

# Focus on Economics

No. 39, 18<sup>th</sup> December 2013

## Germany's entrepreneurial culture: strengths and weaknesses

Author: Dr Matthias Bittorf, phone +49 (0) 69 7431-8733 [research@KfW.de](mailto:research@KfW.de)

Germany has been discussing how to promote an entrepreneurial culture since the mid-1990s. Self-employment remains much less common here than in many other highly-developed industrialised nations. Experts often refer to the economy or labour market to explain the paucity of entrepreneurial spirit, but little attention is given to cultural and non-economic considerations. This article focuses on those very factors: we look at policy and cultural issues, such as shifting values, public perception of self-employment and entrepreneurs, and the scope for improving the culture of entrepreneurship, particularly within the education system.

### What do we mean by an entrepreneurial culture?

The concept appears self-explanatory, and is often used yet rarely defined. The term is intended to evoke entrepreneurial skills such as proactiveness, risk-taking, perseverance and a sense of responsibility. The idea is to make the comparison with an employee mindset or a society with little capacity for innovation or creativity. Academics talk about "social, economic and political factors"<sup>1</sup> that encourage entrepreneurship, and which can be fostered to promote or enhance entrepreneurial spirit.

### Why is an entrepreneurial culture so important for the economy?

Self-employment and entrepreneurship are essential characteristics in highly-developed pluralist societies, but are found to varying degrees in different countries.

There is usually a positive correlation be-

tween a high proportion of start-ups, above-average economic and employment growth in industrialised countries, and low unemployment. A more widespread and growing culture of self-employment generates new jobs, products and services. Appropriate levels of entrepreneurial activity also boost competitiveness and thus improve national productivity.

On balance, the whole population benefits from an entrepreneurial spirit, which goes hand in hand with independence, proactiveness, appetite for risk and inspiring others. Self-employment is therefore a vital ingredient for maintaining and promoting social stability.<sup>2</sup>

Self-employment is also good news for the individual. On average, self-employed workers earn more than employees and their satisfaction levels are higher.<sup>3</sup> Entrepreneurial spirit is generally seen as being a very good way of gaining control over one's life and achieving success, particularly as many job descriptions have evolved independently of the notion of entrepreneurship.

### What defines Germany's entrepreneurial culture?

The number of self-employed persons in Germany was in decline for several decades. Back in 1950, 15% of the active population was self-employed, but that figure fell to its lowest level in 1991, at just 9.2%. The trend reflected the strong structural decline of agriculture in the 1950s and 1960s.

Unemployment in Germany rose sharply in the mid-1990s, highlighting the country's lack of innovation and waning competitiveness (relocation of production). In

response, industry and politicians began to highlight the urgent need to develop an entrepreneurial culture. Demonstrating how topical the issue had become, the German Federal President Roman Herzog argued that society had become "paralysed"<sup>4</sup> and diagnosed a "loss of economic dynamism". In his keynote address in Berlin in 1997, the Federal President asked "how can we persuade more people that self-employment could be an option for them?"

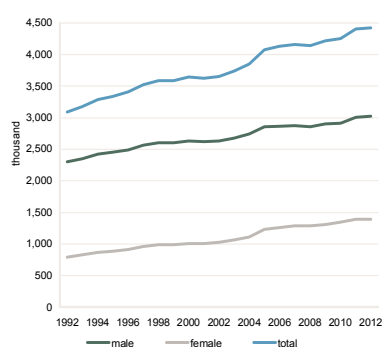
Since then, the climate has become more conducive to start-ups,<sup>5</sup> as German industry can confirm. Politicians pushed through a policy on start-ups and defined targets intended to raise the proportion of self-employed workers. The concept of entrepreneurship has garnered more attention in universities. Research into business start-ups has expanded dramatically since 1998, when German universities first created professorships in entrepreneurship. Around 100 universities now have academics who focus on entrepreneurship. A prime example of this trend is the EXIST programme set up by the Federal Ministry of Economic Affairs and Technology with a view to promoting entrepreneurial spirit in higher education. The number of national and regional projects for economics education in schools rocketed – projects such as "Jugend gründet" (Young people start up). The number of pupil-run companies also expanded. The number of self-employed persons in the active population rose consistently and sharply (see figure).

In 2012, self-employment was the main paid occupation for approximately 4.4 million people in Germany.<sup>6</sup> The figure represented an increase of roughly 42%, or 1.3 million, compared with 1992. Over the period, the number of self-employed women (1992: 791,000; 2012: 1.4 million) rose faster than for their male counterparts (2.3 million; 3 million), but women were still in the minority. In 1992, women made up 25.6% of all self-employed persons, compared with 31.7%

in 2012.

However, the experts caution against resting on our laurels: despite exemplary national promotion schemes for start-ups, Germany still ranks as below-average in international comparisons.<sup>7</sup> Entrepreneurial spirit in Germany still qualifies as too low: in 2012, the number of persons entering into self-employment even reached a new record low.<sup>8</sup> At best, there are the beginnings of a sustainable entrepreneurial culture with widespread effects.<sup>9</sup>

**Figure: Self-employment in Germany 1992–2012, total and by gender**



Source: Destatis.

The problems caused by low levels of entrepreneurship are currently reflected in the increasing succession planning difficulties experienced by German SMEs. Despite strenuous efforts by e.g. chambers of industry and commerce and others, not so optimistic reports are usual. According to a study by the Association of German Chambers of Industry and Commerce (DIHK), in 2010 alone, around 1,800 companies in Germany accounting for more than 23,000 jobs had to close because no one could be found to take over the company.<sup>10</sup> The situation has deteriorated further since then, with growing numbers of older company owners struggling to find young entrepreneurs willing to take over the reins.<sup>11</sup>

Alongside this demographic trend, home-grown problems are blamed for Germany's consistently mediocre ranking, notably the absence of economics in the secondary school curriculum. In the past, the subject was not a priority, as demonstrated by the fact that some regions of Germany withdrew economics from the

list of subjects available on the teacher training syllabus in the 1980s and beyond. As a result, very few of the current generation of teachers have any formal training in this field,<sup>12</sup> with many teachers now teaching economics despite having never studied the subject at university.

### How does the culture of entrepreneurship differ in other countries?

Germany has worked hard to build up a lively entrepreneurial culture in recent years, but there is still much more to be done. The Anglo-sphere is currently home to many of the best examples of entrepreneurial cultures. That said, European countries such as the Netherlands, Austria and Sweden are also ahead of Germany. According to experts, cultural attitudes are as much a factor as economic considerations: the dominant image of entrepreneurs in any society will influence an individual's willingness to set up a new business. If entrepreneurs and entrepreneurship are always presented in a critical light, then start-up activities may be curtailed, even if prospective entrepreneurs have no personal prejudices against entrepreneurship.<sup>13</sup>

The findings of the Global Entrepreneurship Monitor (GEM), the world's leading research project on start-up activities in over 30 countries, reveals that among successful start-up countries like the United States, Singapore, and even our neighbours in the Netherlands, entrepreneurs have a positive image and are respected.<sup>14</sup> The prevailing social values and norms in these countries are particularly conducive to a vibrant start-up culture: values such as an emphasis on the individual's responsibility for shaping his or her destiny, and rewarding proactiveness, risk-taking, creativity and innovation. Germany, in contrast, is lagging behind in these areas. In addition, Germany has no substantial advantage over any of the other 22 industrialised nations surveyed in terms of other start-up friendly values.<sup>15</sup>

There is a correlation between values and attitudes in these successful countries and start-up rates. For example, the start-up rate in the USA is twice as high as in Germany (see footnote 7).

### Social success factors

One key aspect to the success of countries with high self-employment rates is the attitude to failed business start-ups. In Germany, failure is usually accompanied by a loss of social status, whereas North America has a strong culture of giving it another shot. There is no stigma attached to a failed business start-up. Creating a company and being forced to close it is viewed as something that happens. The multitude of role models include Henry Ford, who only succeeded in making his Ford Motor Company a global success on the third attempt.

Anglo-sphere countries tend to have more individualistic social models. Responsibility for one's own destiny is seen as incredibly important, based on the liberal ideal of autonomy. This social climate encourages entrepreneurship and provides a fertile breeding ground for start-ups.

### What factors could be behind Germany's weaknesses?

We have touched on the lack of acceptance for entrepreneur-friendly values in Germany, which reflects a broad mix of contributing factors.

### Cultural issues

Anglo-sphere countries, but also the Netherlands and Switzerland, are still influenced by Calvinist thinking. Max Weber's work significantly influenced and revitalised elements of Calvinism and the protestant work ethic in the 18th century. In Calvinism, hard work, a constant, structured profession, and the ensuing economic gain are deemed an end and virtue in themselves. Max Weber argued that this was a major contributing factor in the rise of the "spirit of capitalism".

Calvinist attitudes were and are very strong throughout North America, which has benefited entrepreneurship. In contrast, writing about German society, the Austrian economist Joseph Schumpeter described "large groups [as being] sceptical about or completely rejecting [...] entrepreneurs, an attitude that extends far beyond Socialist circles, and is common to almost all intellectuals".<sup>16</sup> Elements of this mentality are still apparent in modern surveys about the perception of entre-

preneurs (see footnote 19).

**The education system needs to step up to the mark**

An entrepreneurial culture and entrepreneurship are also conveyed in school. Advocates of more economics in the secondary school curriculum point out that economics and financial education can be the key to a better understanding of the world – particularly in the current climate – and therefore should be included in the secondary school curriculum.

This runs counter to the humanist traditions on which the German education system is based. Particularly in secondary schools, there have been and still are objections to making economics a compulsory subject solely on the grounds that it is purely "practical". These objections stem from neohumanist education ideals. The education model developed by reformers Wilhelm von Humboldt and Friedrich Schleiermacher and others is designed to provide an all-round education, in which learning is focused on developing the individual's intellectual and emotional capacities, and ability to understand the world. This model has been put into practice in the humanist German grammar schools. Less idealistic educational concerns such as the transfer of knowledge and usefulness were originally not deemed important, which goes some way to explaining the absence of economics in secondary school curricula.

**How shifts in social values have affected attitudes to work and productivity**

It is also important to remember that Germany had experienced a value shift by the 1970s, as had many other developed nations, with the emphasis moving away from personal choices designed to maximise financial gain, and instead focusing on quality of life and personal fulfilment. As a result, leisure time became more important.

The value shift naturally also affected education methods. New generations of teachers considered achievement to be a secondary concern. The importance attached to economics in general has declined over the last twenty to thirty years.

**The image of economics teaching – could do better**

The media and academics could contribute to a shift in attitudes and promoting a culture of entrepreneurship. Entrepreneurs enjoy greater autonomy at work than employees and have the opportunity to realise their own business ideas with creativity. More flexible working tends to offer greater satisfaction. Around 11% of the population have chosen this working model, from booksellers to tradesmen to lawyers, and can all testify to the benefits. However, objective media reporting also needs to reflect the downsides of self-employment – such as long working hours for many.

**Public perception of self-employment and entrepreneurs**

It is no surprise to learn that entrepreneurs do not have a very positive image in Germany. The dividing line between managers and entrepreneurs has always been blurred. Critics – quite rightly – still highlight the marked lack of qualified economics teachers in the education system.<sup>17</sup> If we look at German society as a whole, however, the image of the entrepreneur is not dreadful – but at best mixed. In various regular opinion polls on the social status of certain occupations, entrepreneurs rarely rank higher than middle of the field.<sup>18</sup>

**How can Germany tap into the opportunities offered by self-employment?**

Any analysis of the opportunities offered by self-employment needs to start with a review of the current situation to determine the main obstacles to new business creation, and how they can be eliminated. As in previous years, the GEM results reveal that positive factors in Germany include the physical infrastructure, availability and quality of government incentives, intellectual property rights, the number of advisors and suppliers, and positive perception of innovative products among businesses and consumers alike (see table).

However, Germany does score poorly as a location for new businesses when it comes to regulation, taxes and labour market rules. Germany also falls short on other factors which impact the political and cultural issues covered in this article: prevailing social values and standards,

but especially the failure of schools to cultivate entrepreneurship (extra-curricular activities do better: see table).

Aside from its exceptional promotion schemes, in international league tables, Germany only scores highly for criteria which have a limited impact on entrepreneurial activity (see table).

**Table: Main obstacles and facilitators and their significance in Germany**

Economic factors		A	B	C
Physical infrastructure	(+0.90)			
Public promotion schemes	(+0.57)	X		68.3 %
Intellectual property rights (patents, etc.)	(+0.53)			
Corporate perception of innovative products and services	(+0.49)			
Advisors and suppliers for start-ups	(+0.39)			
Consumer perception of innovative products and services	(+0.32)			
Financing	(-0.09)	X	31.6 %	
Market growth	(-0.09)			
Policy priorities and commitments	(-0.10)			
Barriers to market access	(-0.14)			
Extra-curricular entrepreneurship education	(-0.17)	X		
Regulation, tax	(-0.23)		40.0 %	
Knowledge and technology transfer	(-0.24)	X		
Social values and standards (culture)	(-0.28)	X	35.0 %	
Labour market	(-0.35)	X		
Entrepreneurship education in schools	(-0.92)	X		

**A** Importance of parameters: the experts surveyed ranked these parameters as particularly important.

**B** Main obstacles: these parameters were seen as particularly negative by at least 30% of the experts surveyed. The figure shown indicates the percentage of those surveyed who believe that the factor actively restricts the development of new business activities.

**C** Facilitators: these parameters were seen as particularly beneficial by at least 30% of the experts surveyed. The figure shown indicates the percentage of those surveyed who believe that the factor effectively promotes the development of new business activities.

Source: GEM expert survey 2012.

The secondary school curriculum achieves a very disappointing score, yet is deemed a key factor. This is all the more significant in that Germany has consistently achieved low results for this criterion, although changes to the school curriculum could be made in a fairly short space of time.

In the wake of the financial crisis, there has been a growing awareness that the average secondary school pupil should not be "illiterate in economics" when they leave school.<sup>19</sup> However, the GEM survey results clearly indicate that education with regard to literacy in economics in German schools has a great deal of catching up to do.

**Entrepreneurship education: a fundamental approach to economics teaching in schools**

Entrepreneurship education – equipping children with entrepreneurial knowledge and skills – has been identified as the most important ingredient for the Ger-



man education system when it comes to developing entrepreneurship skills as part of the school curriculum. Firstly, at the broadest level, this means creating mature economic citizens, who are equipped to manage their day-to-day finances as a consumer, employee, and so on. The concept also seeks to make adolescents aware of the skills and knowledge needed to be an entrepreneur: an understanding of basic economics and financial relationships with reference to real-life situations – for example, through companies run by pupils. Commercial considerations and decision-making situations are presented from the perspective of an entrepreneur. The educational approach also develops key entrepreneurial traits such as a sense of responsibility, perseverance and discipline. Overall, the model emphasises that being an entrepreneur is a viable career path and an alternative to traditional employment.

The educational model has been translated into reality through a wide range of projects, from companies set up within schools to nationwide competitions such as "Jugend gründet" and the German prize for young entrepreneurs (Deutsche Gründerpreis für Schüler). However, there is no clear thread linking all the many activities and projects undertaken to date, nor any long-term view. Many initiatives are one-offs with no spillover benefits.

### Is making economics a separate compulsory subject at school the way forward?

According to the German Ministry for

Economic Affairs, the key to encouraging more people to consider becoming an entrepreneur and striking out on their own is establishing "sufficient entrepreneurial skills and knowledge within the population".<sup>20</sup> If this is true and if we assume that a grasp of basic economics is also essential for new start-ups to survive, then a general-education schools have a duty to provide a broad and effective grounding. That means providing an introduction to subjects like business management, labour relations, HR, business organisation and so on.

Making economics a separate curriculum subject taught by teachers with a respective qualification, with more compulsory teaching hours, could significantly improve entrepreneurship education.

Economics lessons could focus on the needs of future entrepreneurs: many self-employed workers say that an understanding of business management is very important when starting out. At the moment, many individuals abandon start-up plans because they realise that they do not have a solid grasp of business management.<sup>21</sup>

There is a lot of catching up to be done through a major push to develop economic skills. A recent survey of schoolchildren revealed that the majority – 76% in 2012 – wanted more teaching time to be dedicated to finance and economics.<sup>22</sup> A study of school entrepreneurship education projects found that a clear majority of teachers also wanted economics to be a separate subject.<sup>23</sup>

If economics is to become a standalone

subject, then curricula and teaching materials need to be created with an eye to addressing concerns raised by opponents. Critics argue that the subject could end up focusing solely on homo economicus and would simply parrot established economic concepts, rather than promoting thought and discussion about the social and political considerations. Controversial economic and political issues should be presented as such in the classroom and textbooks.

### Need for positive input from industry

The value of input from local businesses and industry should not be overlooked. Entrepreneurs need to promote their chosen career path. A successful role model is often more effective than dry theory. Entrepreneurs and self-employed persons are ideally positioned to paint a realistic picture of the world of work and self-employment. There are myriad ways for entrepreneurs to present their viewpoint, from company open days to contributing to careers advice services.<sup>24</sup>

The three-way combination of structured entrepreneurship education in general-education schools and vocational training colleges, more effective recruitment by entrepreneurs to attract the next generation, and more sophisticated, balanced media coverage of self-employment issues could certainly help to create a stronger entrepreneurial culture in Germany. ■

<sup>1</sup> See Ebbers, I. and R. Klein, "Entrepreneurial culture" (*Kultur der unternehmerischen Selbstständigkeit*), in *Aus Politik und Zeitgeschichte*, 12/2011, pp. 28 ff.

<sup>2</sup> See Döring, V. "Improving the motivation for and information about self-employment" (*Verbesserung der Motivation und Wissensvermittlung zur Selbstständigkeit*), Lang, P., Frankfurt am Main, 2001, p.1.

<sup>3</sup> This is an issue that is rarely examined. See Schneck, S. "Why the self-employed are happier: evidence from 25 European countries", in *Journal of Business Research*, 2013. For more information on income among entrepreneurs, see Metzger, G. and K. Ullrich, "Start-ups hit rock bottom - no prospect of improvement" (*Gründungs-geschehen auf dem Tiefpunkt - kein Anstieg in Sicht*).

<sup>4</sup> Herzog, R. "Moving into the 21st Century", Berlin, 1997, [http://www.bundespraesident.de/SharedDocs/Reden/DE/Roman-Herzog/Reden/1997/04/19970426\\_Rede.html](http://www.bundespraesident.de/SharedDocs/Reden/DE/Roman-Herzog/Reden/1997/04/19970426_Rede.html) (German only).

<sup>5</sup> See Knischewski, D. and R. Zedler, "Entrepreneurial spirit in schools" (*Unternehmergeist in der Schule*), Thema Wirtschaft No. 89, Cologne Institute for Economic Research, 2004.

<sup>6</sup> German Federal Statistical Office: GENESIS online database.

<sup>7</sup> See Global Entrepreneurship Monitor (GEM), Total early-stage entrepreneurial activity in GEM countries, National Report: Germany, Hannover, 2013, p. 9.

<sup>8</sup> See Metzger and Ullrich, *ibid*.

<sup>9</sup> See Ebbers and Klein, *ibid*.

<sup>10</sup> <http://www.dihk.de/presse/meldungen/2011-10-14-nachfolgereport-11> (Germany only)

- <sup>11</sup> See "Ever more companies faced with falling numbers of successors; DIHK report on business succession 2013" (*Immer weniger Nachfolger für immer mehr Unternehmen: DIHK-Report zur Unternehmensnachfolge 2013*).
- <sup>12</sup> Döring, V., *ibid.*, pp. 60 ff.
- <sup>13</sup> See Etzioni, A. "Entrepreneurship, adaptation and legitimation: a macro-behavioral perspective", *Journal of Economic Behavior and Organization* (1987), vol. 8, pp. 175–189.
- <sup>14</sup> See Global Entrepreneurship Monitor (GEM), *ibid.*, p. 22.
- <sup>15</sup> *Ibid.*
- <sup>16</sup> Schumpeter, J. "The entrepreneur in the modern economy" (*Der Unternehmer in der Volkswirtschaft von heute*), in *Strukturwandlungen der Deutschen Volkswirtschaft*, Vol. 1, Harms, B. (ed), Berlin, 1928. Quoted here from the First Röpke Symposium, "The image of the entrepreneur in the social market economy" (*Das Unternehmerbild in der Sozialen Marktwirtschaft*), Düsseldorf, 14 August 2008, p. 16.
- <sup>17</sup> Mey, H. "Economic education in general education" (*Ökonomische Bildung als Allgemeinbildung*), in *Aus Politik und Zeitgeschichte* 12/2011, p. 3.
- <sup>18</sup> See regular surveys on the prestige and image of certain occupations published by the Allensbach and Forsa polling companies.
- <sup>19</sup> See Economics lesson: the clueless generation (*Wirtschaftsunterricht: Die Ahnungslosen*), *Die Zeit*, 24 February 2013, No. 08.
- <sup>20</sup> See German Ministry of Economic Affairs and Technology, *Entrepreneurial Germany: creating an entrepreneurial spirit and promoting start-ups (Gründerland Deutschland Unternehmergeist wecken - Gründungen unterstützen)*, Berlin, 2011, p. 7.
- <sup>21</sup> See KfW Start-up Monitor 2011.
- <sup>22</sup> Association of German banks, *Survey of young people (Jugendstudie)* 2012.
- <sup>23</sup> See German Ministry of Economic Affairs and Technology, *Entrepreneurship in schools? Conclusions of the Inmit review of entrepreneurship education projects in German schools (Unternehmergeist in die Schulen?! Ergebnisse aus der Inmit-Studie zu Entrepreneurship Education-Projekten an deutschen Schulen)*, Berlin, 2010, pp. 45 ff, but especially p. 50.
- <sup>24</sup> For more information on this issue, see Döring, V. *ibid.*, pp. 349 ff.