



# Building bridges – Migrant-run companies in Munich

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## 1. Migrant entrepreneurship – An expression of Munich's cultural and economic diversity

Munich is currently home to people from more than 180 countries. One third of the local population is of foreign descent. 25 percent of Munich's residents have foreign nationality. The city's cultural and economic diversity is perceived as a positive factor of business, and the entrepreneurial endeavors of individuals of foreign descent play an important part in the economy of the Bavarian capital. Aside from the economic benefits that migrant-run companies contribute to the city's flourishing development, these organizations are also an important integration factor, helping to build an urban society on the foundation of solidarity, openness and tolerance.

Migrant-run companies are a key focus of political strategies and measures, for a number of reasons. Entrepreneurs with a migration background cover a broad spectrum of business activities that enrich the economy and exert a powerful influence on the dynamism and internationality of Munich's business community. Migrant-run businesses also widen the range of goods and services on offer and encourage competition on the local and regional markets.

Self-employment is one possible form of gainful employment for people of foreign descent in cases where they find it difficult to become integrated in the primary labor market. At the same time, migrant-run companies act as a kind of “hidden reserve” of vocational training positions for young people, many of whom themselves have a migration background.

The entrepreneurial spectrum covered by migrants in Munich is kaleidoscopic in its rich diversity. Yet the numbers alone give only a vague idea of the employment and training potential harbored by the companies they run. The statistics give no answers to a number of important questions: Under what conditions are migrant-run businesses launched? What does the start-up process look like? How do they become established

*Please Note: The complete study „Brücken bauen“ by Dr. Petra Schütt, 2015, is in German online available.*



as market players? What specific obstacles and issues do migrant-run companies encounter? And what forms of support and assistance would be useful? Aware of this situation, the City of Munich's Department of Labor and Economic Development recently conducted an exploratory survey of migrant-run companies in the city. The survey deliberately avoided focusing on what are referred to as "best-practice companies". Instead, it consciously chose a "normal" distribution of business activities among migrants and individuals with a migration background in Munich.

The survey had three objectives:

- To take stock of typical contexts in which businesses are launched as well as migrants' motives for doing so, and to inventory both key success factors and structural obstacles to migrant-led start-ups in Munich.
- To assess the employment and vocational training potential afforded by migrant-run companies in Munich.
- To formulate recommendations for action in policy areas of relevance to the Department of Labor and Economic Development, in order to be able to provide better and more suitable support and assistance to promote self-employment and business start-ups among migrants in the future.

## 2. Migrant-run companies in Munich – Facts and figures

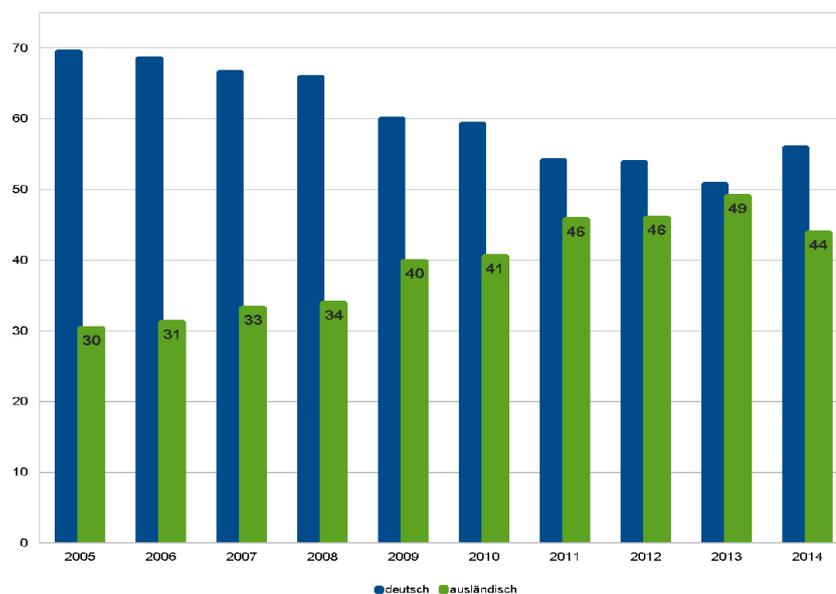
Cultural diversity is an omnipresent feature of the Bavarian capital. It is reflected in the international restaurants and food stores, in the foreign-sounding names of general practitioners, lawyers, insurance agents, master craftsmen and so on. Statistical records of business registrations (pursuant to §§ 14 or 55c of the Industrial Code [GewO]) do not document the whole spectrum, however, as they merely distinguish between Germans and non-German nationals. Nor does the number of registrations and de-registrations say anything about the ranks of self-employed migrants. Another consideration is that free-lance activities in the liberal professions (doctors, architects and legal professionals, for example) are excluded from these statistics. Given these restrictions, the following data on the development of self-employment among foreign nationals reflects only part of the business spectrum serviced by migrants living in Munich.

A total of 19,058 new businesses were registered in Munich in 2014. Of these, 10,673 (56 percent) were registered by German nationals and 8,385 (44 percent) by foreign na-



tionals. Most of the entrepreneurs were men, with women accounting for 33 percent of businesses registered by German nationals and 26 percent of those registered by foreign nationals. The overall trend in new business registrations has been in decline in recent years. As shown in Figure 1, this trend is attributable primarily to a shrinking number of registrations among German nationals. However, a contrary start-up trend was still in evidence among foreign nationals until 2013.

**Figure 1**      **New business registrations in Munich, 2005-2014**  
**(percentage distribution)**



[Legende zur obigen Grafik:]  
deutsch → German nationals  
ausländisch → Foreign nationals

Source: Munich Office of Statistics through 2009, Department of Public Order as of 2010<sup>1</sup>

<sup>1</sup> Since 2010, both natural persons (as in the past) and the managing directors have been recorded when new businesses are registered. This practice has caused the number of registrations to increase by approx. 4,000 per annum, although the statistical distribution has not changed significantly as a result.



### 3. Study design and implementation

An exploratory, qualitative study was conducted. Cases were selected not to produce a statistically representative sample, but to identify as broad as possible a spectrum of migrant-run companies based on the following parameters: industries, countries of origin, level of qualifications, age and gender. A total of 44 migrant-run entrepreneurs from all parts of Munich were surveyed in the course of the study.

The resultant balanced sample covers countries of origin with cultural differences. In particular, those nationalities that account for the largest number of new business start-ups (Hungary, Poland, Bulgaria and Turkey) are well represented. The comparatively high level of education and qualifications is typical of the educational status of migrants who have recently entered Germany, who account for 95 percent of the sample. The pronounced presence of sole proprietors and micro-enterprises is also typical of migrant-run company structures. The spectrum ranges from “traditional” food stores and snack bars to ethnic specialists, skilled craft firms and even a social media PR agency.<sup>2</sup>

### 4. Findings of the study

This section outlines the key findings of the study.

#### 4.1 Classification of migrant-run companies

Typical motivations, key contextual conditions and actual lines of business were used to classify migrant-run companies. Special attention was also paid to how significant (if at all) the entrepreneur's migration background was to the start-up process. This approach allowed two groups to be identified:

- a) For one group, self-employment was primarily a form of gainful economic activity, a way to make a living. There are few restrictions on the business lines represented in this group, even though in practice they often relate to the entrepreneur's past career experience (“self-employment as a way to make a living”).

The following classifications were assigned to this group:

- “Pioneering start-ups” that tap completely new lines of business.

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<sup>2</sup> For detailed information about the sample, see Schütt 2015: 42-45.



- “Bridge start-ups”, whose business models seek to provide offerings specially tailored to certain ethnic groups or members of a given cultural group.
- “Contingency start-ups”, which are an option chosen by individuals to avoid either unemployment or unfavorable working conditions. A subset of this classification are what are known as “anchor start-ups”, which are new businesses launched by people for whom self-employment is the only viable way to enter the German labor market.

b) In the second group, self-employment is the outcome of the entrepreneur's consideration of exactly how he or she wants to work and in what line of business. For this group of individuals, the freedom to independently determine how you work and what you do is of central importance to the decision to go self-employed (“self-employment as a form of self-determination”).

This group could be broken down into the following subsets:

- “Idea-driven start-ups”, which are guided entirely by intrinsic motivations.
- “Opportunity-driven start-ups”: Some of this group of individuals needed exogenous stimulus before they finally took the plunge and realized their dream of self-employment.

The findings of the study make it clear that we cannot speak of migrant entrepreneurs as a single, homogeneous group or entity. Munich-based companies led by self-employed persons with a migration background naturally include “traditional” migrant-run businesses in snack catering, food retail and the provision of basic services, for example. There are also self-employed individuals who seek to get by in Munich as day laborers. Yet the bigger picture of migrant entrepreneurs is much more varied and nuanced than the one that is commonly perceived. While some tradespeople tailor their offerings specifically to certain ethnic groups (e.g. retailers and providers of personal and consulting services), a large proportion of migrant entrepreneurs do not focus on any particular ethnic group. The majority of self-employed migrants are well to very well educated, with nearly two thirds of them possessing certificates of higher education. Accordingly, many of their activities also focus on highly qualified forms of employment. Ten of the entrepreneurs surveyed run skilled craft firms, of which five operate in the



construction industry. Others provide advisory and consulting services not just for certain ethnic groups, but with a more general orientation in the finance and insurance industry.

#### 4.2 Structural, cultural and individual factors of influence

What important factors of influence do migrant entrepreneurs typically have to deal with? This section discusses selected challenges that cannot be assigned to individual types of start-ups, but that were frequently mentioned in all relevant contexts.

*Structural challenges* exist on two levels: One is the challenge of understanding various systems (e.g. the legal, educational and insurance systems), how they work and how tasks and assignments are split between public institutions and authorities. On the other hand, loans and subsidies are seldom used as funding options, and little is known about consulting and advisory services, as most migrant entrepreneurs are simply unaware of them. On all these levels, it would seem sensible, when designing additional support services for new migrants, to pay more attention to the way different countries of origin shape individuals' cultural understanding and their attitude toward public institutions.

Alongside the challenges relating to migrant entrepreneurs' dealings with institutions and their efforts to understand and apply rules and regulations, a series of demands are also placed on their *individual skills and abilities*. These factors too are critical to the success of start-up projects. The central and most important skill is seen by most respondent companies to be a good to very good command of German. The transnational skills of migrant entrepreneurs constitute a more or less consciously used resource. Especially in pioneering and bridge start-ups, it is apparent that transnational skills account for a substantial part of the overall business model (for consultants, insurance and financial service providers, lawyers and personal service providers). The survey also clearly showed that some entrepreneurs lack vital qualifications, especially with regard to important strategic and administrative management tasks. Self-employment is more than just working independently and earning your living in a certain way: As a rule, running your own company also involves working long hours, accepting that the line between working life and private life becomes blurred, and experiencing fewer opportunities to find relaxation and regeneration.



## 5. Analysis of the study findings – Shaping openness and diversity

The study provides an insight into the structures given to migrants' business activities in Munich. It complements a general overview of motives and background factors by examining the opportunities and risks facing migrant-led start-ups, as well as exploring their potential. Most self-employed migrants are highly qualified, create jobs and make a significant contribution to employment in Munich. Looking inside the migrant-run company “black box” reveals a varied picture that has little to do with common stereotypes. One point was highlighted very emphatically: There is no such thing as a “standard” migrant-run company. Entrepreneurs with a migration background possess a variety of qualifications and can draw on a variety of resources. They also operate on what are referred to as ethnic markets, though not exclusively. The spectrum ranges from international consulting to skilled craft firms to self-employed day laborers.

Based on selected key findings of the study, the sections that follow provide ideas and suggestions for the work of the Department of Labor and Economic Development going forward.

### 5.1 Tap vocational training potential

Migrant-run companies are certainly willing to provide young people with vocational instruction. However, analysis of the interviews conducted shows that the majority of respondents generally equate “vocational training” with “internships”. Although the German vocational education system has been lauded as a recipe for success to avoid youth unemployment, especially in the context of the recent economic crisis, few of the respondent entrepreneurs seem to be familiar with what this system entails and how it works. To encourage more migrant-run entrepreneurs to offer vocational training opportunities, formal barriers such as certificates of qualification to provide training are not the only obstacles that must be overcome. There is clearly also a more fundamental need to cultivate a better understanding of the dual (sandwich course) training system, which involves both on-the-job practical aspects and theoretical tuition, and to explain the contractual and legal structure of this form of education.



## 5.2 Provide advice on the development of career biographies

Nearly 40 percent of the entrepreneurs we talked to would prefer dependent employment to self-employment. People with a migration background still find themselves exposed to a higher risk of social exclusion, poverty and health issues as a result of long-term unemployment and low-wage employment. In such cases, starting a business serves first and foremost to avoid unemployment and prevent the individuals concerned from becoming needy. Two lessons can be learned here: First, these entrepreneurs show that forms of gainful economic activity can change in the course of a career biography. Those entrepreneurs who complete the transition to dependent employment do not see giving up self-employment as failure, but rather as a successful move. Second, this group could benefit from service offerings that document the skills they acquire in the course of self-employment. Such offerings could then help them to (re-)enter the primary labor market.

## 5.3 Adapt information strategies for existing services

The Point of Single Contact (PSC) made available to entrepreneurs by the City of Munich provides a great deal of useful guidance and orientation to those companies that come for advice. However, few of the respondent entrepreneurs knew about the Point of Single Contact service – or had not known about it at the time when they would have needed it. Since entrepreneurs who have only recently arrived in Germany often do not assume that any such services and assistance will even be available, the existing information strategy should be adapted. To enable the target group to make better use of these offerings, additional multipliers from the local administration and the various communities – be they associations or consulates – could be actively involved. Existing offerings and network structures should also be examined to see where intercultural barriers may still exist.

## 5.4 Lower barriers to the communication of key systemic knowledge

As a general rule, it would be useful for new arrivals from other countries to receive an easy-to-understand visualization of the relevant systems and the logic behind them (including graphical elements), and to make this information available both in the form of a brochure and online.

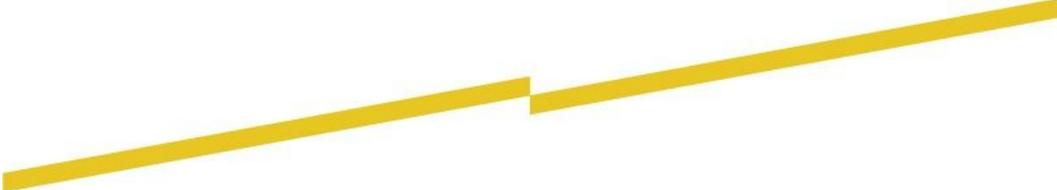


## 5.5 Distinguish between the provision of basic knowledge and specific expertise

Although entrepreneurs with a migration background constitute a very heterogeneous group, two widespread tendencies can nevertheless be identified with regard to the support and service offerings they need:

- One group tends to have a more ad-hoc need for industry-specific or management-specific expertise. These entrepreneurs tend to need help gaining access to industry-specific networks and relevant specialists.
- Another group finds itself still at “square one” in a variety of areas. Many of these individuals lack an adequate command of German and are initially preoccupied with questions about the various systems and business requirements. This group would benefit from services that provide basic knowledge in an intensive form.

The study highlights the important contribution that migrant-run companies can make to Munich's economic and competitive strength. Their contribution to the life of the City of Munich cannot be measured in terms of economic data alone, however. Day after day, these self-employed persons prove instrumental in integrating migrants and cementing the city's cultural diversity. As such, they are a constant source of enrichment to local society. The findings of the study make it clear that migrant-run companies and entrepreneurs with a migration background have to deal with all the “normal” difficulties that all entrepreneurs face, but that they are also confronted by a series of specific challenges. The City of Munich's decision to make its support and advisory services more sensitive to intercultural needs and more accessible to residents with a migration background is manifestly the right one, and a very important one. At the same time, new and complementary approaches can help to tailor existing service offerings even more closely to the actual needs of entrepreneurs with a migration background.



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