it a little more than one percentage point below the rate for Germans without a migrant background, although it should be noted that the self-employment rate for the latter cohort has also fallen, down from 11.5% to 10.3% for the whole period. In the last four years, the rates of self-employment for both groups followed more or less the same trend, although at slightly different levels.

*Self-employment rate by migration status*



*... the self-employment rate among migrants has been falling and generally indicates scope for improvement*

This finding is reaffirmed by the heterogeneous pattern found in propensity for self-employment shown by different migrant cohorts. The greatest potential for growth is to be found among the descendants of immigrants. Although age structure is part of the reason why members of the second generation are setting up businesses less frequently, we can nevertheless see a worrying trend here inasmuch as the self-employment rate has been slipping over time and now stands at just below 6%. By contrast, first-generation immigrants have roughly the same self-employment rate as Germans without a migrant background. Migrants without a German passport display the strongest propensity to become self-employed. The rate measured for this group comes to 10.5%, although there has, again, been a noticeable decline since 2012. Although as many as 35,000 persons with a foreign passport have joined (on balance) the ranks of the self-employed since 2012, we have also seen 1.1 Million from this cohort taking up dependent employment over the same period.

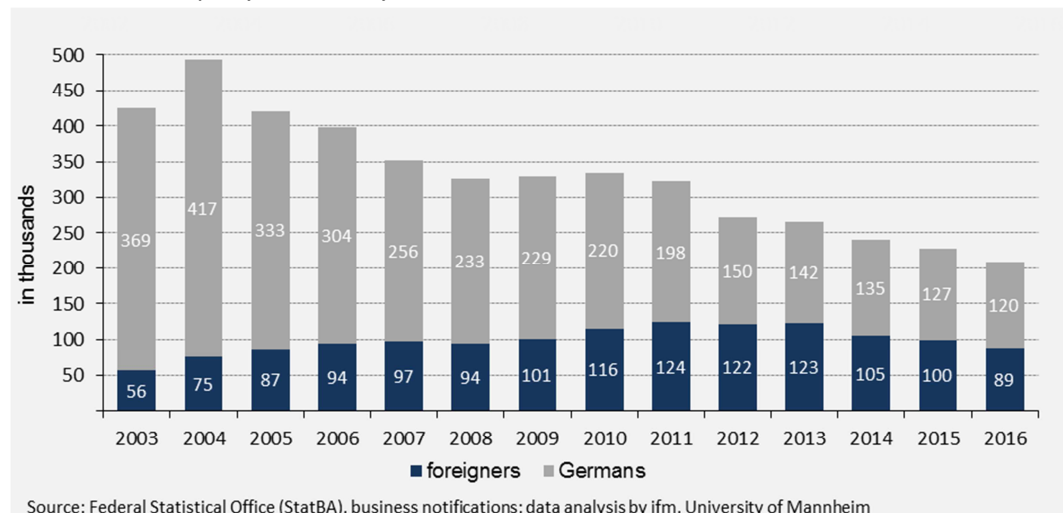
*Persons without a German passport have the strongest propensity to start a business*

## 2.2 Trend in newly registered businesses and liquidations

The official statistics for business notifications chart an even more drastic decline in start-ups than the Microcensus does, because the notification figures do not cover the liberal professions, a segment which has tended to prosper. These start-up statistics are a comprehensive record of notified intentions to start a business, so they must be considered in our analyses. However, start-ups in this dataset are only recorded with the current nationality of the registered entrepreneurs. While the total number of new sole proprietorships has contracted by half since 2004, the number of start-ups initiated by non-Germans kept climbing until 2011, after which it fell back again, down to 89,000 by 2016.<sup>3</sup> The data for “foreigners” as a **proportion** of all start-up entrepreneurs shows that, from 2003, this development advanced their share from 13% to 42%.

*Almost one in two business start-ups is registered by a foreigner*

*Business start-ups by nationality*



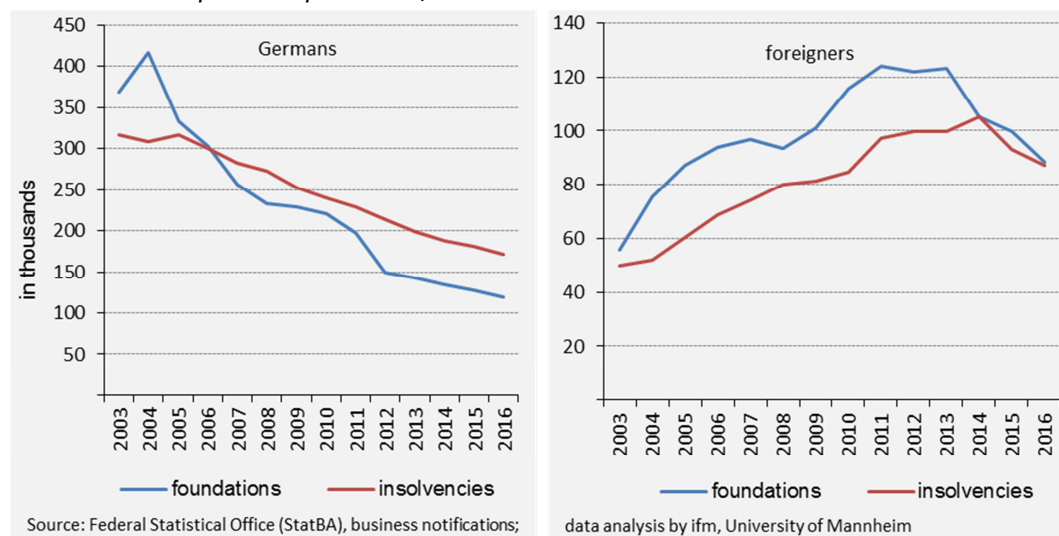
*Having levelled off at the beginning of this decade, the figures for foreigner-run start-ups has joined the general downward trend*

The exceptionally strong level of start-up activity among non-Germans was initially due, to a large degree, to the fact that immigrants from the Eastern and Central European EU accession states were trying to work “on their own account” because they did not yet enjoy the full rights of freedom of movement for workers. We do not know the numbers

<sup>3</sup> Not including start-ups run as a sideline alongside a main job.

of those who had to opt for pseudo self-employment or work as subcontractors. The available data does, however, indicate that there were many who decided to register as sole proprietors but not actually establish a lasting business in Germany. As a result, the **start-up rate** for foreigners, i.e. their business notifications as a proportion of all foreigners in the labour force, is extraordinarily high. In 2015 it stood at 1.3 start-ups per 100 persons, far above the equivalent rate for Germans (0.2 start-ups). Nevertheless, this factor should not be overstated. As the data from the Microcensus show, it is still the self-employed with principal residence in Germany who have driven the start-up boom among migrants.

#### *Business start-ups and liquidations, 2004 to 2016*



The start-up activities are, however, only reflected in the total stock of new business notifications to a limited extent because these businesses may not be sustainable. This can be seen in the fact that the growth in newly registered businesses is accompanied by rising numbers of **liquidations**, which do not then decline in line with the subsequent slackening of start-up activities. It was at first only within the German cohort that closures exceeded annual business registrations (from 2007). Yet since 2014 have also seen liquidations approaching the level of newly registered businesses among foreigners, too. This means the relative outflow from self-employment is strengthening. Sustainability therefore needs to be made a stronger focus of support measures and promotion efforts.

*The high level of start-ups by foreign entrepreneurs is threatened by a high number of liquidations*

### **2.3 Composition of the self-employed by country of origin**

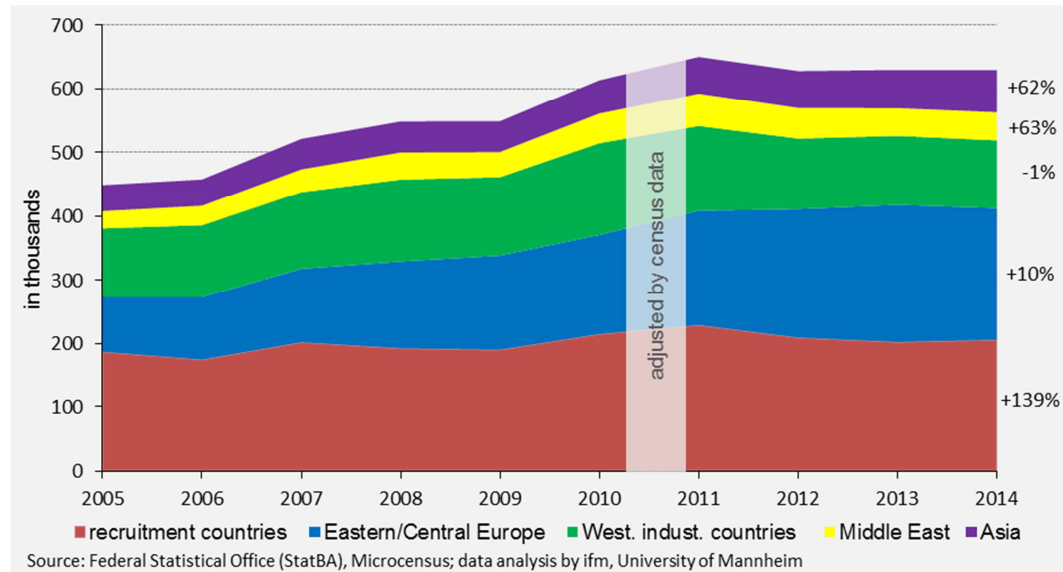
Start-up potentials and the ability to exploit those potentials are, of course, determined to a high degree by individual character and thus is determined by the contextual factors of the country of origin from which immigration occurred. What resources and opportunities can be leveraged by which groups, and what business ventures, products and services emerge as result are questions that can be addressed by looking at migrant profiles in terms of the skills available and the sectors entered.

Analogous to the shift in the overall structure of immigration, especially in the wake of the EU's eastern enlargement, the self-employed from what used to be typical **countries of labour recruitment** have been losing some of their dominance over time. Looking at



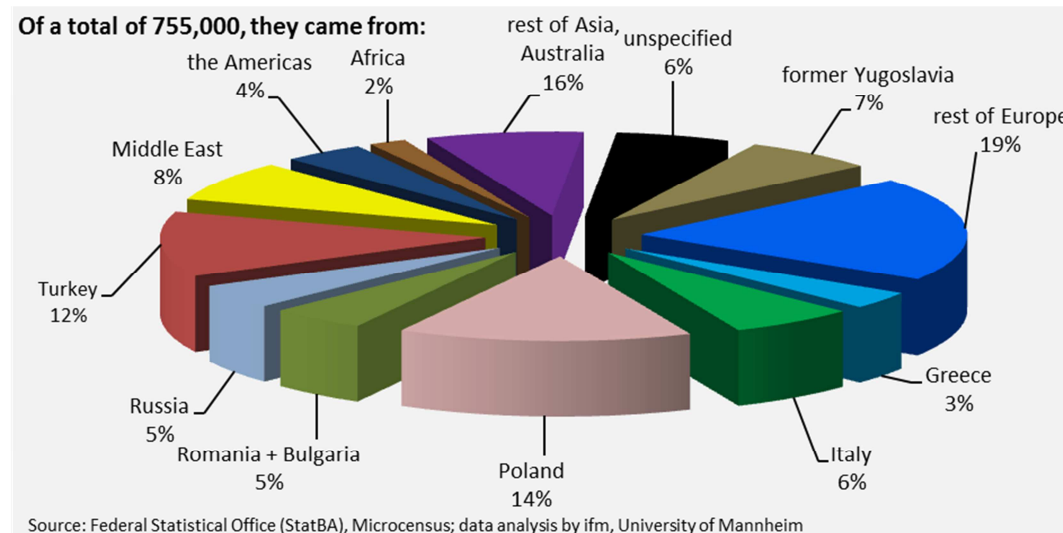
the aggregate of the latter groups, we find that growth in self-employment among these migrants since 2005 has been, at most, modest (+19,000 or 10%), whereas self-employed numbers from **Eastern and Central European** countries have risen sharply (+120,000 or 139%). The data also records marked relative growth in self-employment among migrants from the **Middle East** and from other **Asian countries**, noticeable relative increases, though beginning from a lower base level. By contrast, numbers of self-employed from **Western industrial countries**, which followed a rising curve until 2010, have recently seen a small downturn.

*Numbers of self-employed by broad group of origin*



*Following EU enlargement, the start-up boom is accounted for, above all, by self-employed from Eastern and Central Europe.*

*Migrant self-employed by group of origin, 2016*



*Self-employed from Poland and Turkey constitute the two biggest groups. But overall there is now a greater diversity of nationalities.*

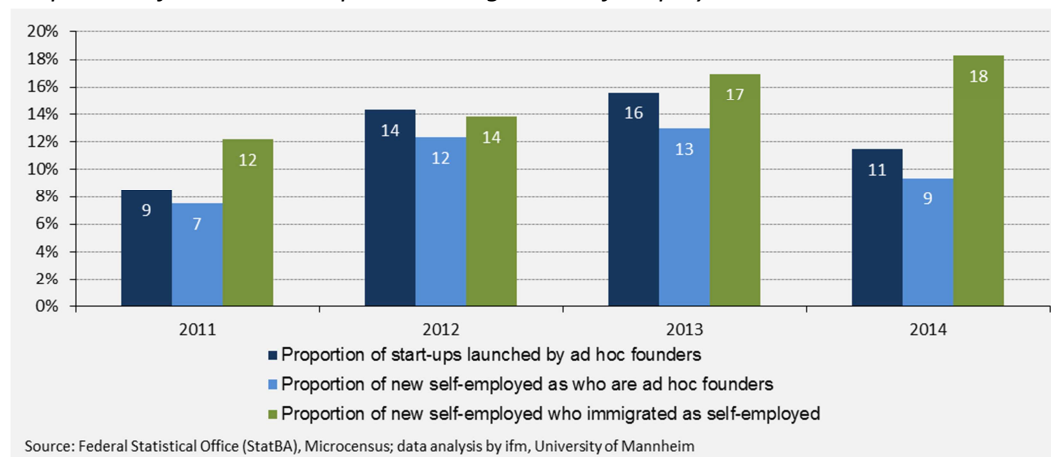
Turning out attention to **groups based on individual nationalities**, we find that over the long term it is the self-employed from Poland and Turkey who have made the biggest contribution to the general rise. The self-employed from Poland now number 110,000, forming the largest group, followed by 94,000 of Turkish origin. Almost half (351,000) of

all self-employed migrants, stem from one of the 28 EU countries. However, despite EU enlargement, their share as a percentage of the whole has hardly changed because the number of self-employed people from non-EU countries has also risen.

## 2.4 Start-ups by new immigrants

Setting up a business demands adequate resources, so an entrepreneur generally needs a certain amount of time to get to know markets and institutions. Consequently, the know-how that is useful to someone entering self-employment grows with time spent in the host country. In fact, well over half of all self-employed people with a migrant background have already spent more than twenty years living in Germany. On the other hand, we find that in many that the types of people who decide to move here from their country of origin are precisely those who have the courage and assertiveness needed to make a fresh start. Around ten percent of all self-employed migrants first came to Germany after 2010. Of special interest to economic policymakers, however, are those who, **directly after settling in Germany**, do not even attempt to seek employee status but advance directly to self-employment, as well as those who were already self-employed prior to immigration. In the last few years, this has been the case in roughly one in four of all business ventures newly established by migrants. It is worth noting here that, within this new migrant cohort in Germany, **ad hoc entrepreneurs** are in the minority. For between half and two-thirds of all entrepreneurs starting a business within a year of the point of time of immigration, in a sense, come from “outside”, i.e. are **immigrated self-employed people**.

*Proportion of ad hoc start-ups and immigrated self-employed*



Those who set up a business ad-hoc after migrating to Germany comprise between 9% and 16% of all migrant-led start-ups. The contribution of the immigrated self-employed, i.e. those who were already entrepreneurs in their country of origin, is an increasingly important factor. Since 2011 their share of all new self-employed (including the newly immigrated self-employed) rose from 12% to 18%. If we consider both groups together, it becomes clear that a considerable proportion of start-ups are not initiated by an entrepreneur who has already stayed in Germany for a considerable length of time (as would be the case for members of the “Gastarbeiter” generation) but arise through entrepreneurial initiatives that come “from without” or at least occur very soon after

*Start-up research and policy discussion has paid little attention to the question of whether migrants become ad hoc entrepreneurs in Germany or came here with a self-employment background.*



entering Germany. Yet, policymakers seeking to promote entrepreneurship have hard discussed both groups.

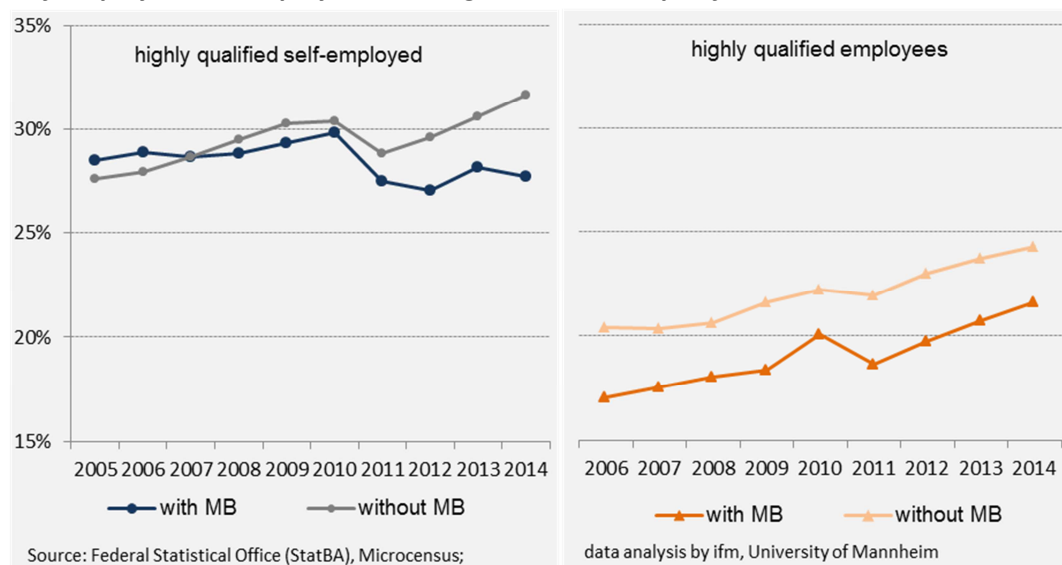
## 2.5 Qualification and skill structures

The data generally shows that the self-employed from the vast majority of groups of origin are on average better educated than their dependently employed counterparts. Taking the self-employed as a whole, 28% have a **university degree or comparable vocational qualification**, whereas this applies to only 17% of the dependently employed. However, the percentage of highly qualified persons among the migrant self-employed cohort still lies below the equivalent share for their native German counterparts (32%). But the data also shows that there are certain groups of origin within which the percentage of university graduates is higher, or even much higher, than the share among native Germans. At the other end of the spectrum, 27% of the migrant self-employed have **no formal qualifications**. Compared to native Germans, they are far less likely to have skills equivalent to the level of a **master craftsman or technician** (8% compared to 18% among German self-employed). This finding is hardly surprising, however, given the vocationally structured training system in Germany.<sup>4</sup>

Another observation that deserves our attention concerns the proportion of highly qualified persons among both the migrant and the German self-employed. Following an upward trend until 2010, the trajectories of these two values are now diverging: the share of the **highly qualified among self-employed persons with a foreign background** has stagnated in recent years, while it has continued to rise in the case of native Germans. On the other hand, the highly qualified migrants, and especially those in younger immigrant cohorts, are more frequently entering careers as **employees**. In the medium term, if this trend persists we are likely to see the start-up potential of migrants fade, in terms of both the quantity and quality of new companies, since higher-value business start-ups depend on the input of new knowledge and know-how.

*Percentage of the highly qualified among the self-employed of foreign background has stagnated, but is still rising among dependent employees and the native German self-employed.*

### **Self-employed and employees with higher education qualifications**



<sup>4</sup> Although differences are also evident when we apply the International Standard Classification of Education (ISCED).

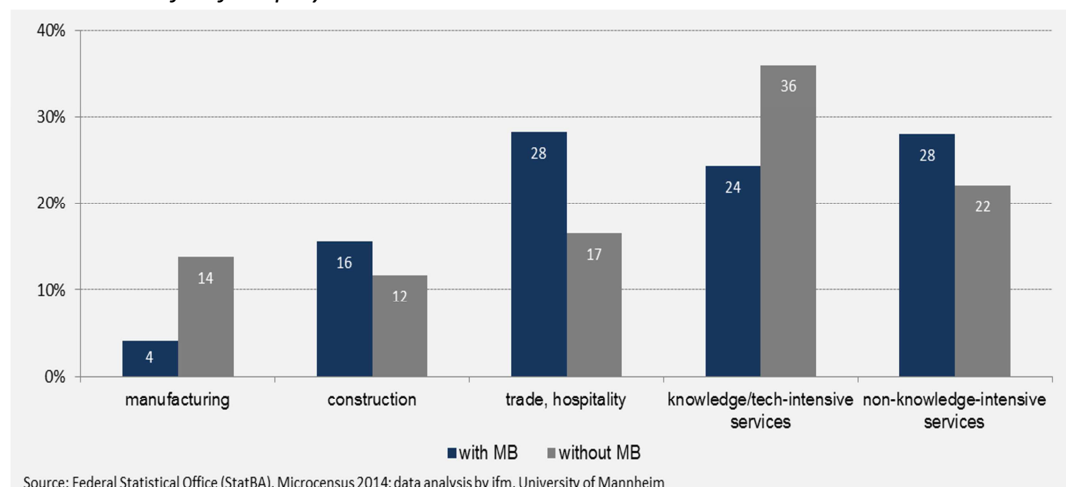
It also tends to be the foreign-born **immigrants** rather than members of the second generation who are keeping up the average level of skills and qualifications. Moreover, almost exactly half of all self-employed persons with a migrant background acquired their vocational or professional **qualifications abroad**, whereas the “German-educated” dominate the migrant-background cohort of dependent employees. As for German regulations governing access to specific (self-employment) trades and professions, the problems migrants seeking self-employment frequently encounter will only be gradually eased by the new federal law on the recognition of professional qualifications (BQFG).

## 2.6 Industry-sector profile

As Germany’s social structure changes, along with demographic shifts in terms of ethnicity and backgrounds, migrants have been gravitating towards industries in which they are relative newcomers. Yet with regard to the sectors entered, there are still considerable differences between the self-employed with and those without a migrant background.

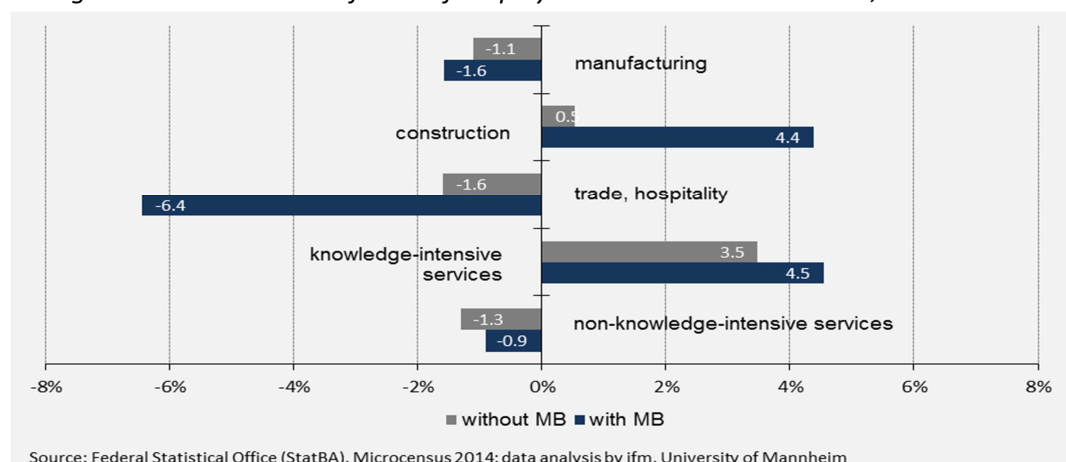
Migrants are still underrepresented above all in manufacturing and in knowledge- and technology-intensive services, while they play a proportionally bigger role in the construction industry, in commerce and in the hospitality sector as well as in services that are not knowledge-intensive.

### *Distribution of self-employment across economic sectors*



*There is still a considerable difference between self-employed with and without a migrant background in terms of the industry sectors in which they work.*

### *Changes in the distribution of the self-employed across economic sectors, 2008-2014*



*A clear modernisation trend among migrant-led start-ups is reflected in their shift to more knowledge-intensive services.*

Yet, contrary to the stereotypical image of migrant businesses found in public discourse, migrant-led start-ups are operating less and less in the traditional service segments such as **restaurants or retailing**. The percentage of the migrant self-employed working in these two fields has fallen by 6 percentage points since 2008. As for the **manufacturing industry**<sup>5</sup>, start-ups by entrepreneurs of whatever background, whether migrant or native German, have long been on a downward trend. Conversely, the number of self-employed in **non-knowledge-intensive services** saw a slight increase, but only in absolute terms. The role played by the self-employed in such routine services has slightly declined in the case of both groups.

High levels of start-up activity by migrants are evident above all in the construction industry and in knowledge- and technology-intensive services. In **construction**, the number of self-employed with a migrant background grew by almost half over the period under observation, raising this group's share by more than 4 percentage points, while this measure has tended to stagnate in the case of the native Germans. It would seem that migrants (above all those from Eastern and Central Europe) have benefited particularly strongly from the building boom triggered a few years ago. A catching-up trend can be seen in the upswing in migrant entrepreneurship above all in **knowledge- and technology-intensive services**. The number of the migrant self-employed in this sector has risen by almost a third and its share by about 5 percentage points. This is a bigger growth in share than achieved by their native German counterparts. The trend reflects a considerable modernisation of the services offered by migrant-led start-ups, although there is still plenty of potential for improvement given the lower starting level.

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<sup>5</sup> Includes commercial farming in the graph.

### 3. Areas of potential for migrant-led start-ups

The development and structure of start-ups and the self-employed already points to certain fields in which the entrepreneurial potential of migrants can be optimised and used more effectively. However, in order to identify more closely the fields in which action might be taken we need analyses that distinguish the underlying mechanisms. The respective start-up potentials can be divided into two areas (and again into two sub-areas) and determined by asking the following questions:

1. What are the weaknesses and where is scope for improvement?
2. What strengths are evident and how can we build on them?

The potential for migrants to catch up can first of all be derived directly from the **structural disparities** already identified above and the related **weaknesses** (e.g. the lower start-up propensity found among the second generation and the already naturalised, the lack of sustainability of start-ups, and the declining role of company takeovers, etc.).

The proposal to mobilise this untapped potential is guided by the insight that professional autonomy and vocational fulfilment are core drivers of start-ups, and they remain so despite falling unemployment because migrants are often face comparatively poor career prospects as employees. The need for action is also signalled by the high liquidation rates among migrant-led business ventures, i.e. their lack of sustainability. Other challenges and potentials arise in relation to the unequal participation of women in self-employment and the declining number of company takeovers. Moreover, the fact that the highly qualified have recently become less interested in start-up projects highlights the importance of medium and long-term prospects in realising entrepreneurial potential. Education and know-how prove to be dominant determinants of start-up activity, so action is needed here, too. Finally, to help migrants overcome disadvantages we need to review the financial options available to start-ups. All these points will be addressed below.

*Mobilising the potential for more migrant-led start-ups by overcoming inequalities*

In searching for untapped start-up potentials we should not, however, focus only on the problems areas in the shape of structural disadvantages. Major opportunities for stimulating and realising start-up ambitions also flow from **building on existing strengths**. We are referring here to situations and skill-sets which evidently allow people from a foreign background to become more successful than native Germans at developing entrepreneurial activities. The focus on the positives also embraces two more areas of potential: first, leveraging migrants' resilience and their experience of migration and, second, mobilising potentials that arise from migrants' internationality, innovativeness and knowledge.

*Building on existing strengths by ...*

The search for unused potential should first of all consider those capabilities that are explained not by cultural ascriptions but by the process of self-selection through which people pass as part of the migration experience. These strengths include a certain degree of resilience, i.e. the capacity to deal with high-risk conditions. This can be demonstrated by the assertiveness with which the immigrants have overcome not only national borders but also the difficulties of setting up business (e.g. through "ad-hoc start-ups" from abroad). Such courage can often be observed even in the case of people

*... leveraging resilience and the experience of migration and ...*

who have desperately fled from places plunged into crisis. Another demonstration of resilience is the entrepreneurial resilience with which migrants sometimes respond to the failure of their company by initiating a new venture (restarters).

Specific advantages in setting up a business may also be available to migrants thanks to their involvement in international networks and their experience, innovative approach and valuable store of knowledge – advantages that can be generated primarily in an international context. This point refers, on the one hand, to the observation that the business models of migrant-run companies are more frequently based on international relationships and offer competitive advantages as a result. On the other, a considerable percentage of start-up entrepreneurs who acquired their knowledge and professional know-how abroad are disproportionately successful at developing innovative products and services and bringing them to the market. This innovative strength is evidently found most frequently in teams that combine a diversity of national backgrounds.

*... focusing on  
internationality,  
innovativeness and  
special knowledge*

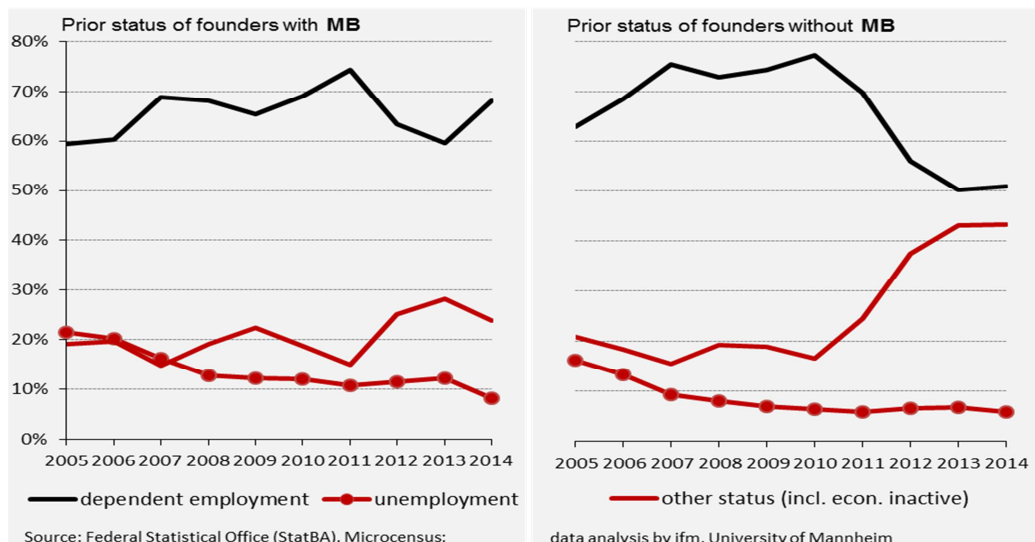
### 3.1 Inequalities, opportunity structures and untapped potential

Overcoming – or at least diminishing – inequalities in access to entrepreneurial self-employment is not only a matter of economic interest but also highly relevant to government policy on integration and the labour market, and thus a matter of social interest. The discrepancies and start-up potentials identified in our study exist in the following areas:

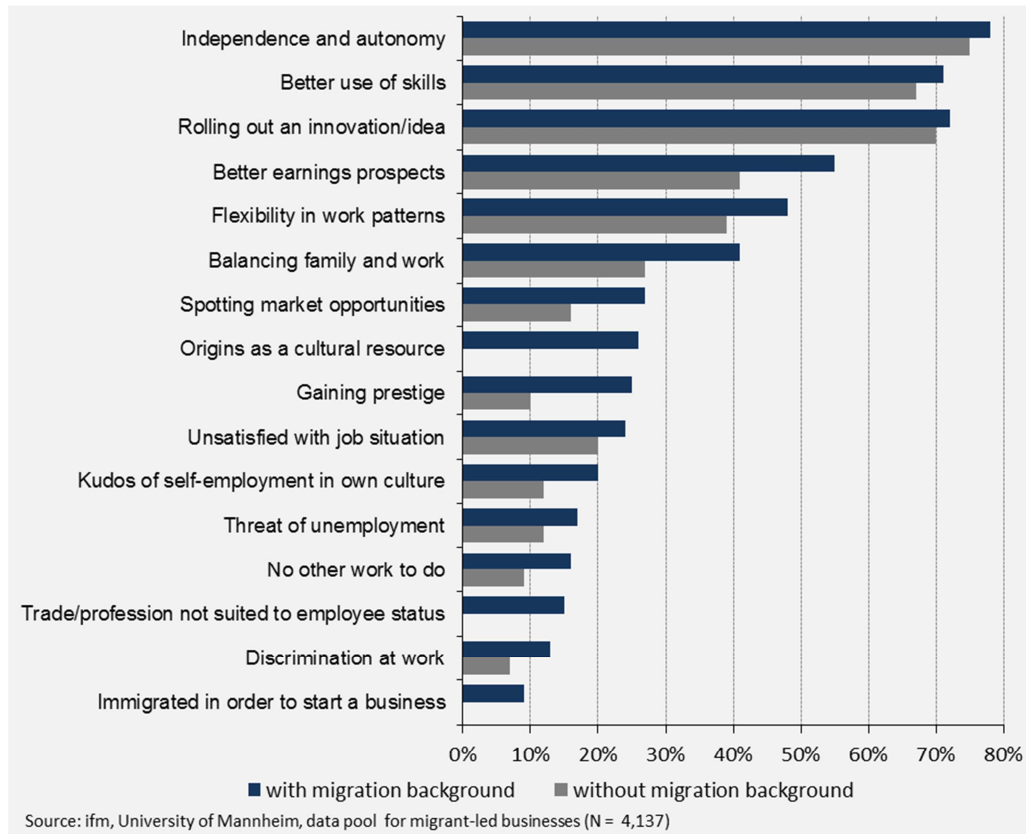
#### Motivations

- In 2005, a period of high unemployment, roughly two out of five of all start-ups were still being initiated by people without work – whether of migrant background or not. But as the situation on the labour market improved, the proportion of such “forced” start-ups fell sharply, also among the migrant cohort: in 2014, only 8% of new businesses were set up from a situation of unemployment. However, one in four start-ups is initiated by migrants in other forms of non-employment, for instance immediately after completion of education or training or when not registered as unemployment – a status in which recent immigrants frequently find themselves and which includes many women who have not previously entered the labour market.

#### *Employment status of entrepreneurs prior to self-employment*



### Motivation for self-employment



*Entrepreneurship to escape unemployment is becoming less common among migrants, although structural disadvantages in dependent employment remain a strong motive.*

- A career through self-employment thus remains an important option for overcoming inequality and achieving social advancement. An ifm survey asked migrants about their motives for launching a business. They accorded high scores to independence, making skills count and higher income, i.e. all pull factors, and in part weighted them more highly than did their native Germans counterparts.
- The fact that self-employed migrants earn on average a 40% higher net income than the dependently employed could motivate those who are earning a salary, rather than unemployed, to plan a start-up.

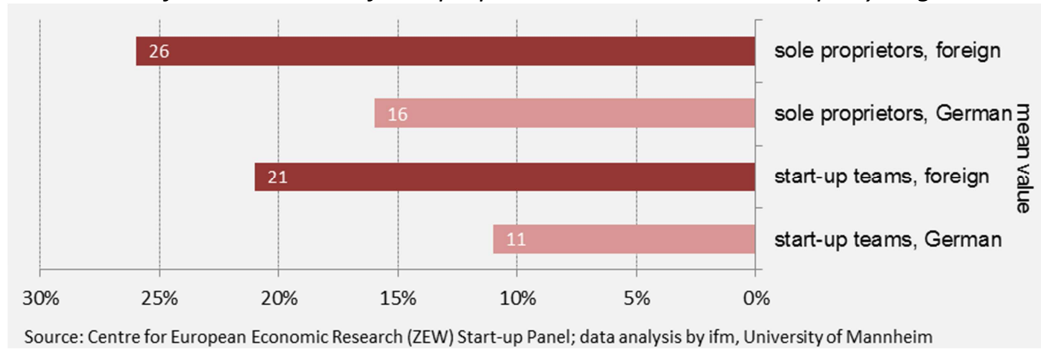
*An important driver for start-ups remains the opportunities they offer for social advancement*

### Sustainability

- As we have seen, the start-up propensity of migrants is already extremely high. It is not, however, adequately reflected in the total pool of registered companies because start-ups are simultaneously leaving the market in large numbers. This outflow problem is clearly demonstrated by the fact that the start-up rate is far higher for migrants than for Germans, yet the migrant self-employment rate (as a percentage of the total pool) is nonetheless lower overall.
- A factor that must be considered here is that exiting the market is not necessarily a case of failure. Quite a few self-employed deliberately choose to switch to a new business project or to a job with employee status simply because better options are on offer. Migrants frequently make the point that they are not committed to making their own independent living but just trying out a business model. Nevertheless, it may be assumed that in most cases pulling out of the market is not a voluntary act since the loss of a company means the loss of considerable tangible and intangible investments.



### Mean values for insolvencies of sole proprietor and team-run start-ups by origin

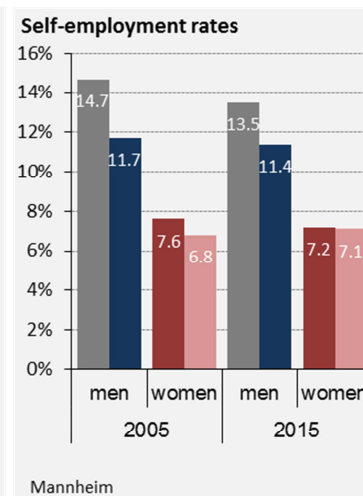
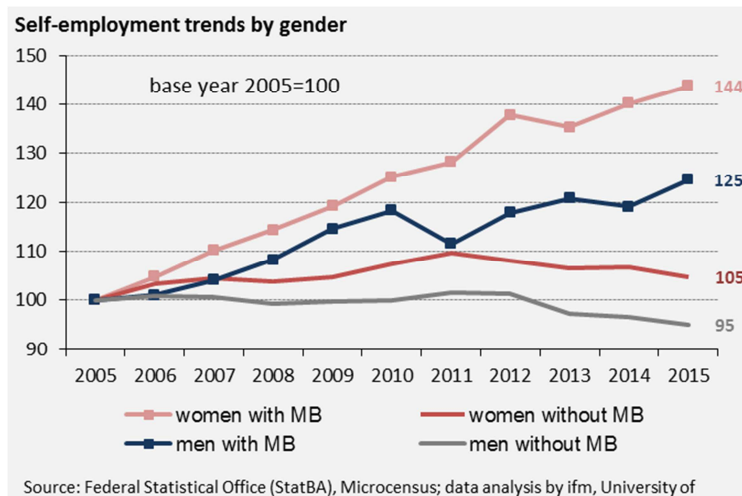


- Focusing on economically unsuccessful start-ups, the ones of particular interest are therefore the businesses that have stopped trading due to insolvency. If we measure the number of enterprises founded between 2005 and 2007 (taking into account only economically sound businesses) that later became insolvent, we arrive at a mean value of 16% for sole proprietors of German origin, but 26% for the foreign cohort.
- Migrant-led start-ups also fail significantly more frequently in a team format. Whereas purely native German founder teams see, on average, one in ten ventures being forced off the market, the failure rate is as high as one in five for start-ups run by teams containing a least one person of foreign background.

→ Securing sustainability is a key to increasing the number of migrant-run businesses

## Women

- The number of self-employed female migrants has been growing in percentage terms faster since 2005 (+44%) than it has for native German women and men (+5% and -5% respectively).
- The upward trend does, however, start from a low baseline. The self-employment rate for women with a migrant background stands at 7.1%, while the figure for their male counterparts comes to 11.4%. The gender gap in access to professional self-employment has changed very little over time. Yet, contrary to general assumptions, women with a migrant background are not any more underrepresented in self-employment than native German women (7.2%).



- Even if we statistically control for age, industry sector and other factors, women with a migrant background remain only half as likely to enter self-employment as men. This indicates a high potential for improvement.

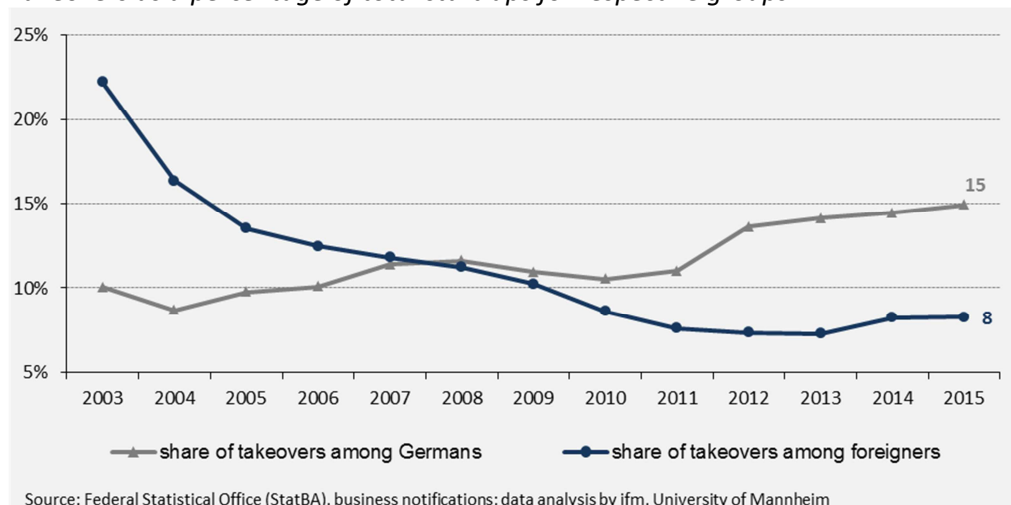
- The lower female start-up propensity is a phenomenon found above all among women from the labour recruitment countries. By contrast, gender discrepancies are far less marked within certain migrant cohorts from Western and Northern Europe, but also from America and Southeast Asia.
- Opportunities for generating more women-led start-ups arise from the fact that migrant women tend to be better equipped with educational resources (36% compared to 23% with high-level qualifications) than migrant men. A decisive factor here (from a multivariate perspective) is that an academic education proves twice as effective in boosting the start-up propensity of migrant women compared to men.
- The biggest obstacle to women's access to self-employment is vocational segregation and gendered career choices. The high proportion of female migrants entering typically female vocations decisively reduces women's entrepreneurial opportunities.

→ Raising start-up potentials among women

## Takeovers

- The number of takeovers of existing sole proprietorships, whether by inheritance, buy-out or leasehold, has declined significantly since 2003, although the downturn among foreign nationals in Germany (by 33% to approx. 8,000) has been less rapid than among Germans (by 49% to 19,000). At the outset of the last decade, such takeovers still played a major role in start-up activities across the whole spectrum of migrant-registered businesses. But with the overall number of foreigner-led start-ups rising since then, takeovers have come to contribute a smaller percentage of all start-up activities by foreign persons, falling to just 8% (compared to 15% for Germans).
- Despite all the various qualifying factors, the trend shows that foreigners have become far less attracted to taking over an existing business than to setting up their own, although an alternative explanation could be that foreign entrepreneurs wishing to take over a business have not been welcomed with open arms.
- In any case, a migrant entrepreneur has a far lower chance of succession to ownership of a family business than a German. Migrant-run enterprises are still relatively young, so they offer fewer opportunities for inheritance. This situation makes the external takeover route, i.e. entrepreneurs coming from outside the family, all the more important.

*Takeovers as a percentage of total start-ups for respective groups*



- Yet the data shows that German migrant entrepreneurs only choose to take over an existing enterprise half as often as non-migrant German entrepreneurs (even when statistically controlled to exclude a variety of determining factors). Moreover, the

highly skilled and educated migrants and those driven more by the self-fulfilment motive are even more likely to reject the option of taking over business models created by others.

- The ratio between inner-ethnic succession and company takeovers from outside the cultural circle of the existing owners varies from one group of origin to another, which in turn will depend on relative population size, time of immigration and the industry sector context, e.g. certain groups having a strong presence in the hospitality industry. Restaurants in particular are very frequently passed on to individuals within the family, group of origin or ethnic community.
- The fact that there is a relatively small proportion of inter-ethnic hand-overs in the context of large number of businesses disappearing from the market because owners cannot find a suitable successor suggests the presence of a large take-over potential waiting to be tapped. To make a real difference, however, more of the German owners retiring from their business would have to be motivated to hand over to qualified migrants.

➔ *Potential for more company takeovers*

### **Education and knowledge**

- A high level of education is the central determinant of start-up propensity in all groups. This finding refutes the assumption that poorly educated migrants tend to be the ones who become self-employed in the absence of any other prospects. The influence of education evidently remains strong even when we control the data for other attributes (regression analysis), i.e. the effect of this factor is largely stable even taking account of age, sex, country of origin, and industry sector, etc.
- Compared with persons without formal education, a higher education qualification doubles a person's prospect of a career through self-employment (a 2.1-fold increase), while a technician/master qualification makes this outcome almost 4.2-fold more likely. A secondary school leaving certificate qualifying for higher education only shows a significant effect (1.4-fold) if the holder has gone on to receive some in-company training.
- It is, however, more frequently the case that migrants lack the decisive educational resources. Migrants who have completed higher education form a relatively small proportion of their cohort compared to Germans. Moreover, they are only half as likely to have a master craftsman's diploma, which is hardly surprising given that vocational training systems in the countries of origin are often very different.
- The dominant role of education as a factor behind self-employed careers has receded somewhat in recent years owing to the fact that the evident shortage of skilled workers in Germany has led many of the more highly educated migrants to pursue salaried career options (see section 2.5). Nevertheless, prospect of self-employment still exerts a comparatively strong attraction on many of this highly educated cohort.

*Chances of self-employment for migrants by educational achievement, measured against persons with no qualifications [Exp(B)]*



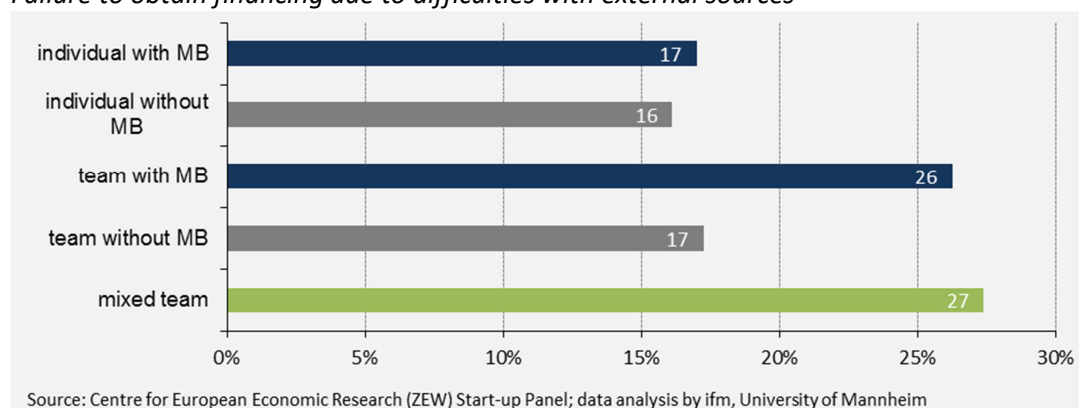
- We may generally conclude that this situation calls for greater efforts to increase participation by migrants – especially second generation migrants – in education and training. This is not only a matter of raising the proportion of migrants graduating from universities but also facilitating apprenticeships and other in-company vocational paths that will qualify young people as technicians or master craftsmen.

➔ *More start-ups through more education and knowledge*

## Financing

- The financial requirements for starting a business do not substantially differ between foreign or German would-be entrepreneurs. Differences are more apparent in the sources of their funding. Where capital must be borrowed, founders with a foreign background are comparatively less likely to access public financial support (available from the Federal Employment Agency (BA) and KfW bank) and more likely to turn to family and friends.
- On the whole, start-up entrepreneurs of foreign origin report financial problems only marginally more frequently if they are setting up as sole proprietors. However, the data suggests team-led start-ups that include one or more entrepreneurs of non-German origin face more problems with external investors. Action is certainly needed to resolve this situation because team-led start-ups tend to be particularly innovative (see below).

*Failure to obtain financing due to difficulties with external sources*



- The details behind these general findings present a disparate structure, with many financial problems corresponding to other attributes (origin, industry sector,

➔ *Harnessing start-up potentials through secure financing*

company size, etc.). The migrant entrepreneurs who have difficulties with external investors (e.g. banks, business angels and venture capital firms) come above all from Turkey, Eastern and Southern Europe and certain third countries, while some other groups report even fewer problems than the Germans.

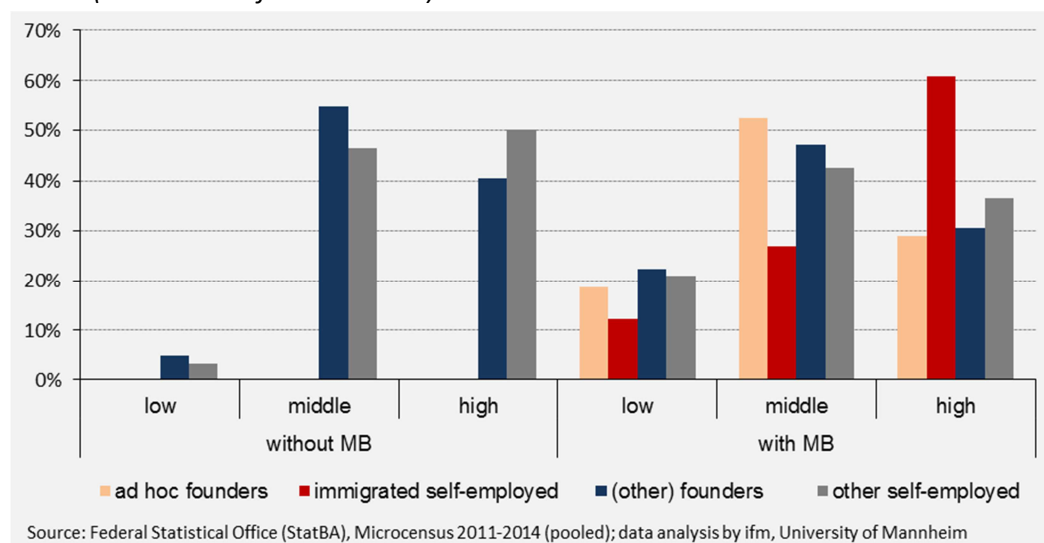
### 3.2 Building on strengths: leveraging resilience and migration experience

#### Ad hoc start-ups from abroad

- International research into start-ups has shown that it is above all people with strong talents, innovativeness and entrepreneurial skills who are the first to leave their country, but then seek to use their creative energies without delay and without any career detours. This creative potential needs to be harnessed.
- Around one in four of all migrant-led start-ups were launched by persons who either became self-employed within a year of entering Germany or had already been self-employed before arrival (see section 2.4 above). Yet Germany can attract more such highly qualified entrepreneurs with policies that more effectively shape the composition of ad hoc start-ups and immigrant self-employment.
- Reinforced by a lengthy period of restrictions on the free movement of workers in Germany, ad hoc start-ups tended to be dominated by building workers and care workers from Eastern and Central Europe. From an international perspective, the considerable potential of highly qualified entrepreneurs was not fully utilized.
- This only then happened in the case of people immigrating directly as self-employed entrepreneurs, especially from Western industrialised countries. In this cohort, 60% have an academic qualification. Given favourable conditions, the more highly skilled are more mobile and more likely to have an international outlook when planning their career. These attributes make them an increasingly important group of self-employed.

→ Allowing more ad hoc start-ups from abroad

*Level of skills and qualifications among ad hoc founders, immigrated self-employed and others (mean values for 2011-2014)*



- A major potential for attracting highly qualified entrepreneurs lies in outside the EU. But many of these entrepreneurs who are interested in setting up a business in Germany are deterred by German law on residency (AufenthG). Although formalities have been simplified to remove red tape, the numbers establishing themselves

between 2006 and 2014 as self-employed under the provisions of Section 21 of the law on residency rose merely by 642 to 1,782 cases. These are generally people with above-average qualifications. A breakdown of professions among the approved cases (especially artists and teachers) and of countries of origins (especially North America and China) indicates, however, that many other direct business founders are either avoiding the examination procedures required by the immigration authorities and the various chambers or failing to pass them.

## Refugees

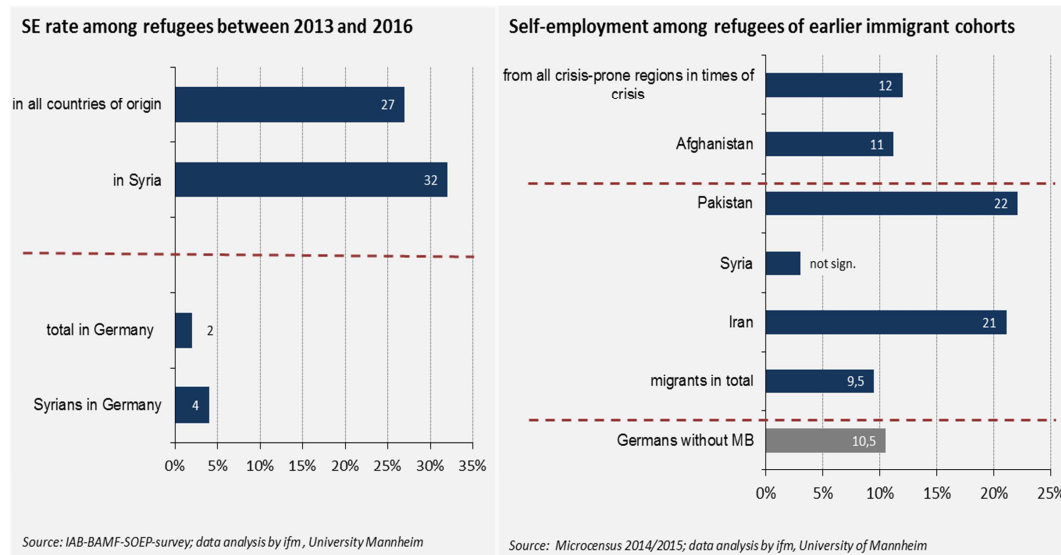
In mid-2016 there were 1.1 million people staying in Germany with refugee residency status. For many, the prospects of their remaining in Germany have not been clarified. This situation, along with the difficulty of obtaining precise data, makes the task of determining the start-up potential of refugees all the more difficult. In addressing this question, we also have to factor in the different time periods when displacement occurred and the different immigrant cohorts:

- Among those who fled to Germany between 2013 and 2016, 27% had previously run a business of their own in the home country.<sup>6</sup> In the case of Syrians, as many as one third (32%) did so. This generally has a positive impact on labour market integration, because it turns out that those with a self-employment history gained more vocational professional experience than members of other groups within the labour force.
- Although there are high numbers of previously self-employed among refugees, other conditions come into play that makes it difficult for them to benefit from their entrepreneurial experience in Germany. They have little prospect of setting up a business in the short-term, at least. In fact, to the extent that recent refugees are able to engage in any kind of employment, only 2% are working “on their own account” (4% of Syrians).
- A central question is to what extent refugees will revive their entrepreneurial ambitions, or discover them for the first time, several years after fleeing to Germany. A retrospective view is needed here. In the Microcensus we therefore identified those persons who had arrived from a crisis region in times of great distress (mainly war). The rate of self-employment among this cohort comes to 12%, which corresponds to above-average start-up propensity. If we ignore the displacement period, i.e. time of flight, and simply consider all refugees from countries with high refugee volumes, the data shows major variations in self-employment rates. A particularly strong tendency to seek self-employed careers is found among the refugee cohort who arrived in Germany a long time ago from, for instance, Iran and Pakistan.
- A remarkable finding is that the refugees most likely to become self-employed are not the graduates from higher education but secondary school graduates and even those with vocational skills from in-company training or a similar background. This observation has important policy consequences because the people currently fleeing to Germany may have, on average, rather low-level vocational qualifications but their school leaving qualifications suggest some potential for catching up. This suggests that the current efforts to integrate often young refugees into the labour market initially through in-company training measures could be fruitful for future start-up potential.

→ *Developing potential of people with the experience of crisis and displacement*

<sup>6</sup>Interview survey of refugees: IAB-BAMF-SOEP-Befragung von Geflüchteten (Vallizadeh et al. 2016).

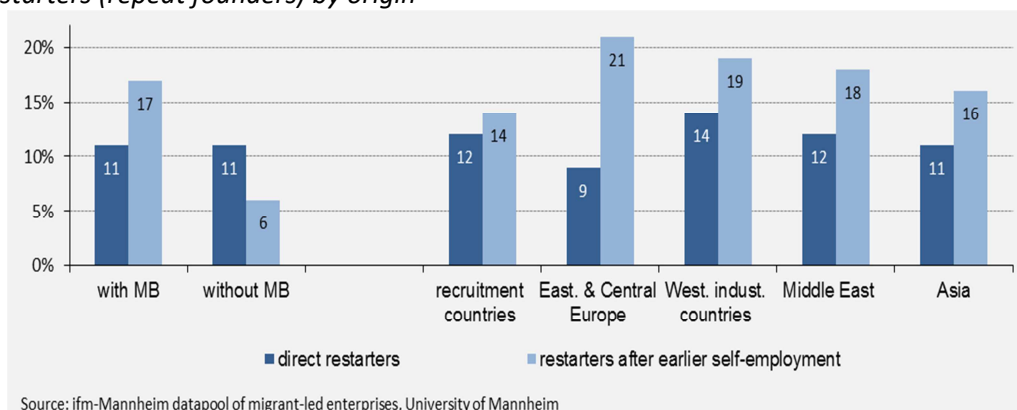




## Restarters

- International comparisons indicate that fear of failure is particularly strong among start-up entrepreneurs in Germany. Although a failed start-up can present opportunities for entrepreneurial learning and ultimately form the basis for a more successful new beginning, the extent to which this occurs is disputed by economists. While some advocate a “culture of failure”, others warn against bringing negative experiences into a new venture.
- Entrepreneurs themselves are also divided on this question. Their attitudes to high-risk conditions vary depending on their own experience. It is not only valuable business experience that comes into play here. People with migrant backgrounds are particularly inclined to engage in a second entrepreneurial endeavor as so-called “restarters”. On average, and considering only entrepreneurs making a fresh start directly after a failed venture, there are only minor differences between migrants and native Germans. The potential for migrant restarters is higher, however, if our data also covers those who had been self-employed at an earlier time in their lives, for instance, people who were in business in their country of origin but later worked as employees in Germany.

### Restarters (repeat founders) by origin



- Among all migrant-led start-ups, 17% of founders had already been self-employed at an earlier time and, after pursuing other avenues, chose to launch a new business venture. This pattern only occurs in the case of 6% of their German counterparts. Restarters from an earlier period of self-employment are a comparatively frequent

➔ *Enabling migrants with start-up experience to start again*

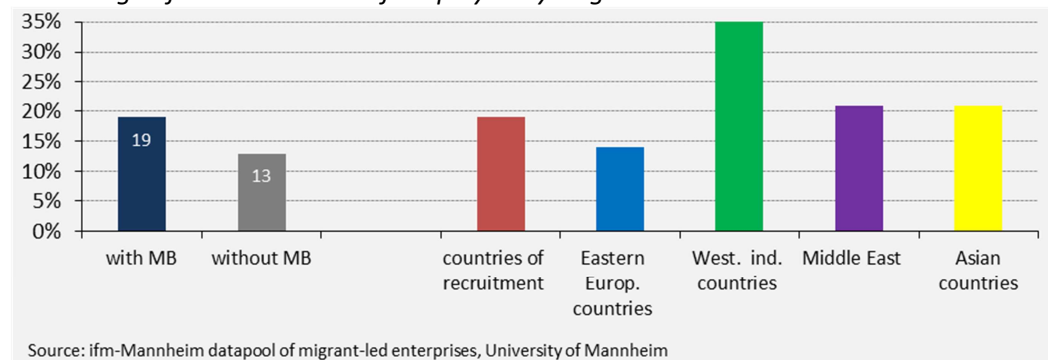
phenomenon among migrants from Central and Eastern Europe, Western industrialised countries and, moreover, the Middle East.

### 3.3 Building on strengths: internationality, innovativeness and special knowledge

#### Internationality

- The field of migrant entrepreneurship has been enriched by the addition of a new type of “transnational” entrepreneur who is embedded in networks both in the old country and in their new home. Their connections put them in a much better position than others to develop activities involving foreign trade.
- A categorisation of self-employed migrants in terms of the intensity of their business ties and their trips abroad shows that 19% can be ascribed a “transnational” character. This is true of only 13% of the self-employed without a migrant background. The higher percentage found among migrants is largely explained by the activities of self-employed entrepreneurs from Western industrial countries, the Middle East and Asia.

Percentage of transnational self-employed by origin



- Among the self-employed, those with an international (or even transnational) orientation differ from the more domestically focused self-employed above all in the fact that the former are on average significantly better educated and engaged more frequently in trade and commerce. Moreover, they tend to run more successful enterprises, as measured by employee headcount and company longevity.

→ Encouraging transnational alignments and foreign trade activities

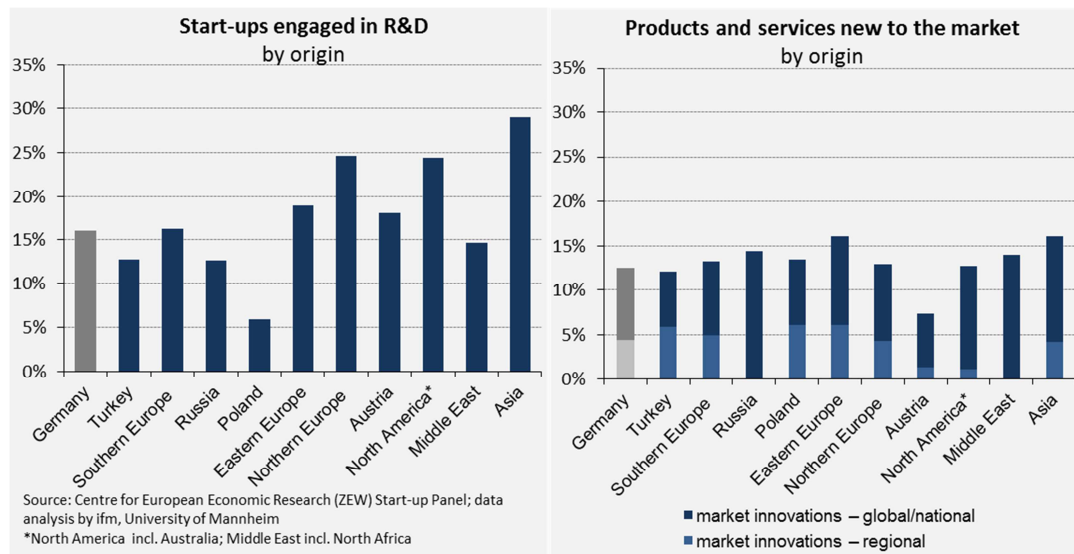
#### Innovativeness

- Innovations are key drivers of economic development. So it is critical to ask which companies actually contribute to the diffusion of innovations. In the context of an upward trend in overall numbers of migrant-led start-ups, our survey also sought to determine the extent to which these companies do R&D, employ staff with scientific expertise or generally come to the market with novel products and services.
- The start-up trends in specific sectors of the economy (see above) have already revealed that migrant-founded companies are increasingly active in science- and technology-intensive sectors. Migrant-led start-ups have become more modern and more innovative.
- The various types of innovations contributed by migrant-led start-ups cannot be meaningfully lumped together. This has been shown by data from the ZEW start-up panel.<sup>7</sup> Looking at innovation across all the various indicators, the differences within

<sup>7</sup> One should bear in mind that the findings are based on data from the ZEW start-up panels, which mainly cover economically sound enterprises.

the pool of migrant founders are wider than the differences between them and their native German counterparts.

- Focusing, for instance, on the share of start-ups engaged in their own R&D, we discover that those run by Germans tend to cluster around a mid-table ranking, while persistent differences occur between migrant groups, depending on their countries or origin or their roots in culturally similar innovation systems. A particularly high level of research and development is found among companies set up by persons from a Western industrialised country. And a similar pattern emerges when we measure the percentage of companies entering the market with novel product and services. Thus, assumptions about the innovativeness of migrant start-ups generally being below the level of native German start-ups are not confirmed by the data.



- A rough breakdown of start-ups according to whether their founders are of German or foreign background obscures a heterogeneous reality behind these categories. On the other hand, this higher-level data analysis does tell us about the innovation performance of mixed teams. Team-led start-ups demonstrate, across all sectors of the economy, a stronger propensity to innovate than businesses founded by one individual, partly because teams have better resources at their disposal. In terms of R&D activities and the launching of market innovations, it is above all the nationally mixed teams that show the biggest innovation potential. By comparison, the purely German teams or, for that matter, any other “ethnically” homogenous teams tend to do less well here.
- Diversity therefore appears to have a positive impact on the innovativeness of a start-up. If the marginal conditions are statistically controlled, the data shows that higher cultural diversity in start-up team leads to higher innovation output. This is in line with the finding that diversity in staff composition at a company increases creativity and raises productivity

➔ Initiating innovative (team-led) start-ups and encouraging their proliferation

## 4. Areas for action and recommendations

The statistical analyses discussed above were designed to identify areas in which there is a need for action if we are to improve the potential of migrant-led start-ups and make them more sustainable. These areas of potential are:

- the **development and structure** of native German and migrant-led start-ups which have been derived from comparative analyses and the identification of **weaknesses** and **obstacles** that hinder the positive trajectory of entrepreneurial ambitions;
- a focus on the **existing strengths** of migrants in order to make overlooked entrepreneurial potentials visible and effective; in practice, this can be facilitated by **strengthening** and including them purposefully into strategic efforts for developing the start-up landscape in Germany.

The Federal Ministry for Economic Affairs and Technology (BMWi) has commissioned two studies (2005 and 2011) on the entrepreneurial potential of people with a foreign background. Since then, **a great deal has happened**. New research and new survey data can put forward a new perspective on the previous discussions about the need for action within this regard. In particular, this is indicated in those areas where the empirical findings point to new trends and structures or where they can tackle existing prejudices. However, this does not imply that previously suggested recommendations lose their credibility.

After all, implementation takes time and perseverance, especially in the case of measures to improve information, consultancy, mentoring and coaching as well as for the financial survival and consolidation of migrant-led start-ups. These remain as important policy instruments. Although our study also addresses these “policy standards”, this time we decided not to emphasize them as usual because many of the standard recommendations have already gained access to the start-up consulting community (which does not mean that they have been implemented comprehensively). Rather, we gave more space to those areas of action that reflect more recent developments and structural shifts. These include, predominantly, the implications of a higher level of immigration and the changed demographics of immigrants.

## 4.1 Mobilising and realising potential for improvement

### Consultancy and support structures

Various studies show that there is a lack of sufficient client-centred and needs-based assistance for entrepreneurs with foreign roots. From surveys that deal with the consultancy needs and the utilisation of advice services by the recipients it is clear that large groups of migrants do not feel addressed by the services currently offered by public institutions. This circumstance requires particular attention, especially because we know from both previous studies and experience that good consultancy and coaching is effective in reducing the high number of failed start-ups. We must therefore reassess the existing assistance services and increase our efforts in implementing consultancy strategies and instruments that exclusively focus on migrants. So far, such services have only been developed and tested occasionally, i.e. in regional projects. Thus, they are yet to be institutionalised on a wider scale. We therefore recommend that the expertise and know-how from such projects is used to develop inclusive support structures in which know-how is systematically documented, consolidated and disseminated. This calls for close coordination and professional exchange between the institutions within the start-ups ecosystem so as to avoid the emergence of parallel structures and to assure the transfer of best practices.

A first step towards this direction is to raise the attention of employees' working within the relevant institutions for the issues surrounding "migrant-led self-employment and entrepreneurship". They need to understand and acknowledge that self-employment is a possible path to labour market integration. In this regard, existing stereotypes and insufficient knowledge about the issue are often obstacles. The task is to complement and strengthen intercultural skills with trainings on the strength and potential of migrant economic activity and, in this method, to improve the work of consultancy services.

Greater use should be made of existing services and instruments of the Federal Employment Agency (BA) for preparing and supporting self-employed activity. These should be accepted as an equally valid approach to labour market integration. However, these services must be more closely in line with the needs of migrants as target groups and optimised accordingly. This also applies to refugees as a distinct target group. To identify and, where appropriate, promote the potential of refugees, we believe that a specially dedicated initiative is useful to sensitise labour market actors accordingly.<sup>8</sup>

*Leveraging and consolidating prior knowledge and experiences*

*Creating target client-centred and needs-based support structures to promote start-ups and secure business viability*

*Raising awareness of self-employment as a possible path to vocational and social integration*

*Bolstering labour market policy instruments and optimising their alignment to specific target groups*

<sup>8</sup> Cf. ism e.V./ socialimpact gGmbH (2016): Studie zu einem Machbarkeits- und Umsetzungskonzept: Aktivierung von unternehmerischen Potenzialen für Selbständige in Flüchtlingsheimen. Mainz/ Berlin.

## Institutional frameworks

Among the various barriers start-ups face, **institutional frameworks** in the form of rules and regulations that apply to non-EU nationals and to refugees deserve special attention. Despite the recent reform of the residency law that apply to the aforementioned groups, which has enabled additional residency options, the reforms must be implemented in practice in order to facilitate a de facto access to self-employment for immigrants. For this purpose, the law of residence and its implications must be communicated in a transparent and self-explanatory fashion so that entrepreneurs, advisors and administrators are provided with a practically relevant guideline. In line with this, it is also necessary to address the legal details of relevant administrative regulations. These need to be revised in accordance with the current status of the residency law so that the executing authorities and their staff can act with legal certainty and the emerged policy space can be used most effectively.<sup>9</sup> One improvement might be to provide material that, for instance, sets out the rules and exemptions to those rules that apply specifically to a certain group of origin, qualification or age group. Guidelines of this kind could also be augmented and sent out with examples, simple visualisations and annotated forms and referrals. The material should be written in easily comprehensible German as well as in different languages. In addition, it should be provided to relevant stakeholders<sup>10</sup> and dissemination should be supported by an information campaign.

*Providing start-up consultants with easy-to-understand information on aliens legislation*

*Aligning administrative regulations to current law on residency*

*Disseminating information on aliens legislation across the start-up consultancy community*

## Education and knowledge

The pivotal human resource for social upward mobility, for social integration and for thriving entrepreneurial activity is, first and foremost, **education**. In view of the persistent underperformance of migrants regarding schooling and vocational qualifications, efforts that foster educational equality have to be pursued continuously. Since education and knowledge are considered as the main drivers for the decision to become self-employed, an improvement in the level of qualifications and skills would also lead to a further rise in the rate of self-employment among migrants in the medium-term.

*Redouble efforts to reduce the gap in educational opportunities*

For a long time, the absent or inadequate recognition of foreign qualifications in Germany has been a major obstacle to labour market integration in general and to the commencement of self-employment, especially in institutionally regulated professions. While the situation of immigrants has seen a series of improvements under the Federal Recognition Act (the Act simplifies procedures for the evaluation of foreign professional or vocational qualifications), migrants are being confronted with additional difficulties in cases of partial recognition.<sup>11</sup> On the one hand, there are no systematic schemes for advanced educational trajectories. On the other hand, relevant trainings for the

*Creating opportunities for gaining additional skills and qualifications based on partial recognition of foreign certificates*

<sup>9</sup>This concerns *inter alia* the demands frequently put forward by administration officials that business founders should meet a certain investment threshold or minimum employee number as a basic criterion of viability. This also touches on the lack of information on the new provisions in residency legislation (especially Section 21 para. 2a).

<sup>10</sup> Via the existing web portals of the Federal Government and state governments and their relevant ministries.

<sup>11</sup> Sub-projects run under the funding programme for "Integration through Qualification" are testing, with the support of the European Social Fund, necessary upskilling schemes (including individual grant arrangements) that can open up career prospects in certain professions.



development of personal skills cost money. Migrants should be offered special courses designed to complement partially recognised foreign qualifications and should therefore be granted adequate financial support, if needed.

Even though the self-employed are generally better educated than employees, there is still a substantial need for the improvement of qualifications among certain groups. This is why the focus on self-employed migrants should be targeted more with vocational training measures, especially when they employ managerial staff. The latter can act as multipliers of education – impacting the other staff.

*Strengthening professional development for migrant self-employed*

### Female start-up potential

Just like educational measures necessitate time to work, measures that aim to reduce the gender gap among self-employed have to be rooted at an early stage of socialisation. The biggest impact on increasing the rate of self-employment among **women with a migrant background** would arise by widening the scope of career opportunities they might consider. This is because young women have a high tendency to choose professions and fields of study that primarily lead to dependent employment. A helpful measure is to establish or add initiatives directed specifically at female migrants, such as “girls day”, “MINT-Migrantinnen” and school enterprise projects run by female students. Moreover, increasing overall labour market participation by female migrants would prove at least as beneficial since vocational experience is a fundamental precondition for taking the path to self-employment. For female refugees, in particular, measures that get them quickly into the labour market also have the longer-term effect of promoting their start-up activities.

*Widening the spectrum of career choices and increasing labour market participation by female migrants*

Self-employed females with a migrant background present a particularly promising development potential inasmuch as they tend to have higher levels of formal education than men. Various mentoring programmes, such as “MIGRANTINNEN gründen”, a project funded by Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ)<sup>12</sup>, increase awareness and motivate women by setting examples of good practice and by providing access to entrepreneurial know-how and skills through consultancy and intensive coaching.

*Start-up mentoring for female migrants*

### Company takeovers

In view of the high number of companies that disappear from the market completely because no successor can be found to run a business, there must be a stronger focus on migrant entrepreneurs as candidates for **company takeovers**. Yet it is not uncommon for entrepreneurs who migrated to Germany as migrants or refugees to encounter distrust on behalf of a retiring owner. Therefore, business owners, potential takeover candidates and consultants have to be collectively lectured on the opportunities and issues at stake. This means, on the one hand, familiarising interested migrants with the option of “business succession” and, on the other hand, presenting exiting business owners with the advantages of migrant entrepreneurs as potential successors (e.g. the ICON project in Berlin).<sup>13</sup>

*Raising awareness to highlight migrants as potential successors*

<sup>12</sup> <https://www.migrantinnengruenden.de/projekt/>

<sup>13</sup> ICON: Innovativer Content zur Unternehmensnachfolge (<https://nachfolge-in-deutschland.de/>)

One of the main problems with company takeovers is the lack of market overview and transparency for both take-over and hand-over candidates. As for this, business succession exchanges as well as regular get-togethers that facilitate matching are important instruments for sharing information and bringing the two sides together. Matching procedures should be made more inclusive with more migrant entrepreneurs shortlisted.

*Bringing together suitable migrants and business owners looking for a successor*

A takeover can involve considerable conflict because the outgoing owners are often emotionally bound to their businesses. Here, it can be crucial to help them choose their successors on the basis of rational considerations. Handover solutions can be impeded where prejudices prevent consideration of migrant take-overs.

*Strengthening use of objective criteria for choosing successors*

## Financing

The **financing** of new business ventures, whether as takeovers or fresh start-ups, is a core challenge for most entrepreneurs, but especially for migrants. Surveys find that migrant entrepreneurs complain about loan refusals more frequently than native Germans. Their difficulties concern the access to both commercial credit and to public grants.

Since a high proportion of start-ups are micro-enterprises (in both the German and migrant cohorts), the availability of credit is often attributed to the reluctance of banks to grant loans with small volumes. As a consequence of this, existing microfinance schemes have to be reshaped to be more client-centred, transparent and more easily comprehensible. The dominant player in the provision of microfinance in Germany scene is the Mikrokreditfonds Deutschland. Besides, however, there has been a proliferation of numerous state-level microfinance schemes and an increase of local authority, private and church-run initiatives in recent years.

*Offering straightforward and transparent microcredit schemes*

The Mikrokreditfonds Deutschland is financed by federal budget allocations and by the European Social Fund (ESF). To assure good lending practice, the Deutsche Mikrofinanz Institut (DMI) accredits other microfinance institutes which are then only liable for 20 percent of the credit volumes they grant. To cover their liabilities, the microfinance institutes want borrowers to provide collateral, which is often impossible to acquire, precisely for small and micro start-ups. One solution to this problem would be to create regional and client-centred liability funds that could facilitate the granting practice of small loans by the Mikrokreditfonds Deutschland.

*Simplifying the granting of small loans*

Moreover, it is not only that migrant-led start-ups often fail to access loans but they also lack access to the relevant information on borrowing options. For this reason, interlocking arrangements are needed to coordinate consultancy, financing and loan processing. This could help to stabilise start-ups and, specifically in the case of microloans, to reduce default rates. Moreover, in the context of the increasing number of refugee entrepreneurs, it would make sense to include this group as an explicit target group in the outreach of the Mikrokreditfonds Deutschland and strengthen communication with the immigration authorities (an identified problem: there are limitations due to time-restricted residence permits).

*Closely coordinating consultancy, financing and credit processing*

The benefits agencies that grant assistance under the provisions of Social Code Volumes (SGB) II and III can mandate instruments that can fund beneficiaries seeking to start a business. These include start-up allowances and integration subsidies (Section 93 of SGB III and 16b SGB II), loans and other subsidies (Section 16c of SGB II), measures for the initiation and preparation of start-up projects (Section 45 of SGB III) or for the consolidation of an existing enterprise (Section 16c of SGB II). To the extent that these benefits are discretionary, officials should interpret the provisions in ways that will lift the potential for migrant-led start-ups.<sup>14</sup>

*Making use of existing  
labour market  
instruments for start-up  
financing*

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<sup>14</sup> Ibid. ism e.V./ socialimpact (feasibility study).

## 4.2 Advancing existing strengths

So far, the thematic focus has been on how to catch up untapped potentials. This section, however, will now consider possible action paths in order to leverage the existing experiences, skills and the specialist knowledge that migrants can draw on for realising their start-up opportunities.

### Ad hoc start-ups from abroad

There is major entrepreneurial potential in what we are calling **ad hoc start-ups**, i.e. **self-employed migrants** who set up a business **before or immediately after migrating to Germany**. To inform this group about the business options open to them in Germany, existing government information web portals (e.g. [www.existenzgruender.de](http://www.existenzgruender.de) or [www.wir-gruenden-in-deutschland.de](http://www.wir-gruenden-in-deutschland.de)) should be coordinated and jointly address this type of entrepreneur. To increase the attractiveness of Germany as a start-up location, funding schemes should be developed that are particularly directed at entrepreneurs from non-EU countries. In attracting highly skilled people to a start-up career in Germany, a supportive role can be played by incentive schemes centred on financing and consultancy (such as those in Chile or Israel).<sup>15</sup> Alongside this, an international marketing campaign to highlight the existing web portals offering information and advice (e.g. [www.wir-gruenden-in-deutschland.de](http://www.wir-gruenden-in-deutschland.de)) should be considered.

*Making Germany more attractive as a start-up location for persons from non-EU countries and for founders wanting to launch a business from abroad*

Students and graduates from non-EU countries must be presented with the prospects of professional self-employment as route to social integration at an early stage, thus retaining scientific expertise and entrepreneurial potential in Germany. This is an important measure for securing Germany's return on its' investment into higher education and for supplying highly skilled professionals to the labour market. It also incorporates a call for closer cooperation between all the relevant actors: agencies promoting business, chambers of commerce, start-up offices at universities, career services and international offices, etc.

*Making self-employment an attractive option for staying in Germany for non- EU nationals in higher education*

A central obstacle here is that provisions of the current law on aliens have not been translated into administrative regulations, so the responsible officials in the immigration authorities lack legal certainty. An equally important problem is the inconsistency between the procedures for foreigners set by different state governments. These need to be coordinated and aligned. To avoid structural disparities, special attention should be given to application forms and requirements for permission to perform a self-employed activity.

*Interpreting residency law into administrative regulations that adequately foster start-ups*

### Refugees

Measures aimed at raising the number of ad hoc start-ups can -to a large extent- be applied to **refugees**. The Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung; IAB) estimates that by the end of this decade at most only half of all refugees will have found regular employment. Yet, rapid access to work is in many ways the key to social integration. With this in mind, the path to self-employment should be used as a path of integration, especially if it offers refugees a long-term future in Germany's labour market.

*Integrating refugees more quickly into the labour market and supporting start-up plans as an alternative path*

<sup>15</sup> Cf. "Exist goes international" (<http://www.gruenderszene.de/allgemein/exist-goes-international>)

In principle, support schemes are beneficial for all the target groups among the refugees, provided that these are responding to their needs and if these are systematically aligned to enable both forms of entrance into the labour market, i.e. the employment and the entrepreneurship path. This includes arrangements for responding promptly and directly to a refugee's start-up ambitions with easy to understand services (e.g. company visits, design thinking). When it comes to providing further advice and mentoring to refugees interested in starting a business, the key criteria are their residency prospects, their language proficiency and their living situation. At the same time, such schemes must meet the requirements specific to refugees (e.g. include language teaching and seminars on German institutions and customs), while competence assessment instruments, trainings and other measures must be subject to ongoing qualitative improvements.

*Adapting measures to the needs of refugees and driving qualitative improvement*

### **Serial entrepreneurs**

Our understanding of the economic and social importance of start-ups is changing, not only because of the growing number of self-employed migrants but also because employment arrangements are becoming increasingly flexible. This raises questions about sustainability, the start-up culture and, not least, the role of a "culture of failure". Migrant economies generally display high start-up rates along with high failure rates, but an equally important aspect is the high proportion of **serial entrepreneurs**. So we cannot say that a market exit necessarily means a lack of success, since closure may result from the change of entrepreneurial options and strategies. Start-up consultants and finance providers will have to take this trend into account over the medium term when, for instance, assessing business plans.

*Sensitising consultancy and financing institutions to achieve a better understanding of migrant business strategies*

### **Internationalisation**

Small and medium-sized enterprises (SMEs) are also increasingly confronted with international competition and must orient their business models along the lines of globalization. A considerable number of migrant companies have already successfully implemented such strategies. Since migrant ventures are often locally embedded and due to their strong transnational business relationships, migrant enterprises serve as a model for the internationalization of SMEs at the municipal level - with effects on other firms, e.g. this opens up new possibilities for market exploitation, especially for local- and community level markets.

*Recognising at local level that migrant-run businesses can internationalise small and medium-sized business in Germany*

We therefore recommend that steps are taken to establish networks linking local economies with businesses in other countries, for instance through business delegations organised at the local and regional level. The German Delegations of Industry and Commerce could become key partners here, because they are interested in linking German companies internationally, irrespective of whether or not they are being run by Germans or German-based migrants. The international expertise of migrant-led businesses can set an example to others if their achievements are highlighted in public and if they are in a professional process of dialogue with industry representatives, other SMEs and policymakers.

It is therefore important to reach out to internationally aligned migrant-run companies too, offering them support for consolidation where needed and, in this way, securing their expertise. These services have, however, to date only been offered in singular instances (e.g. BIUF in the IQ Landesnetzwerk Brandenburg)<sup>16</sup> and are rarely specifically targeted to the needs of entrepreneurs with a migrant background.

*Integrating migrant-led businesses and employer associations in foreign trade policy*

### **Innovation capacity**

Another aspect that has received little attention in the public discourse is the influence of the personal **diversity** of company managers on **innovation capacity**. Start-ups with mixed teams, i.e. companies jointly run by entrepreneurs with and without a migrant background, engage more frequently in R&D, register more patents and enter the market more often with novel products and services. Where migrants act alone and rely on themselves, they often lack some key information or knowledge about German institutions, which is why start-ups run an entirely migrant management team tend to perform less well. It can therefore make sense to encourage mixed start-up teams that include German entrepreneurs and to provide partnering platforms and matching events for founders. Efforts should also be made to target well-educated and highly skilled migrants with details of the opportunities available in Germany for innovation support. To increase this potential for innovation, entrepreneurs with a migrant background should be helped more effectively to integrate into the German innovation system.

*Fostering diversity in start-up teams through matching schemes*

*Pursuing closer integration of migrant entrepreneurs in Germany's innovation system*

### **Excursus:**

#### **Data availability**

An important prerequisite for unfolding the start-up potential of migrants is the improved availability of data. To generate more knowledge about migrant-led start-ups, improvements are needed in the methods for collecting start-up statistics in Germany (including data extracting a migrant background). The statistics have to be broadened in terms of covering various economic sectors (especially the expanding sector of the liberal professions), and the number of measured indicators have to increase in quantity. The current data situation with regard to migrant-run businesses is exacerbated by the circumstance that it is almost impossible to correlate person-related and company-related data. Researchers also need better and faster access to microdata since the aggregated statistics, as currently compiled, do not allow for strong conclusions.

*Researchers need to access better start-up and migration-relevant microdata and the ability to link person-related with company-related data*

<sup>16</sup> <http://www.biuf.de/foerderprogramm-integration-durch-qualifizierung-iq.html>



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