

»» Emerging from the niche: 154,000 'young' social entrepreneurs in Germany in 2017

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Social entrepreneurs are becoming increasingly important

In the past years, social and ecological developments have gained in importance. In this context the activities of social entrepreneurs have also moved into the public spotlight. In 2017 there were around 154,000 'young' social entrepreneurs with 108,000 social enterprises in Germany. The reason they are known as 'young' social entrepreneurs is that they started up no more than five years before with a project that was still active in 2017 and in which a social or ecological concern was a primary focus while making a profit was only a secondary objective. The share of social entrepreneurs in all young entrepreneurs is 9%. Female and older entrepreneurs are more likely to place social or ecological concerns at the top of their agenda, so the share of social entrepreneurs among them is higher than average.

Social entrepreneurs are not just socially innovative

'Young' social entrepreneurs are often driven by ideas or convictions and therefore less often by the labour market situation. For this reason they are also more likely to have co-founders and employees. They are deemed to be 'socially innovative' because they combine the common good with commercial activity. But their innovative strength is not limited to this. In fact, they often offer new-to-market and technological innovations. Around one in three 'young' social entrepreneurs (32%) offer something that did not previously exist in their target market. Around one in four (24%) develop technological innovations of their own to market readiness.

'Young' social entrepreneurs are more likely to require capital than other young entrepreneurs, especially up to EUR 25,000. They are more often dependent on alternative capital sources to cover the external portion of capital because their family and friends are much less often involved than is otherwise typical of young entrepreneurs. This, in turn, makes financing more challenging, particularly because 'young' social entrepreneurs are more likely to be unsure about having the required business skills. For this reason they should be supported in acquiring business skills. This would improve their chances of staying in the market and making their important social and economic contribution in the long term.

Social enterprises are edging into the public eye

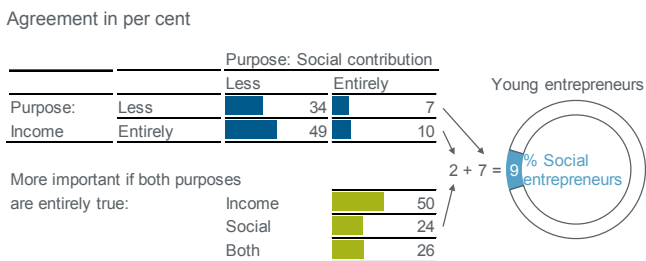
Traditionally, the purpose of business is to maximise profits. This traditional view has shaped public perception of the entrepreneur for decades. But in the past years, the public has increasingly realised that seeking to maximise profits is by no means the only purpose of running a business. Many entrepreneurs wish to take social responsibility with their actions – over and above individual corporate social responsibility measures. They make social responsibility the purpose of their business. The catalyst that drove this change in public awareness was the awarding of the Nobel Peace Prize to Muhammad Yunus in 2006. Yunus founded Grameen Bank in Bangladesh in the early 1980s. His idea was to help the poor help themselves by giving them microloans. But social enterprises have been around for much, much longer. The best-known German example is probably the Raiffeisen organisation. It was initiated by Friedrich Wilhelm Raiffeisen in the mid-19th-century to support poor farmers.

From anecdotal to empirical evidence: social enterprises in the KfW Start-up Monitor

Examples of social entrepreneurs abound, with Yunus or Raiffeisen being only the best-known. Such examples are particularly important for social entrepreneurs because empirical evidence is rare. Social enterprises are difficult to identify among existing enterprises. Most scholars agree that the most important characteristic of a social enterprise is its social mission – irrespective of other features such as the income it generates.¹ Focusing exclusively on its non-profit status for tax purposes would lead to a wrong conclusion. First, that can be applied only to corporations and second, it precludes the intention to make a profit,² although social enterprise is compatible with profit-making. So to identify social entrepreneurs we have placed the focus on the social mission. KfW Research has therefore interviewed business founders of the past five years about the purpose of their business in the KfW Start-up Monitor (see box). The result was that 9% of the active young entrepreneurs devoted themselves fully and completely to the mission of making a specific contribution to protecting the environment or solving a social problem and that has been more important to them than generating income (Figure 1). Thus, around 154,000 'young' social entrepreneurs with 108,000 social enterprises existed in the year 2017.³ What has also become apparent is that female and older entrepreneurs are more likely to focus on social or ecological concerns. The share of female social entrepreneurs in the start-ups that have been active for up to five years is higher than the average (12% compared with

7% for men). And while 8% of the young entrepreneurs up to the age of 50 are social entrepreneurs, the share of over 50s rises to 14%.

Figure 1: Nine per cent of young entrepreneurs are social entrepreneurs for whom a social or ecological concern is clearly the main priority



Guide: For 7% of all young entrepreneurs, the social contribution is the 'entire' purpose of their business while generating income is 'rather', 'partly', 'rather not' or 'not at all' (that is, less) its purpose. Both are 'entirely' the purpose of the business for 10% of them, while the social contribution is the main purpose (24%) for just under one fourth. Combined, a good 9% of them are social entrepreneurs.

Source: KfW Start-up Monitor 2018.

Social entrepreneurs: surprisingly normal, surprisingly different

A number of features distinguish 'young' social entrepreneurs from other young entrepreneurs. As women and older entrepreneurs are more frequently devoted to social or ecological concerns, their shares in 'young' social entrepreneurs are also significantly higher (Figure 2). Women thus account for more than half (53%), compared with a share of 40% for other types of young entrepreneurs. Besides, one in four 'young' social entrepreneurs (26%) are over the age of 50. Only 17% of other young entrepreneurs are over 50.

Social entrepreneurs are less 'labour-market driven', meaning they are less likely to start a business for lack of a better income alternative. Only 17% of 'young' social entrepreneurs stated necessity as the main reason for setting up their business, compared with one third of the other young entrepreneurs. The majority of 'young' social entrepreneurs founded their business with the aim of putting a particular business idea into practice (60%), whereas just under one in four (23%) pursued other motives such as self-realisation. Young social entrepreneurs are more likely to be team players than other young entrepreneurs. A good one in four (26%) work in a business team with others and one third (32%) have employees. Other young entrepreneurs, by contrast, are more likely to be solo entrepreneurs and less likely to have employees (19 and 25%). This is probably because they are more focused on generating income. So a solo start-up without employees is thus a common form of self-employment to earn a livelihood or extra cash, for example as a sideline activity.

Box: Social entrepreneurs in the KfW Start-up Monitor

The KfW Start-up Monitor is a representative survey of the population that focuses on business founders who set up a business in the preceding five years. It is based on the information provided by 50,000 persons domiciled in Germany who are randomly selected each year. It covers a broad range of start-ups: full-time and part-time entrepreneurs, self-employed professionals and business owners, new businesses and takeovers. That makes the KfW Start-up Monitor the only data source in Germany to provide a comprehensive picture of German start-up activity.

'Young' social entrepreneurs were identified on the basis of the data provided by the business founder on the business purpose. They were asked whether they totally agreed, rather agreed, partly agreed, rather disagreed or totally disagreed with the following two statements about their business activity:

1. I am self-employed for the purpose of earning an income.
2. I am self-employed for the purpose of making a specific contribution to protecting the environment or solving a social problem.

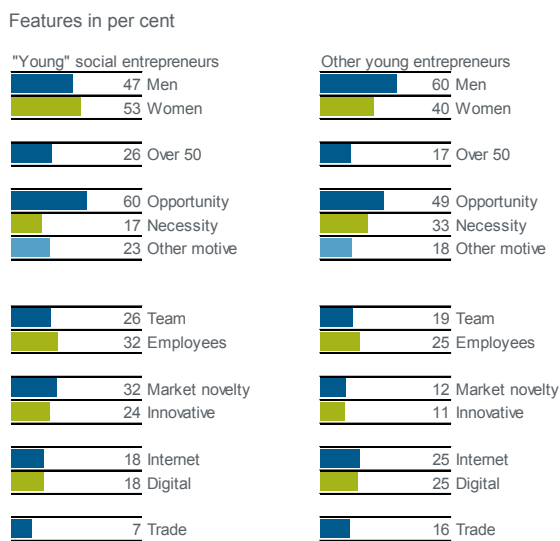
'Young' social entrepreneurs are defined as those start-up entrepreneurs who are still active and regard the purpose of their business as being 'entirely' geared to a social or ecological concern and who regard this as more important than earning an income. According to this approach, a good 9% of the business founders who were still active in Germany in 2017 are considered to be social entrepreneurs (Figure 1). That is the same proportion stated in the 'Social Enterprise: Market Trends 2017' report for the share of social enterprises in all enterprises in the UK (just under 9%).⁴ The report defines social enterprises using a decision tree that branches out by public-benefit status, legal status, social mission and use of profits. Accordingly, social enterprises are enterprises that have a social mission and use their profits primarily to achieve that mission. Enterprises with a social mission that do not use their profit primarily to achieve that mission are defined as 'socially oriented' (22%). Overall (i.e. independently from how they use their profits), some 29% of enterprises in the UK have a social mission. In the KfW Start-up Monitor a total of around 20% of the business founders who were still active in 2017 'agreed entirely' or 'rather agreed' that they were pursuing a social or ecological concern.

'Social innovativeness': more than combining public benefit and commercial activity

Social enterprises are often described as being 'socially innovative'. This has to do with their 'innovative' business model of pursuing a social or ecological concern while applying the commercial principle of an enterprise. But for

many social enterprises, ‘innovation’ means more than linking two seemingly incompatible approaches. They create new offerings that actually did not exist before or develop technologically novel products themselves. Just under one third of ‘young’ social entrepreneurs offer new-to-market innovations that were previously unavailable in their target market. These include concepts such as dine-in-the-dark restaurants with visually impaired service staff where patrons are offered a new dining experience, or courier services that operate with environmentally friendly delivery bicycles. Only a good one in eight (12%) of the other young entrepreneurs are active with new-to-market innovations. Just under one in four ‘young’ social entrepreneurs (24%) develop technological innovations of their own to market readiness, such as navigation belts for people with vision loss, for example. Another example of innovative equipment developed by ‘young’ social entrepreneurs is the ‘ball to evoke memories’, a therapy tool for people suffering from dementia (for more on this go to [KfW Stories](#)). Other young entrepreneurs, by contrast, are significantly less active in developing technological innovations (11%).

Figure 2: Social entrepreneurs are more likely to be female and older – social innovativeness brings forth new-to-market innovations and technological developments

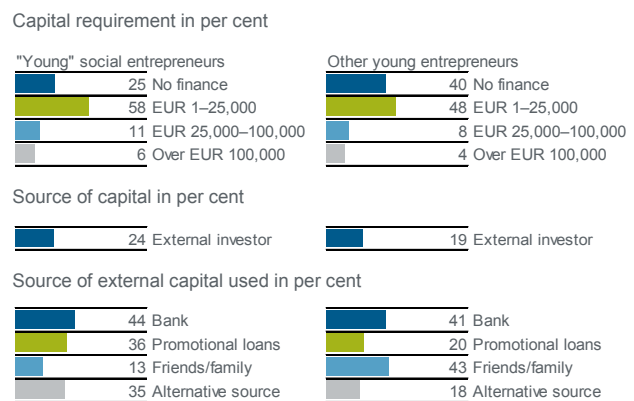


Source: KfW Start-up Monitor 2018.

Novel offerings and technological innovations are more often found with ‘young’ social entrepreneurs but are less involved with internet-based and digital offerings. Eighteen per cent of ‘young’ social entrepreneurs have an internet-based and/or digital business model. The same is true of one in four (25%) of the other young entrepreneurs. Internet-based and digital business models are not necessarily connected but identical shares for both ‘young’ social entrepreneurs and other young entrepreneurs, while astonishing, are purely coincidental.⁵ The sectoral distributions of ‘young’ social entrepreneurs and other young entrepreneurs are very similar. A clear difference exists only for the distributive trades. ‘Young’ social entrepreneurs are clearly less active in trade (7%) than other young entrepreneurs (16%).

Business founders often require capital to engage in an independent occupation but some do not. Figure 2 illustrates that 25% of ‘young’ social entrepreneurs and 40% of the other young entrepreneurs require no financial resources. Most of them are solo entrepreneurs without employees and are often self-employed professionals. They provide their expertise to deliver work outcomes but use the purchaser’s tools and materials, for example, so they do not require capital. The social entrepreneurs among them often work in the areas of education and teaching.

Figure 3: Social entrepreneurs often require micro-finance and are more likely to turn to external providers of capital but less to family and friends



Source: KfW Start-up Monitor 2018.

Overall, ‘young’ social entrepreneurs require capital more often than other young entrepreneurs, especially in the bracket up to EUR 25,000. They resort to external sources of capital slightly more often to meet their capital requirements. Credit institutions play a similar role as other young entrepreneurs while promotional loans are used significantly more often. Family and friends are normally an important source of capital for business founders. But they play a surprisingly minor role as providers of capital for ‘young’ social entrepreneurs. It is unclear whether they are more reluctant to provide capital or whether ‘young’ social entrepreneurs ask them for money less often. There are arguments in favour of both explanatory approaches. The consequence of reduced involvement of family and friends, however, is that ‘young’ social entrepreneurs resort more often to alternative sources of capital. These include funds from endowments, investors or crowdfunding campaigns.

‘Young’ social entrepreneurs are more critical of their own business skills

Bureaucracy, the strain on the family and client acquisition are the barriers to entrepreneurship most frequently perceived by business founders.⁶ ‘Young’ social entrepreneurs also perceive red tape and pressure on the family as the main obstacles (table). But unlike other young entrepreneurs, they are less likely to regard client acquisition as a challenge. This is indicative of the fact that social entrepreneurs more often accommodate the needs of client groups that are not (adequately) served by commercially motivated entrepreneurs.

Table: ‘Young’ social entrepreneurs are more likely to regard business skills, hiring workers and obtaining finance as problematic

Frequency of obstacles in per cent

	‘Young’ social entrepreneurs	Other young entrepreneurs
Bureaucracy	43	37
Strain on the family	38	35
Business skills	33	23
Attracting workers	28	17
Financial risk	28	26
Funding	26	16
Client acquisition	24	31
Professional qualifications	23	16
Opportunity costs	20	23
Infrastructure	19	14
Fear of social descent in case of failure	18	20
Lack of co-founders	16	11
Undeveloped business idea	16	17
Access to promotional funds	10	11
Business cycle	10	17
Lack of suppliers	7	6
Being too old	7	5

Source: KfW Start-up Monitor 2018.

Instead, ‘young’ social entrepreneurs are significantly more worried about not having the required business skills. They are also more likely than average to perceive problems attracting workers and finance. But this probably has to do with the fact that they are more likely to have employees and use capital, since that is when such problems are more likely to occur. Besides, it is harder for ‘young’ social entrepreneurs to acquire funds because they more often have to seek alternative sources of capital.

The question that is more difficult to answer, however, is why one in three ‘young’ social entrepreneurs are unsure about having sufficient business skills. The fact that they more often turn to alternative financing sources may also play a role here if that places higher demands on business skills. Another reason may be that ‘young’ social entrepreneurs have started up with the primary aim of fulfilling their social or ecological mission. Earning an income or making a profit is less important to them, which is why they may bring fewer business skills to the table from the start. What is also conceivable is that it is more difficult to generate profits with a primarily social or ecological concern and that business skills therefore acquire special significance.

Social entrepreneurs must develop stronger business skills to make their important contribution in the long term

Social entrepreneurs focus on a social or ecological concern and less on commercial success. In Germany there were around 154,000 ‘young’ social entrepreneurs in 2017. They are following in the footsteps of famous role models such as Yunus or Raiffeisen. They also enrich the market with offerings and technological developments that did not exist before. Social entrepreneurs thus make an important social as well as economic contribution.

In order to support social entrepreneurs in their mission, one way is to eliminate the barriers which other business founders also perceive as a burden. Reducing bureaucratic obstacles and improving work-life balance should be the main priorities. Furthermore, social entrepreneurs are worried about having enough business skills, so they should be supported in acquiring such skills. That will increase their chances of surviving in the market in the long term. ■

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¹ [...] While there is debate on the importance of earned income or the innovativeness of social entrepreneurs, most scholars in the field agree that social mission is a key differentiating element of social entrepreneurs', Terjesen, S., Lepoutre, J., Justo, R. and Bosma, N. (2012), Global Entrepreneurship Monitor 2009 Report on Social Entrepreneurship, page 36.

² 'A corporation shall serve public-benefit purposes if its activity is dedicated to the altruistic advancement of the general public in material, spiritual or moral respects' (official translation provided by the Language Service of the German Federal Ministry of Finance), Section 52 (1) of the German Fiscal Code.

Focus on Economics

³ 'Young' social entrepreneurs (business founders who started up not more than five years ago with a project that is still active) had an average 0.4 team partners in 2017, so an average team consisted of 1.4 entrepreneurs. At around 154,000 'young' social entrepreneurs, this corresponds to roughly 108,000 social enterprises (KfW Start-up Monitor, own calculations).

Compared with earlier estimates on the number of social enterprises in Germany, 108,000 mostly young social enterprises may seem a relatively high number. Thus, Scheuerle et al mentioned a range of 40,000 to 75,000 social enterprises for 2013 – irrespective of enterprise age – (Scheuerle T., Glänzel, G., Knust R. and Then, V., 2013, Social Entrepreneurship in Deutschland, Potentiale und Wachstumsproblematiken (*Social entrepreneurship in Germany, potentials and growth challenges* – our title translation, in German only), study commissioned by KfW, August 2013). Nevertheless, for one thing it must be borne in mind that 19% of the 'young' social entrepreneurs have taken over an existing business or an active participation in it. These start-ups therefore did not include newly created businesses. For another, the idea of social entrepreneurship has become extremely popular in the past years. There are two reasons for this. First, in the wake of the refugee influx many people began to help refugees both as volunteers and as self-employed persons, for example in the areas of adult education or job placement. Second, inspired by themes such as the energy transition, climate change, the diesel crisis or various food scandals, people have become more aware of ecological aspects again. A noticeable increase in the number of social enterprises in the past years therefore appears plausible.

⁴ Stephan, U., Braidford, P., Folmer, E, Lomax, S. and Hart, M. 2017, Social Enterprise: Market Trends 2017, study commissioned by the Department of Business, Energy and Industrial Strategy, the Government Inclusive Economy Unit and the Department for Culture, Media and Sport, London, September 2017.

⁵ Ten per cent of the 'young' social entrepreneurs have a digital, internet-based business model, while 8% have a digital, non-Internet-based business model and a further 8% a non-digital but internet-based business model. In contrast, 15% of the other young social entrepreneurs have a digital, internet-based business model, while 10% have a digital, non-internet-based business model and a further 10% a non-digital but internet-based business model (KfW Start-up Monitor, own calculations).

⁶ Metzger, G. (2018), **KfW Start-up Monitor 2018, Appendix of Tables and Methods**, KfW Research, page 11 (in German only).