

»» Migrants have more and larger start-ups: more hours a week, more employees

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Each year, some 170,000 migrants venture into self-employment in Germany, representing roughly one in five start-up businesses. In relation to their share of the population, migrants have been more active entrepreneurs than average for years. The decisive factor is the unusually high entrepreneurial drive of university graduates.

The flipside of the higher start-up rate among migrants is an equally higher abandonment rate. Both are due to migrants' high labour market dependence. Migrants are more likely to start a business for lack of income alternatives – and they are more likely to quit their project when an attractive job opportunity presents itself.

Overall, however, migrants still make an above-average footprint on the start-up landscape. Not only do they start a business more often, but also on a larger scale. Migrants invest more hours a week in their start-up projects, both in full time and on a part-time basis. Besides, they are more likely to start up in a team and create more jobs.

Another specific difference is how they finance their start-ups. While migrants use external funds as often as other entrepreneurs and their amounts are in line with the average, they come from different sources: Migrants are less likely to use bank loans to fund their projects and more likely to use drawdown facilities and money from friends and relatives.

Lively start-up activity makes an economy stronger as new businesses generate competitive pressure. From 2009 to 2015, around 850,000 new businesses were founded on average each year in Germany. That was 400,000 fewer each year than on average for the previous seven years (2002–2008). The subdued start-up activity of the recent past is a side-effect of the favourable labour market development. Given the good job prospects, many potential entrepreneurs shy away from self-employment.

Six million start-ups in Germany since 2009, one in five by migrants

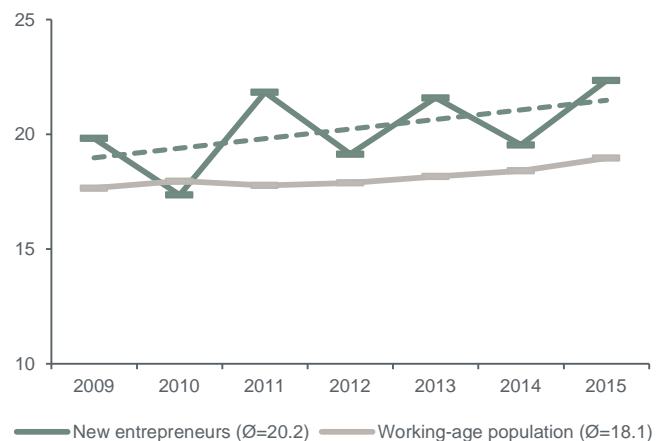
Migrants are a population group that makes a special contribution to start-up activity in Germany. On average, there are currently about 170,000 migrant start-ups per year. Of the six million businesses founded between 2009 and 2015, 1.2 million start-up projects were launched by migrants (that is, foreign-ers or naturalised persons).

Start-up rate among migrants above average and rising

This illustrates that migrants venture into self-employment more often than average. They make up 20% of entrepreneurs but only 18% of the total population. The importance of migrants for start-up activity in Germany grew during the period under review. The proportion of migrants among entrepreneurs even rose at a slightly higher rate than the underlying share of the population (Figure 1).

Figure 1: Migrants are more entrepreneurial than average

Migrants as a percentage of entrepreneurs and working-age population (18–64 years)



Note: Migrants are defined as persons who do not have German citizenship or not from birth.

Data source: KfW Start-up Monitor

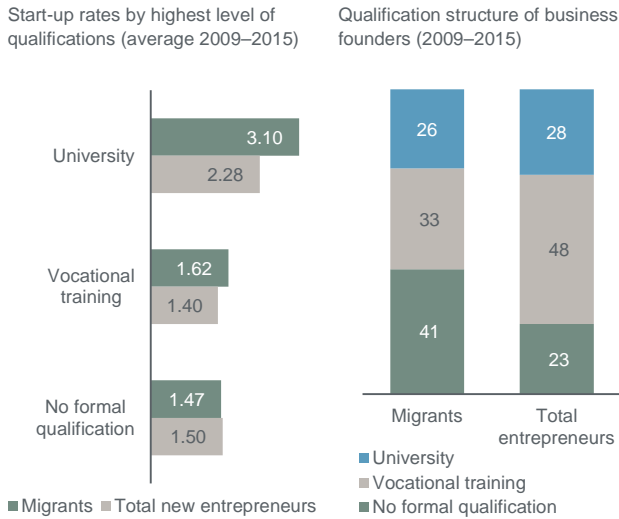
The above-average start-up activity of migrants is also reflected in their start-up rate, the proportion of new entrepreneurs each year in the working age population (between 18 and 64 years). On average for the years 2009 to 2015, migrants' start-ups are significantly above the overall rate, at 1.77% vs. 1.60%. Not only do migrants have a higher drive to start a business; their projects also differ from average start-ups in a variety of ways. They are presented in this paper, which is based on representative data of the KfW Start-up Monitor.

Start-up rate among graduates is higher – particularly among migrants

One aspect that clearly sets migrants apart from average entrepreneurs is the very strong entrepreneurial drive of graduates. In general terms, it is true that university graduates are more likely to start their own business. Their start-up rate was 2.3% on average between 2009 and 2015 while that of non-graduates was only 1.4%. But the difference is

much more pronounced in the migrant cohort, with 3.1 % of graduates founding their own business (Figure 2, left). The start-up rate of migrants with vocational qualifications is also above average, but the particularly entrepreneurial graduates ultimately make the difference.

Figure 2: Graduates are more entrepreneurial, but there are fewer of them



Data source: KfW Start-up Monitor

Contrasting with graduates' entrepreneurial drive, however, there are fewer graduates among migrants overall than in the total working age population, 15% as opposed to 20% (on average of the years 2009–2015). As a result of this effect, the share of graduates among migrant start-ups is actually slightly lower (26 vs. 28%; Figure 2, right).

As yet – because the general trend towards tertiary education is just as pronounced among migrants as it is in the overall population. From 2009 to 2015, the period under review, the share of graduates rose in both groups: from 17 to 22% in the overall working age population and from 11 to 18% among migrants. With the entrepreneurial drive of graduate migrants remaining on the same high level, that will raise their contribution to start-up activity in the long term.

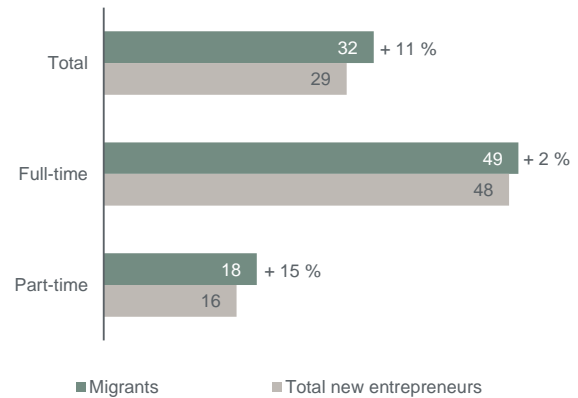
Hitting the ground running: more full-time start-ups, more hours a week

Another difference to the remaining start-up activity is that migrants tend to start their business on a full-time basis. On average for the years 2009 to 2015, 42% of all new businesses in Germany were full-time start-ups. Among migrants, however, the share was 47%, or nearly half. In the past years, full-time start-ups have declined overall (owing to the labour market), with full-time start-ups dropping to just 37% in 2015. Migrants closed in on the total average from the top, with only 39% of them founding a full-time business in 2015. Whether this convergence is a long-term trend remains to be seen.

Migrants invest more working hours into their start-up projects, averaging 31.9 hours a week compared with 28.7 hours put in by an average new entrepreneur. That is 3.2 weekly hours or 11% more (Figure 2). The difference is only partly attributable to the higher rate of full-time start-ups. Within the cohort of part-time business founders, migrants work two and a half hours more each week (18.1 hours compared with 15.7 overall). In the group of full-time entrepreneurs, migrants also work more than the average, but only slightly (49.0 hours as opposed to 47.9).

Figure 3: Migrants work more hours

Average hours worked by migrants per week (2009–2015)



Data source: KfW Start-up Monitor

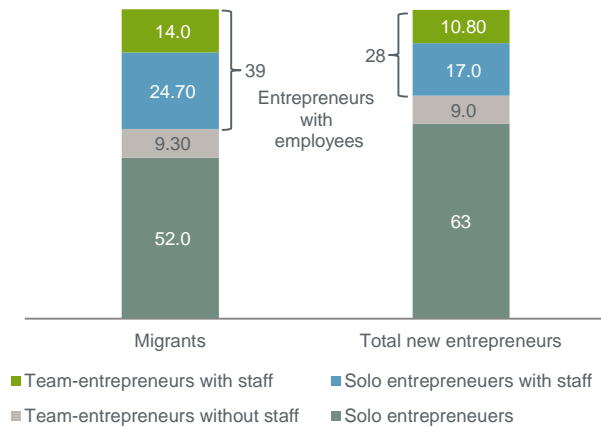
Fewer solo start-ups: migrants are more likely to start as a team and with staff

Migrants generally pursue their start-up projects more aggressively. This applies not just to the decision between full-time and part-time work, but also to the higher number of weekly working hours. They also involve more persons, with only around half of migrants (52%) starting a business alone and the other half with partners and/or employees. The share of solo entrepreneurs in the overall start-up landscape is significantly higher, at 63% (Figure 4).

For one thing, team start-ups in which two or more entrepreneurs pool their talents and resources are slightly more common among migrants (23% compared with 20% on average for the years 2009–2015). For another, a large proportion of migrant entrepreneurs, 39%, have employees – and this difference is particularly striking. The share of employers in all business start-ups is much lower (28%).¹ One reason is that migrants take over existing businesses or acquire an interest in them slightly more often.² But even if we look only at new entrepreneurs, migrants are more likely to have employees (33% vs. 23% on average for all new entrepreneurs).

Figure 4: More employees, more co-founders

Percentage of entrepreneurs with employees/team partners (2009–2015)



Data source: KfW Start-up Monitor

Start-up funding: similar levels but different sources

In many aspects, the funding of migrants’ start-ups reflects the average. This is particularly the case for the proportion of entrepreneurs who use no external funds at all (30 vs. 32%), only their own funds (47 vs. 46%), or funds from external providers of capital (23 vs. 22%). The levels of external funding also match those of the average entrepreneur (Figure 5, left).

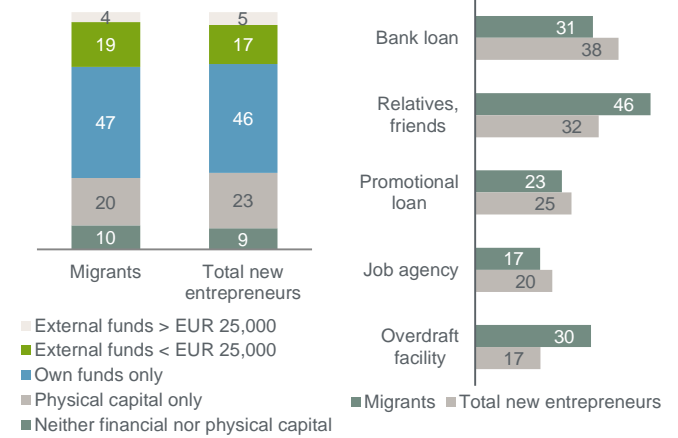
However, the funding of migrant start-ups does present a peculiarity: the composition of external funds from the various sources. First, migrants rely on their personal networks much more often, with almost half using money from family members, friends or acquaintances to fund their start-ups. Among all business founders in Germany, on the other hand, only one in three rely on funding from their personal networks (Figure 5, right).

Second, their use of credit is different. Migrants use overdraft facilities much more regularly (29 vs. 16% on average) and bank loans less often. This trend towards costly overdraft facilities may indicate limited access to credit, for example because language barriers hamper negotiations. Another explanation may be information or planning deficits due to insufficient financial literacy. In fact, KfW Research empirically demonstrated two correlations in previous studies. First, entrepreneurs with weaker financial literacy generally use unfavourable funding sources such as overdraft facilities more frequently. Second, migrants among entrepreneurs have below-average financial literacy.³

Figure 5: Migrants use different funding sources

Types of funding in percent (2009–2015)

Percentages of external funding sources (2009–2015)



Data source: KfW Start-up Monitor

Box: Female migrant start-ups: typically female, typically migrant?

For years, the female share of migrant start-ups was around one third, significantly below that of all start-ups (of around 40%). Since 2014, however, it has risen to 43–44% and thus matches the average. Women are thus underrepresented in migrant start-ups – but not more or less than women in start-up activity overall.

Start-ups of female migrants have familiar female start-up characteristics⁴ but also characteristics of migrant start-ups. In addition to a lower entrepreneurial drive, ‘typically female’ characteristics include a below-average number of weekly working hours (25 vs. 29 hours on average for all entrepreneurs) and a focus on the personal services sector (43 vs. 29%). ‘Typically migrant’ characteristics include start-ups with employees, where female migrants are in line with the average of all entrepreneurs with an employer share of 28% – and thus clearly above the level of female business founders overall (20%).

A notable characteristic of female migrants is that they very rarely start a business from previous employment. Two factors come into play here: they start from unemployment more frequently, as do male migrants (16%), and they were more often economically inactive before they founded their business, as were other women as well (27%), that is, neither employed nor in search of work. That fits with the proportion of necessity start-ups, which at 41% is even higher than it is for migrants already.

Risk of aborting is higher among immigrants ...

By far not all business founders can (or want to) establish themselves in the market. After a year, 12% of start-up projects are abandoned again, and after two years 22% (Figure 6). Calculated in regression analyses of the KfW Start-up Monitor, this failure rate is significantly higher among migrants. In the first year, 16% abandon their business and after the second year, that share rises to 30%.

It follows from this (for a theoretical cohort of business founders) that the proportion of migrants is higher than average because of their high start-up rate but drops off over time because of failures. Both effects balance each other out after two years so that the proportion of migrants in business founders matches that of the general population.

... owing to labour market dependence

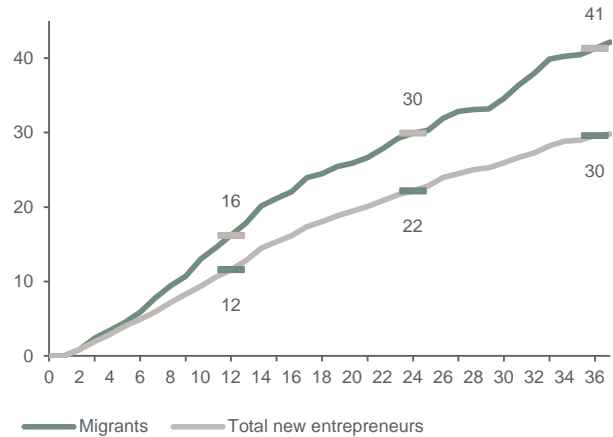
Why do migrants abandon self-employment again more frequently? The main reason is that they are even more dependent on the labour market for their start-up activity than for gainful activity in general. They often start a business from unemployment and/or lack of income alternatives. Known as necessity entrepreneurs, they also abandon their project sooner once an attractive job offer presents itself.

Other determinants include statistically demonstrated risk factors that are more pronounced among migrants, such as their below-average age, their focus on the trade sector and more frequent funding difficulties. In regression analyses conducted under the KfW Start-up Monitor, these factors combined statistically explain most of the higher risk of failure.

The multivariate analysis also showed that migrants with a university degree have a significantly reduced risk of failure. This is a peculiarity because the level of qualifications generally does not play a major role for the survival rates of business start-ups. The results show that in the first year migrants with a university degree at least do not abandon their start-ups more often than other graduates.

Figure 6: Migrant start-ups have lower survival rates

Kaplan-Meier estimates of the likelihood of failure of start-up projects in the first three years.



Data source: KfW Start-up Monitor

Conclusion: Migrants make a large footprint on the start-up landscape – graduates play a crucial role

Migrants venture into self-employment more often but also abandon their start-up projects more frequently. This momentum in both directions results from their particularly strong labour market dependence. On balance, the high start-up rate and the equally high failure rate balance each other out over time.

Apart from this, migrants also make a long-term footprint on the start-up landscape that is larger than average. They start more full-time businesses than average and invest more working time in their projects. They also tend to have more employees and team partners – their start-ups are larger.

Migrants with university degrees merit particular attention. Not only is their start-up rate particularly high; their failure rate is comparatively low as well. Education appears to pay off. Although the proportion of graduates in the migrant population is still below average, the general trend towards academic education – as well as skilled migration – gives hope that in future migrants will make an even greater contribution to boosting start-up activity in Germany. ■

¹ Migrant start-ups involve contributing family members more often (17% compared with 12% of all start-ups), but not at a disproportionately high rate: of the entrepreneurs who have employees, a good 40% have contributing family members overall and in the migrant cohort.

² With 29% takeover and co-founder entrepreneurs in the years 2009 to 2015, they are slightly but statistically significantly above average (27%).

³ Cf. Leifels, A. and G. Metzger (2015), Financial literacy helps with business start-ups: easier, better funded, more competitive, Focus on Economics No. 107, KfW Research, Frankfurt am Main; Metzger, G. (2015): Migrants are more active entrepreneurs – mostly as a result of labour market conditions, Focus on Economics No. 115, KfW Research, Frankfurt am Main.

⁴ Cf. Abel-Koch, J. (2014): Gründerinnen holen auf – Selbstständigkeit als Weg in die Erwerbstätigkeit, ('Female business founders are catching up – self-employment as a pathway to economic activity' - in German), Focus on Economics No. 71, KfW Research, Frankfurt am Main.