

»» Start-up location Germany: fear of failure could be countered with better economic education

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Germany is a good location for start-ups and should be strengthened further. Economic policy has long sought to relieve founders of their fear of failure. After all, this fear is stronger among business founders in Germany than elsewhere, even if it is declining. Fear of failure is mostly driven by fear of financial burdens and less by fear of stigmatisation, as is often assumed. Stigmatisation of failed entrepreneurs does occur in Germany but not as a broad social phenomenon. Fear of stigmatisation may prevent failed entrepreneurs from working through their mistakes and inadequacies. Tackling them, however, is necessary if they intend to learn from them and build their entrepreneurial skills.

Improving entrepreneurial education should generally be a major concern of economic policy. This is where Germany lags far behind other countries, thus hampering the emergence of urgently needed young entrepreneurs. Enhanced entrepreneurship training can also help to win over more female entrepreneurs, as women tend to be more concerned about not having entrepreneurial knowledge and skills.

Labour market main reason for low start-up activity – start-up location needs to be strengthened nonetheless

Start-up activity has been declining in Germany for years, primarily due to the unusually long employment boom. The trend in job vacancies is almost a mirror opposite of annual start-up figures. Still, efforts should be made to strengthen Germany further as a start-up location, which is good but has upside potential.¹ The Federal Government has responded with its 'GO!' start-up campaign ('*Gründungs-offensive*', in short 'GO!').² 'GO!' is a package of propositions, including the expansion of certain instruments that promote start-up finance but also more challenging undertakings, such as strengthening start-up culture in Germany. The latter includes establishing positive attitudes to learning from errors and opening up new prospects after failure, as well as improving knowledge on the topics of founding a business, start-ups and entrepreneurship in society.³ These aspects of start-up culture are often addressed. But what this culture looks like in Germany is still very rarely the topic of in-depth discussion. We therefore explore it in more detail below.

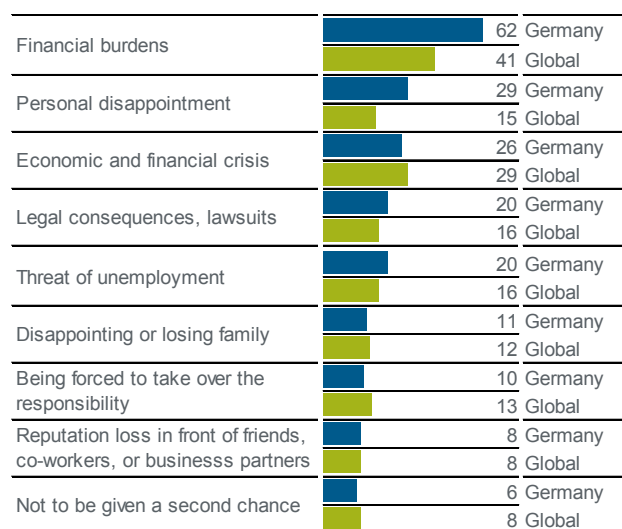
Fear of failure is wrongly taken as fear of stigmatisation

Potential business founders should be relieved of their fear of failure.³ This fear is more widespread in Germany than in

comparable industrialised nations (table).⁴ But why? A common interpretation is that fear of failure is fear of stigmatisation.⁵ But there is no evidence of such a connection. The reverse is true, in fact: The Amway Global Entrepreneurship Survey⁶ 2015 clearly shows that in Germany, fear of failure primarily means fear of financial burdens and insolvency, as well as fear of personal disappointment (Figure 1). Here too, Germany ranks far above the global mean. Fear of stigmatisation, on the other hand, such as loss of reputation among friends, colleagues or business partners, as well as fear of not getting a second chance, rank much lower and are fully in line with the global average.

Figure 1: Fear of business failure is mainly fear of financial burdens

What aspects contribute most to fear of business failure? Percentage of working-age population.



* The question on fear of failure was posed in the Amway Global Entrepreneurship Surveys of the years 2013 and 2015. At the time, the effects of the economic and financial crisis were more present, especially in southern European countries.

Source: Amway Global Entrepreneurship Report (AGER) 2015 for 'global' and own evaluation of the Amway Global Entrepreneurship Survey 2015 for Germany.⁶

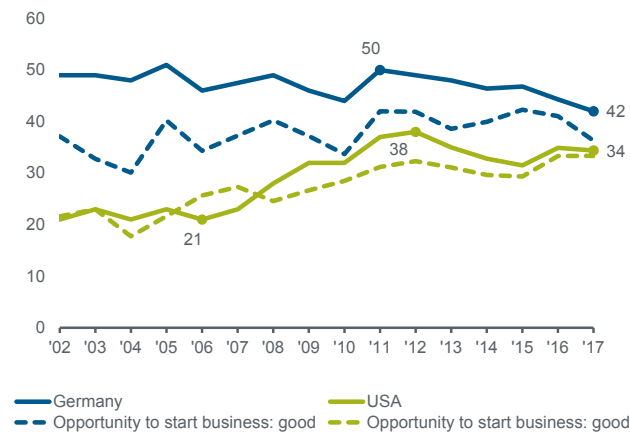
'German angst' is fading

As at 2017, fear of failure prevented 42% of the German working-age population from founding a business. Although this was a higher rate than in comparable industrialised nations such as France (39%), the United Kingdom (37%) and the US (34%), the difference is not very great.⁴ The

difference to the US is actually lower than ever before (Figure 2). This is because fear of failure has decreased almost steadily among the German working-age population since 2011 while levelling off slightly below the peak in the US, after a strong rise. The ‘fear ratio’ had nearly doubled there from 21 to 38% within six years. This is another indication that fear of failure cannot mean fear of stigmatisation. Such a sudden deterioration in the opinion about failed entrepreneurs would not be explainable. In 2017, fear of failure among people who saw good opportunities for founding a business was just as high in Germany as in the United Kingdom (table) and very close to the US level (Figure 2).

Figure 2: Fear of failure has fallen to a new low in Germany – gap to the US is smaller than ever

Would fear of failure prevent you from starting a business? Percentage of working-age population.



Note: The dashed line refers to the portion of the working-age population that sees good opportunities for founding a business.

Source: Global Entrepreneurship Monitor.⁷

‘Fail fast’ is often misinterpreted

Although fear of failure appears to be much more widespread in Germany than in the US, the general perception is a different one. Looking to the US, Germans often glorify how Americans handle entrepreneurial failure. There, the motto is said to be ‘fail fast’. Fuelled by the New York Times bestseller ‘The Lean Startup’⁸, ‘fail fast’ was a Silicon Valley mantra that spread around the globe. What is ignored, however, is that Silicon Valley is a very specific ecosystem and not representative of the rest of the US. What is more, failure is presumably more critical in Silicon Valley than is recognisable to an outsider.

Embracing failure makes for a trendy mythology. But it’s mostly lip service, while they scramble hysterically to avoid failure at all costs.
Rob Asghar⁹

Failure is not a prerequisite for later entrepreneurial success. On the contrary: In empirical analyses, failed entrepreneurs are **at best** equally successful on average after a renewed attempt as initial founders, according to studies for the United

Kingdom¹⁰, Germany¹¹ and the US¹². For the US study, Harvard economists explicitly studied VC-financed entrepreneurs and arrived at the conclusion that “Success breeds success”.

It is not about failing. It is about learning.
Kasper Friis¹³

What is often misinterpreted is that ‘fail fast’ actually does not refer to entire businesses but to individual campaigns, projects or product development stages. It refers to embracing small-scale testing in order to prevent large-scale failure. It is about finding out quickly what works and what does not. Failure is not an end in itself but a possible test outcome from which conclusions can be drawn.

Failed entrepreneurs experience broad social acceptance in Germany

Fear of failure and fear of stigmatisation are two different things. Fear of failure is widespread in Germany but what about the so often debated stigmatisation? Seventy-five per cent of the working-age population is (predominantly) of the opinion that people who have founded their own business and have failed deserve a second chance (+20% say it depends).¹⁴ Besides, 40% would basically be willing to invest in a business whose owner has previously failed (+40% say it depends).¹⁵ These responses contradict the notion that failed entrepreneurs carry a pronounced social stigma. But it has also been found that people tend to sympathise more with entrepreneurial failure when it was the result of general reasons such as illness or an unfavourable economic situation.¹⁴ If it was crucially due to lack of entrepreneurial skills, such as an inadequate business vision, business concept or customer targeting, there is less sympathy – which could be perceived as stigmatisation.

Overall, 29% of the working-age population believes that failed business founders are stigmatised in Germany, as showed by the KfW Entrepreneurship Monitor for the year 2017 (Figure 3). There are no significant differences by gender, age or educational level of the respondents. The gap appears to be wider depending on the occupational status, however. Self-employed persons currently tend to believe that there is a stigmatisation (41%), roughly the same proportion as persons who have discontinued self-employment in the past five years (43%). Around one quarter of these discontinuers regard themselves as ‘failed’ (24%) and tend to represent the average opinion regarding stigmatisation. ‘Failed founders’ thus see a stigma less often than ‘non-failed’ discontinuers. Half the ‘failed’ discontinuers abandoned their business because it was unprofitable. Overall, roughly one quarter of all discontinuers of the past five years shut down their business because they were unprofitable.

Figure 3: Failed entrepreneurs see stigmatisation less often than other discontinuers

Do you believe that failed business founders are stigmatised in Germany? Agree/disagree in per cent.



Source: KfW Entrepreneurship Monitor.

Coming to terms with own mistakes

Many entrepreneurs who leave the market for economic reasons blame their departure on external circumstances even though the causes were within their area of influence.¹⁶ But that behaviour reduces their chances of learning from the failed attempt and taking a different approach next time around.¹⁷ That is why a new ‘positive attitude to learning from errors’, which the GO! start-up campaign seeks to promote, is indeed necessary. This positive attitude to learning from errors must include the willingness to admit own mistakes and flaws.

The goal should not be to glorify mistakes and errors and catastrophes, but to cultivate the ability to adapt and learn from them.
 Rob Asghar⁹

Lack of faith in entrepreneurial abilities

The topic of ‘learning’ is relevant to strengthening the start-up culture in another area as well. In 2017, 38% of the (non-entrepreneurial) working-age population in Germany believed they possessed the requisite skills and knowledge to set up business – a relatively low proportion in an international comparison (table). In the United Kingdom the rate was 48%, while in the US it was 54%. For this indicator, Germany ranks a disappointing 47th place – out of 54 countries. People’s lack of faith in their own abilities is all the more deplorable when we look at how start-up opportunities have evolved in Germany. Never before have so many people seen good entrepreneurial opportunities as in 2017. By recent counts, their proportion tripled from 14 to 42% of the working-age population since 2004.¹⁸

Considering people’s lack of faith in their abilities, it is not surprising that only half the working-age population sees self-employment as a career option worth aspiring to in Germany (51%). That puts Germany on a very low 45th place in a country comparison, despite the fact that the vast majority – 78% – believe that successful entrepreneurs are held in high regard. In few other innovation-based economies do successful entrepreneurs have a higher reputation than in Germany (eighth place out of 52 countries).

Table: Germany in a peer-group comparison

Positions of the working-age population on start-up activity in 2017 in per cent.

Position	Fear of failure ⁱ	Qualification ⁱⁱ	Start-up opportunities ⁱⁱⁱ	Desirable ^{iv}	Founder image ^v
5			USA 64%		
8					D 78%
11					GB 76%
12					USA 76%
18		USA 54%			F 74%
24				USA 63%	
25	F 39%				
28	D 36%				
29	GB 36%	GB 48%			
31			GB 43%		
32	USA 33%		D 42%	F 59%	
34				GB 56%	
45				D 51%	
47		D 38%			
48		F 36%	F 36%		

ⁱ Fear of failure in the segment of the working-age population that sees good start-up opportunities. ⁱⁱ Working-age population that believes to have the necessary skills and knowledge to start a business. ⁱⁱⁱ Working-age population that sees good start-up opportunities. ^{iv} Working-age population that sees self-employment as a career option worth aspiring to in Germany. ^v Working-age population that believes successful entrepreneurs are held in high regard in Germany.

D: Germany, F: France, GB: Great Britain

Source: Global Entrepreneurship Monitor, own rendition.¹⁹

Educational system lags far behind in teaching business skills

The lack of faith of the working-age population in their entrepreneurial abilities is presumably a result of the German education system. Typically, neither business topics nor general economic themes play a major role in schools. Thus, self-employment as an alternative to salaried employment remains largely invisible to pupils precisely at an age when they develop ideas about their own career options. These are bad prospects for the emergence of abundant entrepreneurs.

In the expert survey of the Global Entrepreneurship Monitor, Germany traditionally scores poorly in the question to what extent founding or managing a business plays a role in school curricula. Out of 54 countries, Germany ranked 45th in 2017, which means experts recently gave most other

countries better marks.²⁰ Germany is farthest below the average for all start-up conditions surveyed. Crucially, learning business skills at school is precisely the requirement which experts consider most important for Germany as a start-up location.⁴

Teaching more business topics in the classroom can also have the effect that students gain a better understanding of fundamental economic mechanisms. After all, 32% of the working-age population believe one should not start a business if there is a risk of failure (+27% say it depends).¹⁴ Yet the risk of failure is an elementary part of entrepreneurial risk, and the more innovative a product or a business model is, the higher the risk of failure. There can be no progress without entrepreneurs who are willing to bear this risk and have the courage to implement their idea. Only in this way can start-up activity have positive effects on the economy.

Overconfidence means that many more companies start up than will ever succeed. That's unfortunate for individual companies. The paradox is that it's really beneficial for society.

Brian Wu²¹

Where to from here? What should be done?

Germany is a good location for start-ups and has upside potential. Its strengths in internationalisation, technology, competition and process innovation contrast with major weaknesses in human capital.¹ Priority should therefore be given to improving the teaching of business skills and knowledge. Germany has been lagging behind in this regard

for years. The government initiative [Unternehmergeist in die Schulen \(Getting entrepreneurial spirit into our schools\)](#) is therefore a step in the right direction but much more is needed.²² Strengthening the teaching of business skills could also help to win over more female business founders, which is another aim of the GO! start-up campaign. Women are more likely than men to believe they lack the business skills and professional qualifications to start a business.²³

What should also be taught is that entrepreneurial risk involves the possibility of failure and is therefore part and parcel of entrepreneurship. Having experienced failure is by no means a requirement for a successful business career but it should not mean the end of business life either. It is therefore necessary to 'give people new business prospects after failures'.³ This also means developing a new 'culture of learning from mistakes'. This could involve, for example, by motivating failed business founders to analyse their entrepreneurial collapse with external support.

Fear of failure is primarily a reflection of fear of financial risk. This (understandable) fear is slightly more widespread in Germany than elsewhere. A better fundamental economic understanding might help to more accurately gauge financial risk and take away some of the fear. Fear of stigmatisation, on the other hand, hardly plays a role in the fear of failure, nor does it have to, as social attitudes towards failed entrepreneurs are mostly positive. Stigmatisation does occur and can be problematic for those affected. But it is not a broad social phenomenon. ■

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¹ Metzger, G. (2018), **Start-up location Germany: good with upside potential**, Economics in Brief No. 155, KfW Research.

² The 'GO!' start-up campaign is an initiative of the Federal Ministry for Economic Affairs and Energy, read more at <https://www.existenzgruender.de/DE/GO/inhalt.html>.

³ Federal Ministry for Economic Affairs and Energy (2018), Gründungsoffensive: 10 Punkte für mehr Gründungen (*Start-up campaign: 10 points for more start-ups* – our title translation, in German only), November 2018, page 4.

⁴ Sternberg, R., Wallisch, M., Gorynia-Pfeffer, N. von Bloh, J. and Baharian, A. (2018), Global Entrepreneurship Monitor, Unternehmensgründungen im weltweiten Vergleich, Länderbericht Deutschland 2017/18 (*Global Entrepreneurship Monitor, global comparison of business start-ups, country report Germany 2017/18* – our title translation, in German only), Hannover: Institute for Economic and Cultural Geography, University of Hanover, Frankfurt: RKW Kompetenzzentrum, RKW Rationalisierungs- und Innovationszentrum der Deutschen Wirtschaft e. V.

⁵ 'Entrepreneurship [...] can become more attractive through role models. In this context, however, we also need a 'culture of getting a second chance' so that the venture of starting a business no longer becomes a stigma if it fails' (our translation), Federal Ministry for Economic Affairs and Energy (2015, Eckpunktepapier Wagniskapital – Deutschland braucht eine neue Gründerzeit (*Key issues paper venture capital – Germany needs a new Founding Era* – our title translation, in German only).

⁶ The **Amway Global Entrepreneurship Report (AGER) 2015** was prepared by Amway in collaboration with the Chair for Strategy and Organisation of the School of Management of the Munich Technical University. The data for the report was collected by the consumer research company GfK, Nuremberg, from May to August 2015. It surveyed 49,775 persons from the age of 14 in 44 countries on the topic of self-employment and entrepreneurship. The reported global figures were taken from the AGER 2015. The figures for Germany are based on own evaluations of the Germany dataset of the Amway Global Entrepreneurship Survey 2015. We thank Prof Marcus Drescher of the Heilbronn University and Amway for providing and explaining the data. The AGERs previously published are accessible at <https://www.amwayglobal.com/amway-global-entrepreneurship-report>.

⁷ The time series for the indicator 'Fear of failure in people of working age who see good opportunities for founding a business' were retrieved on 29 November 2018 from <https://www.gemconsortium.org/data>. The time series for the indicator 'Fear of failure in people of working age' were retrieved for the years up to 2010 on 28 October 2014 from <http://www.gemconsortium.org/key-indicators>. The page is no longer available and the figures are no longer retrievable. The values of this time series for the following years were taken from the respective GEM country reports for the United Kingdom, Appendix 2, Table 1a. The global and national GEM reports are available at <https://www.gemconsortium.org/report>.

- ⁸ Ries, E. (2011), *The lean startup: How today's entrepreneurs use continuous innovation to create radically successful businesses*, Crown Books.
- ⁹ '[...] Embracing failure makes for a trendy mythology, especially for the aspiring heroes of innovation. But it's mostly lip service, while they scramble hysterically to avoid failure at all costs', Rob Asghar, **'Why Silicon Valley's "Fail Fast" Mantra is Just Hype'**, Forbes.com blog, 14 July 2014.
- ¹⁰ Ucbasaran, D., Westhead, P. and Wright, M. (2006), *Habitual Entrepreneurs*, Cheltenham (UK) und Northampton, Massachusetts (US): Edward Elgar Publishing.
- ¹¹ Metzger, G. (2006), **Once Bitten, Twice Shy?** ZEW Discussion Paper No. 06-083, Mannheim. [Terms of payment] (2007), **Personal Experience: A Most Vicious and Limited Circle!** ZEW Discussion Paper No. 07-046, Mannheim. Gottschalk, S., Greene, F. J., Höwer, D and Müller, B. (2014), **If You Don't Succeed, Should You Try Again? The Role of Entrepreneurial Experience in Venture Survival**, ZEW Discussion Paper Nr. 14-009, Mannheim.
- ¹² Gompers, P., Kovner, A., Lerner, J. and Scharfstein, D. (2010), Performance persistence in entrepreneurship, *Journal of Financial Economics*, No. 96, pages 18–32.
- ¹³ 'Ultimately, I too am pro Design Thinking but the branding of "Fail Fast" has led to a misinterpretation that will harm your business. It is not about failing. It is about learning: 'Learn fast, learn cheap, and learn early'. This will save you time and money, it will save your business and it will result in happy, returning customers', Kasper Friis, **'Why The "Fail Fast" Mantra Will Kill Your Business'**, UX Collective, 24 July 2017.
- ¹⁴ Kuckertz, A., Mandl, C. and Allmendinger, M. (2015), *Gute Fehler, schlechte Fehler – wie tolerant ist Deutschland im Umgang mit gescheiterten Unternehmern? (Good mistakes, bad mistakes – how tolerant is Germany towards failed entrepreneurs? – Our title translation, in German only)*. Stuttgart: Hohenheim University, August 2015.
- ¹⁵ Ibid. It must also be considered that the willingness to invest in businesses started by previously failed entrepreneurs presupposes the fundamental willingness to participate in a business. Given the relatively low share quota, this willingness is not particularly strong in Germany, which explains part of the subdued propensity to invest in businesses started by previously failed entrepreneurs.
- ¹⁶ Egelin, J., Falk, U., Heger, D., Höwer, D. and Metzger, G. (2010), *Ursachen für das Scheitern junger Unternehmen in den ersten fünf Jahren ihres Bestehens (Causes for the failure of young enterprises during the first five years – our title translation, in German only)*, study commissioned by the Federal Ministry for Economics and Technology, Mannheim and Neuss, March 2010.
- ¹⁷ Yamakawa, Y and Cardon, M. S. (2015), Causal ascription and perceived learning from entrepreneurial failure, *Small Business Economics*, No. 44, p. 797–820.
- ¹⁸ The time series for this indicator were retrieved on 29 November 2018 from <https://www.gemconsortium.org/data>.
- ¹⁹ The values and positions were taken from the respective country profiles presented in the Global Report of the Global Entrepreneurship Monitor 2017/18, Singer, S. Herrington, M. and Menipaz, E. (2018), **Global Entrepreneurship Monitor: Global Report 2017/2018**.
- ²⁰ The indicator was retrieved from <https://www.gemconsortium.org/data> on 29 November 2018.
- ²¹ "Overconfidence means that many more companies start up than will ever succeed," Brian Wu, a professor of strategy at the University of Michigan, told me. That's unfortunate for individual companies. The paradox is that it's really beneficial for society. In the delusions of entrepreneurs are the seeds of technological progress', James Surowiecki, **'Epic Fails of the Startup World'**, *The New Yorker*, 19. May 2014.
- ²² 'Unternehmergeist in die Schulen' (Getting entrepreneurial spirit into our schools) is a partnership initiative sponsored by the German Federal Ministry for Economic Affairs and Energy to equip youths with entrepreneurial skills: <https://www.bmwi.de/Redaktion/EN/Dossier/sme-policy.html>.
- ²³ 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 only)*, Focus on Economics No. 71, KfW Research.