

»» Start-up location Germany: good with upside potential

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In October of each year, in a media-effective way Germany receives poor marks as a location for start-ups. That is when the World Bank indicates in its annual Doing Business Report (DBR) that setting up a business is frequently easier in over 100 countries than in Germany.¹ Unfortunately, it ignores that the DBR is an unsuitable tool for assessing Germany as a start-up location. With its focus on the formal application procedure of a limited-liability company, it fails to do justice to the start-up behaviour of the vast majority of business founders (who are fully liable). It also ignores an important reform to the German law on modernising limited liability companies (MoMiG).² The fact that the US, where the perceived start-up mecca Silicon Valley is situated, only ranks 49th on the current starting-a-business ranking, clearly illustrates this flaw.

GEI – the better measure for assessing location quality

The Global Entrepreneurship Index (GEI) is better suited to determining where Germany stands as a start-up location on an international scale. The index covers more than 30 different factors. In the GEI ranking, which is led by the USA, Germany has regularly been among the 15 best – again in the recently published GEI 2018³. This rank is commensurate with Germany's start-up environment, good but with upside potential!

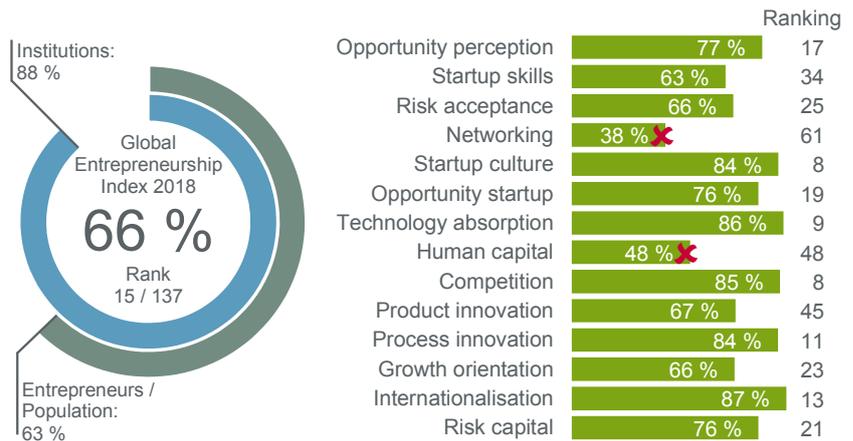
¹ In the current Report World Bank (2017), Doing Business 2018: Reforming to Create Jobs, Washington, DC: World Bank, DOI: 10.1596/978-1-4648-1146-3, Germany is in 113th place on the Starting-a-business Ranking.

² One factor in the Starting-a-business-Ranking of the DBR is the minimum capital deposited in founding a limited liability company. The nominal capital required to start a limited liability company in Germany is EUR 12,500. The German law on modernising limited liability companies (GmbH) and preventing their fraudulent use (MoMiG), however, created the possibility of founding an 'Unternehmergeellschaft', or entrepreneur company, with a nominal capital of only one euro already in October 2008.

³ Ács, Z. J., Szerb, L. und A. Lloyd (2017), The Global Entrepreneurship Index 2018, The Global Entrepreneurship and Development Institute, Washington, D.C., USA.

For start-ups, Germany has weaknesses in networking and human capital

Global Entrepreneurship Index (GEI) for Germany compared with 137 countries



Note: The GEI and its components are expressed in per cent and can be interpreted as a measure of the efficiency of a country's entrepreneurship resources. Details on the construction of the GEI can be found in its 'Technical Annex' at www.thegedi.org.

Source: Global Entrepreneurship Index 2018.

The GEI comprises ratings of the entrepreneurial skills of a country's population and the quality of its entrepreneurially relevant institutions in 14 areas. The GEI and its components are expressed in per cent and can be interpreted as a measure of the efficiency of a country's entrepreneurship resources. As a start-up location, Germany's population scores significantly lower than its institutions (see figure). The people's entrepreneurial qualities thus lag behind in international comparison. By contrast, the quality of Germany's entrepreneurially relevant institutions can stand comparison with other countries.

Germany's upside and downside

The areas covered by the GEI show a mixed picture for Germany. With respect to internationalisation, technology absorption, competition, entrepreneurial culture and process innovations, Germany is very well positioned. Weaknesses are evident, however, in the areas of networking and human capital. Its rankings for product innovation and entrepreneurial skills are also

unsatisfactory. Recommendations for redressing these weaknesses are not new and some targeted measures are already established. Possible approaches include:

- Networking: expand start-up infrastructure, communications technologies and opportunities of various dimensions (i.a. broadband infrastructure, incubators, start-up events, [platforms](#)⁴).
- Human capital and entrepreneurial skills: teach business skills at school and promote coaching and professional development measures.
- Product innovations: support research partnerships between universities and business and encourage the population to be more receptive to technology and less anxious about the future.

Success will not come overnight. So patience and stamina will be very important in tackling the weaknesses. ■

⁴ From spring 2018, business founders will be able to access the new digital [start-up platform](#) initiated by the Ministry of Economics and KfW. It offers assistance in developing ideas and planning start-ups and encourages networking.