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Number of start-ups in Germany continues to grow

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Number of start-ups in Germany continues to grow

The number of start-ups in Germany has increased again

The number of innovation- or growth-driven young enterprises (start-ups) in Germany has increased again. In 2018 there were 70,000 start-ups, after 60,000 in the previous year.

The typical traits of start-ups are less common in new businesses founded by women. On average, only three of 100 businesses founded by women have start-up characteristics, as opposed to nine in 100 for men. Female start-up entrepreneurs are thus clearly outnumbered by men.

Businesses founded by women and men differ primarily in how strongly they are innovation- and growth-driven. This explains why there are fewer female start-ups. Suitable measures for closing this gap include, for example:

- stepping up efforts to attract women to engineering and scientific careers,
- anchoring business skills in school curricula and
- addressing women more directly through advisory services.

Start-ups – chances for the economy

Google and Facebook have shown the way: Grow rapidly with new technologies and an innovative business model and achieve a globally dominant market position as a relatively young enterprise, employ thousands of people and be among the world's most valuable companies. Because of these impressive success stories, start-ups are on the economic-policy agenda of most industrial nations. Improving the conditions for the emergence and development of start-ups is intended to unfold their disruptive force in order to break up entrenched structures and make the economy more flexible and, thus, fit for the future.

Bringing more women into the tech ecosystem can create a wave of innovation — one that will change the future and the role of women in it.

Rebecca Kaden¹

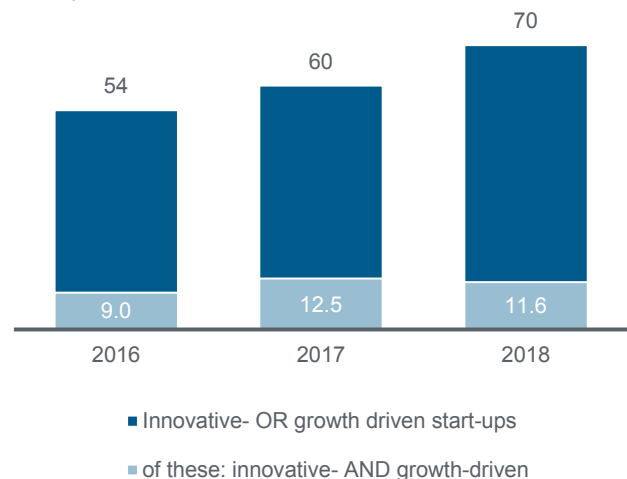
In Germany the number of start-ups – that is, innovation- or growth-oriented young enterprises (see box 'What are start-ups?') – increased again in 2018, reaching 70,000 (Figure 1). With an average team headcount of 1.8, these start-ups are backed by some

129,000 active male and female entrepreneurs. Their characteristics are explored in greater detail in the KfW Start-up Report 2018. For example, they are younger and include more university graduates than other entrepreneurs but, most of all, men are clearly in the majority.²

This phenomenon that female entrepreneurs are clearly underrepresented in start-ups is the subject of particularly frequent debate. The key questions are: why are women so underrepresented and how can this be changed? Finding solutions to these questions is important in order to be able to more effectively harness the employment and innovation potential of start-ups for the economy.

Figure 1: Number of start-ups continues to grow

Start-ups* in thousands



* For start-up definition see box 'What are start-ups?'

Source: KfW Entrepreneurship Monitor.

Women are underrepresented in entrepreneurship – especially in start-ups

First, let's take a look at the facts: The share of women in the labour force (all persons undertaking or searching for paid economic activity) is a good 46%.³ Because women are less likely to pursue self-employment, their share in entrepreneurial activity is smaller compared with their labour force participation. Hence, the share of female entrepreneurs in newly founded businesses was 39% in the years 2016–2018.⁴ The proportion of female entrepreneurs in the number of start-ups across these years, however, is only half that, at 19%. So why is the share of women that much lower, if we shift the focus from newly founded businesses in general to start-ups in particular?

To answer this question, it helps to take a closer look at the criteria that define start-ups (see box ‘What are start-ups?’) and to focus on the ways in which they differ between male and female entrepreneurs. Both female and male start-up founders typically set up their businesses on a full-time basis, have founded their businesses alone or in a team or have employees and are innovation- or growth-driven.

These characteristics appear in varying degrees of intensity in businesses founded in the past three years (Figure 2). Businesses founded ‘from the ground up’ and commercial businesses are the most common, while those driven by innovation are less common. Across the board, however, the various start-up characteristics are less common in new businesses founded by women than in those founded by men. Some of the differences are very significant. Male-founded businesses are more likely to be commercial and full-time, are 1.7 times more likely to have co-founders or employees, twice as likely to be growth-oriented, three times as likely to conduct technological research and development and almost twice as likely to start with a new-to-market innovation at least across Germany. As all these characteristics are less common in businesses founded by women, their share in all newly founded businesses is much smaller. On average over the past three years, some nine in 100 businesses founded by men exhibit the characteristics of start-ups, compared with only around three in 100 for women (Figure 3).

Reinforcing women’s orientation to innovation and growth as an opportunity for change

The characteristics of innovation and growth orientation have a particularly incisive impact on the proportion of female start-up entrepreneurs because that is where they differ most from men. Therefore, these characteristics provide the strongest lever for change. But how can women’s orientation to innovation and growth be strengthened?

Box: What are start-ups?

Start-ups are defined as the active businesses of male and female founders who set them up not more than five years ago, **run them commercially on a full-time basis** (i.e. not as freelancers), have **co-founders or employees** and are **innovation- or growth-driven**. Innovation-driven means undertaking research and development in order to make a **technological innovation** market-ready or at least offer a **new-to-market innovation across Germany**.

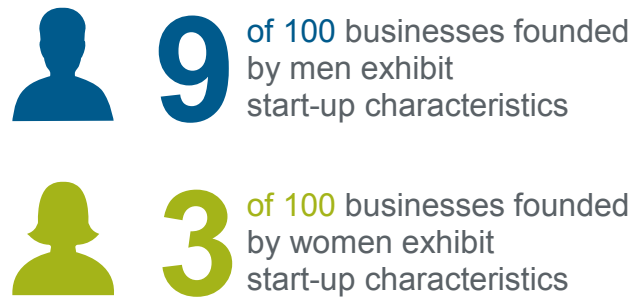
Figure 2: Start-up characteristics are consistently less common in businesses founded by women

Gender	Type of business founded	per cent
Men	Original	78
Women	Original	77
Men	Commercial	79
Women	Commercial	68
Men	Full-time	46
Women	Full-time	36
Men	Co-founders or employees	42
Women	Co-founders or employees	25
Men	Growth-oriented	27
Women	Growth-oriented	13
Men	Technologically innovative	15
Women	Technologically innovative	4
Men	National new-to-market innovation	10
Women	National new-to-market innovation	6

Note: The figures refer to the average number of businesses founded each year in 2016–2018.

Source: KfW Entrepreneurship Monitor.

Figure 3: Start-up characteristics in businesses founded by men are three times more common than in those founded by women



Note: The figures refer to the average number of businesses founded each year in 2016–2018.

Source: KfW Entrepreneurship Monitor.

Innovation orientation is a technology-heavy characteristic. First, it depends on whether a business undertakes technological research and development activities. Second, it depends on whether it offers new-to-market innovations across Germany – which often applies to technological products. However, the extent to which male and female founders are technology-driven is relatively strongly reflected in their educational background. Graduates of STEM degree courses and those with technical vocational training have higher technological affinity than others. These career paths in particular are less popular among women. Therefore,

efforts to attract women to technological and scientific careers, which definitely exist, should be stepped up further.

Growth orientation is also a matter of training and education. Overall, one in five new businesses entertain growth ambitions, which requires confidence in one's own capabilities. The data show this very clearly. People who doubt their business skills are much less focused on growth, whether they are male or female, but the effect is considerably stronger in women. Moreover, women are more likely to question their business skills than men.⁵ But that can be changed, basically by improving the teaching of entrepreneurial knowledge and skills already in the school classroom, something that is being pursued by the **Unternehmergeist in die Schulen** (Getting entrepreneurial spirit into our schools) initiative.⁶ In the long term, this is likely to benefit women most of all, as girls are known to outperform boys at school. But immediate actions can also help, for example in the form of targeted offers of entrepreneurial advice or coaching. Women are more open to advice and targeting advisory services more directly at women could effectively cause them to doubt themselves less.⁷

Investors can also contribute

Being able to access alternative funding sources is very important for start-ups. After all, the more innovative and growth-driven they are, the less suitable

classic debt financing is for them. Loans fit neither their cash flow nor their risk profile. Venture capital, on the other hand, fits very well.⁸

Various studies have shown that female start-up entrepreneurs receive less and lower amounts of venture capital from investors than men.⁹ This is due to a number of different reasons. What many investors do not appear to be aware of is that this means forgoing returns. Venture capital investors should question their current investment behaviour for this reason alone. Besides, improved access to venture capital for women would have a positive impact on the entire start-up community. After all, successful female start-up founders are role models who encourage other female entrepreneurs not to shy away from growth.

Furthermore, female and male entrepreneurs – like other managers with personnel responsibilities – have been shown to prefer hiring people who are like them. Men are likely to hire more men while women are likely to hire more women.¹⁰ This also applies to attributes such as age, educational background, interests etc. When more women work in start-ups, more women can gather experience in start-ups, benefit more from success due to early involvement and, ultimately, become active again in the scene as business angels.

¹ Rebecca Kaden, general partner at Union Square Ventures: **How VC can help more women get ahead**, Harvard Business Review, The Big Idea, Digital Series, 1 October 2019.

² Metzger (2018), **KfW Start-up Report 2018: Number of start-up founders increased to 108,000 in 2017**, KfW Research.

³ Working population aged 18 to 64 years in the year 2018. Men 22.28 million, women 19.46 million, see Federal Statistical Office (2019), **Bevölkerung und Erwerbstätigkeit, Erwerbsbeteiligung der Bevölkerung, Ergebnisse des Mikrozensus zum Arbeitsmarkt** (*Population and employment, labour force participation, results of the Labour Force Survey – our title translation*, in German only), Fachserie 1 Reihe 4.1.

⁴ The share of female entrepreneurs of 39% is roughly equal to the proportion of women who would opt for self-employment if they could freely choose, see Metzger (2019), **Wunsch nach beruflicher Selbständigkeit nimmt ab, Lichtblick durch Jüngere** (*The drive for self-employment is slowing, younger entrepreneurs are a silver lining – in German only*), Focus on Economics No. 261, KfW Research.

⁵ For example Abel-Koch, J. (2014): **Gründerinnen holen auf – Selbständigkeit als Weg in die Erwerbstätigkeit**, (*Female business founders are catching up – self-employment as a pathway to economic activity* - in German only), Focus on Economics No. 71, KfW Research.

⁶ **'Getting entrepreneurial spirit into our schools'** is a group of initiatives brought together under the umbrella of the Ministry of Economic Affairs with the aim of helping young people to develop entrepreneurial skills.

⁷ Metzger (2013), **Guter Rat hilft und muss nicht teuer sein** (*Good advice is helpful and does not have to cost much – in German only*), Focus on Economics No. 28, KfW Research.

⁸ Metzger (2015), **Germany's private equity market lacks venture capital**, Focus on Economics No. 98, KfW Research.

⁹ BCG (2018), **Why Women Owned Startups Are a Better Bet**. British Business Bank (2019), **UK Venture Capital and Female Founders Report**.

¹⁰ West and Sundaramurthy (2019), **Startups With At Least 1 Female Founder Hire 2.5x More Women**, Kauffman Fellows, 17 October 2019.