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## Renaissance of entrepreneurship? Some remarks and empirical evidence for Germany

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**Dieter Bögenhold und Uwe Fachinger**

**Renaissance of Entrepreneurship?  
Some remarks and empirical evidence for Germany**

ZeS-Arbeitspapier Nr. 2/2007

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## Abstract

The paper deals with margins of entrepreneurship where small business owners are almost working on their own having no or just a few employees and where one can find also people working with low returns and having firms without stability or prosperous dynamics. However, even the area of *entrepreneurship at the margins* seems to be a wide field. It highlights not only the broad margins of entrepreneurship but also the fluent borders between entrepreneurship and the informal sector on the one side and the system of the labour market on the other. New firms – even those which are very successful at a later point of career – are almost created in an experimental period of testing market and product ideas in which business founders are still employed or registered as unemployed people. The practical starting-point of an entrepreneurial existence falls into a fluent continuum of different activities being closely connected to spheres of dependent work as employees or periods of seeking a new job during unemployment.

With growing solo self-employment a new social phenomenon in the structure of the labour market and the division of occupations has emerged in which different social developments are overlapping each other. The question for the landscape of solo self-employment and related driving forces of their emergence is of crucial research interest: Must they be regarded primarily as a result of *pushes* by labour market deficiencies or are they a response to new life-styles and working demands which act as *pulling* factors into self-employment? In other words, does solo self-employment serve as a valve of a pressing labour market or must it be regarded more positively as a new option of the classic division of labour by which an increasing number of people find new self-reliant and also stable jobs? The idea of the paper is to discuss this particular issue of margins of entrepreneurship not only within the conventional scope of entrepreneurship discussion but within an integrated framework which combines entrepreneurship analysis with labour market research and studies on social stratification and social mobility. The paper will not come about with definite last answers but hopes to contribute to that debate by presenting better information.

## Zusammenfassung

Der Beitrag behandelt die Thematik des Grenzbereichs des Unternehmertums, charakterisiert als ein Bereich, in dem Kleinunternehmer zumeist alleine – mitunter unterstützt von einigen wenigen Beschäftigten – mit niedrigen Erträgen und einer hohen Unsicherheit hinsichtlich der weiteren Existenz des Unternehmens bzw. ohne eine vielversprechende Dynamik arbeiten. Aber selbst dieser Untersuchungsbereich stellt ein weites Feld dar. Er betont nicht nur die große Bandbreite des Unternehmertums, sondern ebenso die fließenden Übergänge zwischen Unternehmertum und informellem Sektor einerseits sowie dem Arbeitsmarkt auf der anderen Seite. Neue Unternehmen – selbst diejenigen, die später sehr erfolgreich sind – sind als Experiment zum Testen des Marktes und der Produktideen in Phasen entstanden, wo die Firmengründer selbst abhängig erwerbstätig oder gar als Arbeitslose registriert waren. Der eigentliche Beginn einer Unternehmerexistenz fällt in ein fließendes Kontinuum unterschiedlicher Aktivitäten, die eng zusammenhängen mit einer Beschäftigung als abhängig Erwerbstätiger oder Perioden der Arbeitsplatzsuche während einer Arbeitslosigkeit.

Mit der Zunahme der Einpersonen-Unternehmen bzw. der Solo-Selbständigkeit ist ein neues soziales Phänomen in Bezug auf die Arbeitsmarktstruktur und die Arbeitsteilung entstanden, in dem sich verschiedene gesellschaftliche Entwicklungslinien überlappen. Die Frage nach den Formen der Solo-

Selbständigkeit und den Antriebskräften ihrer Entwicklung ist von hohem Forschungsinteresse. Muß die Solo-Selbständigkeit hauptsächlich als das Ergebnis von Arbeitsmarktdéfiziten betrachtet werden – die in der Literatur als Push-Faktoren bezeichnet werden – oder reflektiert sie einen neuen Lebensstil und damit zusammenhängend eine geänderte Form der individuellen Arbeitsgestaltung, der Menschen berufliche Selbständigkeit zunehmend attraktiv erscheinen läßt – sogenannte Pull-Faktoren? Mit anderen Worten, dient Solo-Selbständigkeit als Ventil für den Arbeitsmarktdruck oder ist diese Form der Selbständigkeit eher positiv zu betrachten als eine neue Option innerhalb der klassischen Arbeitsteilung, durch die eine zunehmende Anzahl an Personen ein neues Selbstbewusstsein und eine stabile Erwerbstätigkeit finden? Die grundlegende Intention des Beitrages ist es, diese spezifische Form des Grenzbereichs des Unternehmertums zu diskutieren und dies nicht nur in der konventionellen Form der Unternehmensforschung, sondern innerhalb eines integrierten Ansatzes, der Arbeitsmarktanalysen sowie die Analysen zur gesellschaftlichen Stratifizierung und sozialer Mobilität mit umfasst. Der Beitrag des Arbeitspapiers liegt in der Präsentation einschlägiger Informationen, die zu einer besseren Fundierung der wissenschaftlichen Debatte über das Unternehmertum beitragen sollen.

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## I. Introduction

Although entrepreneurship has become a prominent and strategically important issue when talking about driving forces of innovation, prosperity and job creation, the term seems to be poorly defined in academic discussion and in public policy discourse. One side of talk about entrepreneurship covers phenomena which include dynamically fast growing firms which are the core of hope for economic development within economic policy debate. Another and less spectacular form, of entrepreneurship covers the emergence of new micro firms, of solo self-employment without intentions or possibilities of growth and the beginning of many diverse new developments in small business which indicate either the emergence of new independent professions primarily in the service sector or which are just effects of labour market changes and often connected to low income levels (Bögenhold 2004).

Entrepreneurship can not directly be translated into a category of social stratification or labor market analysis since the term entrepreneurship seems to be more likely an umbrella for different diverse economic phenomena of business life. When discussing links between entrepreneurship, the division of occupations and changes in the labour market, the analytic category of *self-employment* seems to be more precise and adequate to operationalize a quantifiable understanding of entrepreneurship. Self-employment as a labour market category can be numerically counted and be compared with labour market categories of wage-dependent work.

The paper deals with margins of entrepreneurship where small business owners are almost working on their own having no or just a few employees and where one can find also people working with low returns and having firms without stability or prosperous dynamics. However, even the area of *entrepreneurship at the margins* seems to be a wide field. It highlights not only the broad margins of entrepreneurship but also the fluent borders between entrepreneurship and the informal sector on the one side and the system of the labour market on the other. New firms – even those which are very successful at a later point of career – are almost created in an experimental period of testing market and product ideas in which business founders are still employed or registered as unemployed people. The practical starting-point of an entrepreneurial existence falls into a fluent continuum of different activities being closely connected to spheres of dependent work as employees or periods of seeking a new job during unemployment.

After steady decline of numbers of self-employed people which can be observed in the majority of industrial societies after World War II, the volume of self-employment began to consolidate during the 1980th. With respect to the German case, an increase of self-employed people can be observed from the late 1980<sup>th</sup> until recent days. For a period of 20 years, a slow but steady revival of self-employed people has taken place in Germany. Most of this increase belongs to the increase of the group of one-person-firms where the business owner works for him- or herself without further employees or just with the assistance of further family members (Leicht 2000; Bögenhold/Leicht 2000). The category of solo self-employment and their related micro-firms constitute certainly a kind of margin of entrepreneurship and it has to be asked for the dynamics of the figures and connected social rationalities.

With growing solo self-employment a new social phenomenon in the structure of the labour market and the division of occupations has emerged in which different social developments are overlapping each

other. The question for the landscape of solo self-employment and related driving forces of their emergence is of crucial research interest: Must they be regarded primarily as a result of *pushes* by labour market deficiencies or are they a response to new life-styles and working demands which act as *pulling* factors into self-employment? In other words, does solo self-employment serve as a valve of a pressing labour market or must it be regarded more positively as a new option of the classic division of labour by which an increasing number of people find new self-reliant and also stable jobs? The Idea of the paper is to discuss this particular issue of margins of entrepreneurship not only within the conventional scope of entrepreneurship discussion but within an integrated framework (Shane and Venkataraman 2000) which integrates entrepreneurship analysis with labour market research and studies on social stratification and social mobility. The paper will not come about with definite last answers but hopes to contribute to that debate by presenting better information.

## II. Entrepreneurship, Self-employment and their Dynamics

The emergence of new businesses always follows different socioeconomic paths. One can analyze different social rationalities to set-up one's own firm (Martinelli 1994). For heuristical purposes, the corner points of a fluent continuum of different social logics are a rationality of need where people start on their own with a background of existing or expected unemployment or poverty on one side, and a rationality where people start orienting towards self-employment to realize own ideas on their own, being independent instead of working in hierarchies and related dependencies. Different times and different regional spaces indicate different contextual indicators influencing the flux into self-employment in different ways. Specific compositions of different motive groups are permanently ongoing of which many forms of founders' behaviour are *a priori indifferent* and to be explored analytically.

Business never takes place without being embedded in a flux of historical, cultural and institutional developments which provides different colours and styles of national economies. Peter L. Berger has expressed the fact as following: „Economic institutions do not exist in a vacuum but rather in a context of social and political structures, cultural patterns, and indeed, structures of consciousness (values, ideas, and belief systems). An economic culture then contains a number of elements linked together in an empirical totality” (Berger, 1986: 24). The so-called social embeddedness of economic institutions and economic behaviour (Granovetter 1985) can be portrayed in many different regional studies on entrepreneurship and innovation (Asheim/Cooke 1999, Asheim/Gertler 2004).

Studies in regional economy often have an overlap with studies on local network districts, both are different sides of the same coin. It has been forcefully argued that we are entering the state of a new "network society" (Castells 2000). From the perspective of a changing economy, in general, and dominant modes of expansion of small business, in particular, this may appear as a truism. Since the mid 1970s and accelerating during the 1980s and 1990s the proliferation of niches for new networks of small businesses has belonged intimately to the logics and the prevalent business strategies of economic restructuring across the Western world, including processes such as outsourcing and franchising. New well functioning regional clusters are seen as key elements of the competitive advantages of nations. Here, different individual local networks are regarded as principal actors in international competition. Piore and Sabel (1984) shifted attention to regional districts as sources of innovation and inspiration in



their book "The Second Industrial Divide". Later, Michael Porter (1992) did a more systematic attempt to argue that regional districts function as coherent units of economic life including cooperation and competition, and that they are the core elements of success or disadvantage profiles on international comparisons. Since we lack an appropriate understanding of how endogenous growth can be realized in modern economies, one has to refer to regional levels as levels of observation to discuss issues of entrepreneurship, growth, and network economies (Nijkamp 2000). In so far, networks as regional districts provide a basis to study the *microeconomics of prosperity* (Porter 2000).

Organizational networks build up the configuration scenery of different companies related to their environments (Mintzberg et al. 1998). Thinking in terms of organizational networks helps to come to a better understanding of the dynamics of firm populations since. Markets must be regarded as synthesis of competition and co-operation and organizational networks transport the fresh blood in terms of communication, innovation, alliances etc. which keep economy and society alive and which may put things forward. The "architecture of markets" (Fligstein 2001) must necessarily take into account these different analytical tools in order to map up structure, form, and action of organizations (Nohria/Eccles 1992; Rauch/Casella 2001).

However, discussion about the wealth of national economies has a long tradition which, at least, goes back to Adam Smith's famous "The Wealth of Nations" (1776, 1970). Even Smith was very much concerned with strengthening the multiple elements of growth processes. According to his thought, accumulation of capital, increases in productivity and employment growth are very dependent on each other. Adam Smith conceptualized growth as consequence of the interaction of different variables which can be thought of as a cumulative process having a kind of systemic character.

What Smith found regarding growth is also true for entrepreneurship. Entrepreneurship is not the only ultimate driving force towards economic prosperity as which it is almost regarded. Already William J. Baumol argued in much more detail that "entrepreneurs are always with us and always play *some* substantial role. But there are a variety of roles among which the entrepreneur's efforts can be reallocated, and some of those roles do not follow the constructive and innovative script that is conventionally attributed to that person" (Baumol 1990: 894; see also Baumol 2002 for a more extended argument). In other words, the institutional contexts in which new firms are created are of strategical importance and have to be of primary analytical research interest<sup>1</sup>. Historical studies are one tool to highlight different contexts of business founding's and their effects (Munro 2006).

Translating entrepreneurship with self-employment and vice versa causes problems since we don't find one average type of self-employment which is universal for all actors belonging to that statistical group. The category of self-employed people is very heterogeneous instead. The socioeconomic process by which new self-employed people are shaped follows different types of social and economic logic. Usually no account is taken of the extent to which the quota of self-employed workers is differentiated, or how different the processes of socio-economic logic are that lead people in the direction of vocational independence for the first time. One can analyse such forms of social mobility in terms of different

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<sup>1</sup> For a more detailed empirical investigation of the self-employed figures in a number of European countries and the USA cf. Luber (2003). In her investigation of the development patterns in self-employment since 1960, on international comparisons and differentiating by economic sectors, Luber shows that considerable international divergences are to be found in concrete empirical terms, making it difficult on the basis of these observations to offer reliable interpretations and conclusions in the sense of cause-effect relationships.

compositions of individual and environmental factors. Discussion of this issue tends to ignore socio-economic debate and labour market research. The failure to differentiate between various socio-economic situations (origin, career pattern, family tradition, income, family income, area of activity, etc) inevitably results in a one-sided scientific view and one-sided political rhetoric. Scase and Goffee (1980: 23 f.) offered a typology involving four different forms for self-employment roles:

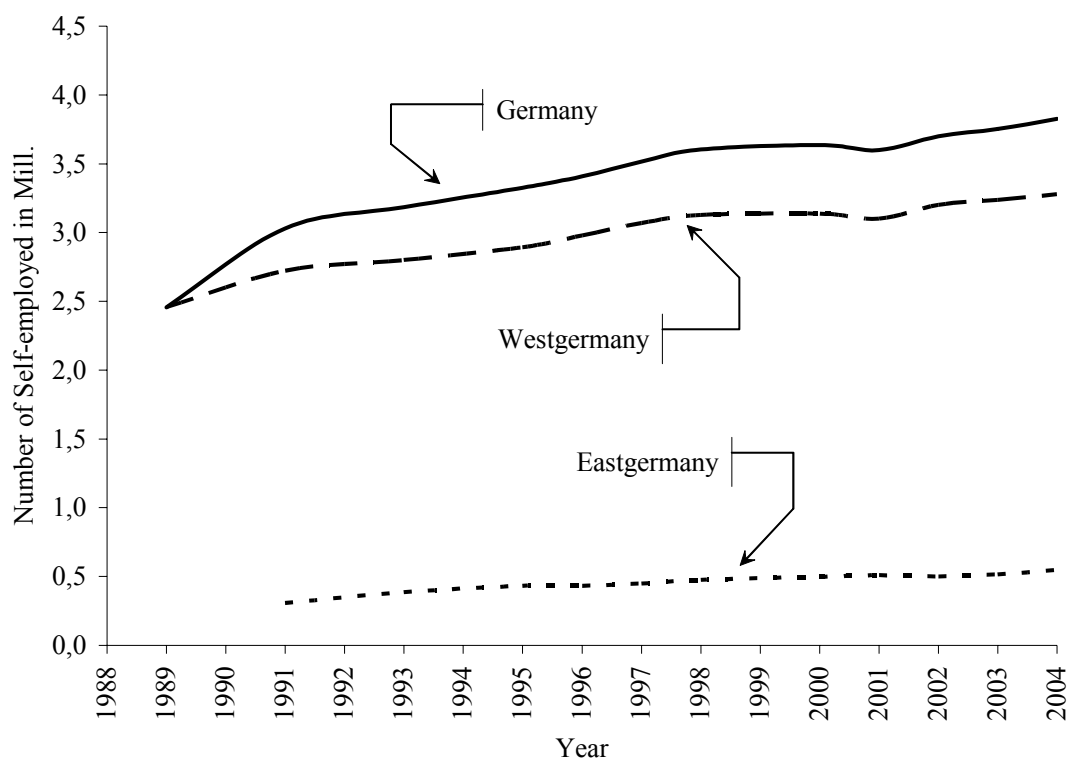
1. The self-employed, who work for themselves and formally employ no labour. However, they often depend upon unpaid services of family members, particularly their wives.
2. Small employers who work alongside their workers but, in addition, undertake the administrative and managerial tasks of running their own business.
3. Owner-controllers who do not work alongside their employees but, instead, are solely and singularly responsible for the administration and management of their business.
4. Owner-directors who control enterprises with developed managerial hierarchies so that administrative tasks are subdivided and delegated to executive directors and other senior personnel (Scase/Goffee 1980: 23 F.).

Discussing the question of margins of entrepreneurship, one has to consider that especially the first category increases more than others. Here, we experience not only a fluent boarder between self-employment and so-called informal economy (Tilly/Tilly 1994: 290) but also the question for the background of origins is pending: Where do they come from, why do they appear ? Do we find new fields of opportunities offering chances to small business people or must all of them be qualified as actors being pushed into self-employment?

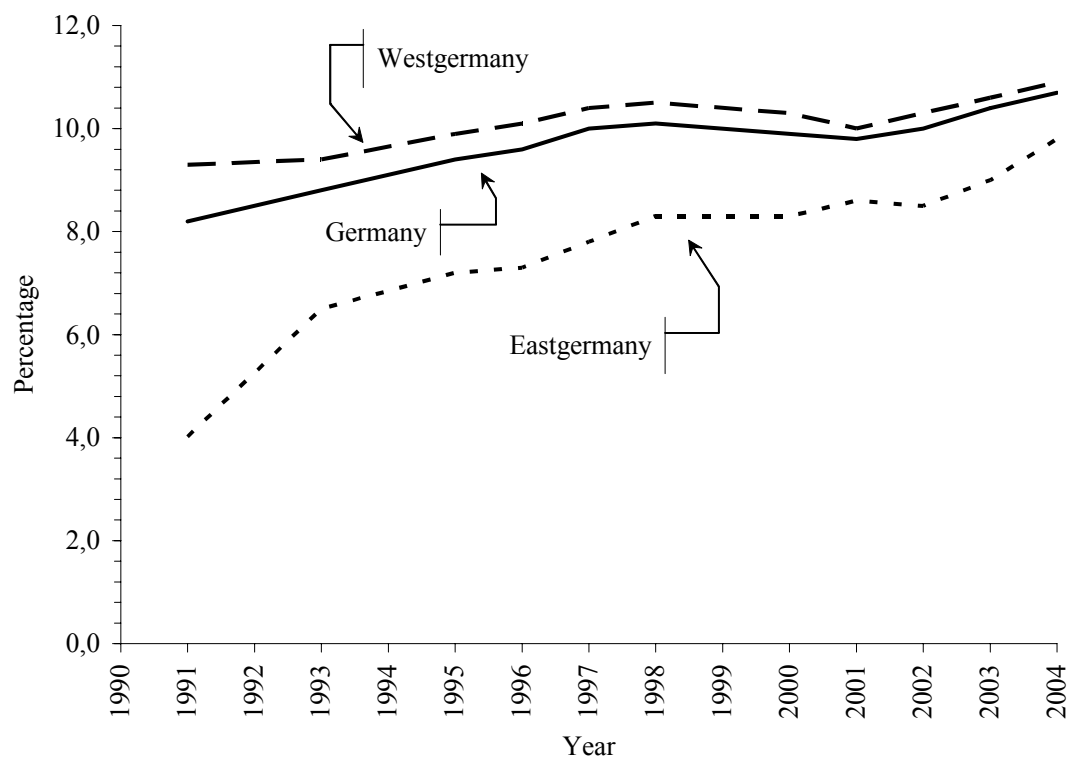
### **III. Self-employment and Solo self-employment in Context**

An answer to these questions is of general interest and should include empirical analysis asking for different institutional contexts in different societies and for motives and biographies of actors who are involved in such occupational mobility. However, empirical focus of our ongoing analysis and discussion, is the description for the case of Germany. In Germany the number of people being involved in self-employment has tremendously increased in absolute numbers between 1989 and 2004. Much of this increase is due to German reunification in 1990 and the reestablishment of market forces in East Germany. Figure (1) shows that not only the reunification effect counts for the upturn but that there is also a continuous increase of self-employment which occurred over the whole period until 2004. Absolute numbers indicate different levels for East and West-Germany but the development shows the same pattern.

Figure (2) deals with the self-employed people and illustrates the development of self-employed people as percentage of the labour force between 1991 and 2004. Here, we observe that the trend shows the same direction of permanent increase. East-Germany has doubled the proportion of self-employment within 13 years from about 4 percent to about 10 percent while the increase in West-Germany was more moderate with about 1.5 percentage points. The percentage of self-employment for Germany (as a whole) advanced from 8 percent to nearly 11 percent.

**Figure (1): Self-employed People in Germany, 1989 – 2004**

Source: Own calculations on the basis of the scientific use files of the Microcensus.

**Figure (2): Self-employed People as Percentage of Labour Force, 1989 – 2004**

Source: Own calculations on the basis of the scientific use files of the Microcensus.

What do the curves show further and which conclusions can be drawn? Figures (1) and (2) indicate a slight but steady increase of self-employment in the German labour market during the last 15 years. This trend hides and reflects as well further fundamental changes in economy and society which are turning the face towards tertiarization (as described beginning with Lederer 1912 and continued by many authors, of whom Daniel Bell 1973 was a milestone). The secular decline of an agricultural sector in contemporary societies, minimized farming and consequently the numbers of farmer led to a permanent reduction of the number of self-employed people. Since the exodus of the agricultural sector has come to a relative end during the 1980<sup>th</sup>, the push factor for independent farmers (working on their own as small businessmen) to leave agriculture has lost its evidence more and more. Simultaneously, the ongoing trend towards service sector employment served as an institutional pushing factor to increase numbers of self-employment. By nature, self-employment quota in agriculture is always the highest amongst economic sectors, whereas those in manufacturing were the smallest. Self-employment quota in the service sector is principally much higher than those in manufacturing which consequently leads to an increase of self-employment when service sector employment increases. The trend towards services has – among others – the following social and economic/structural consequences:

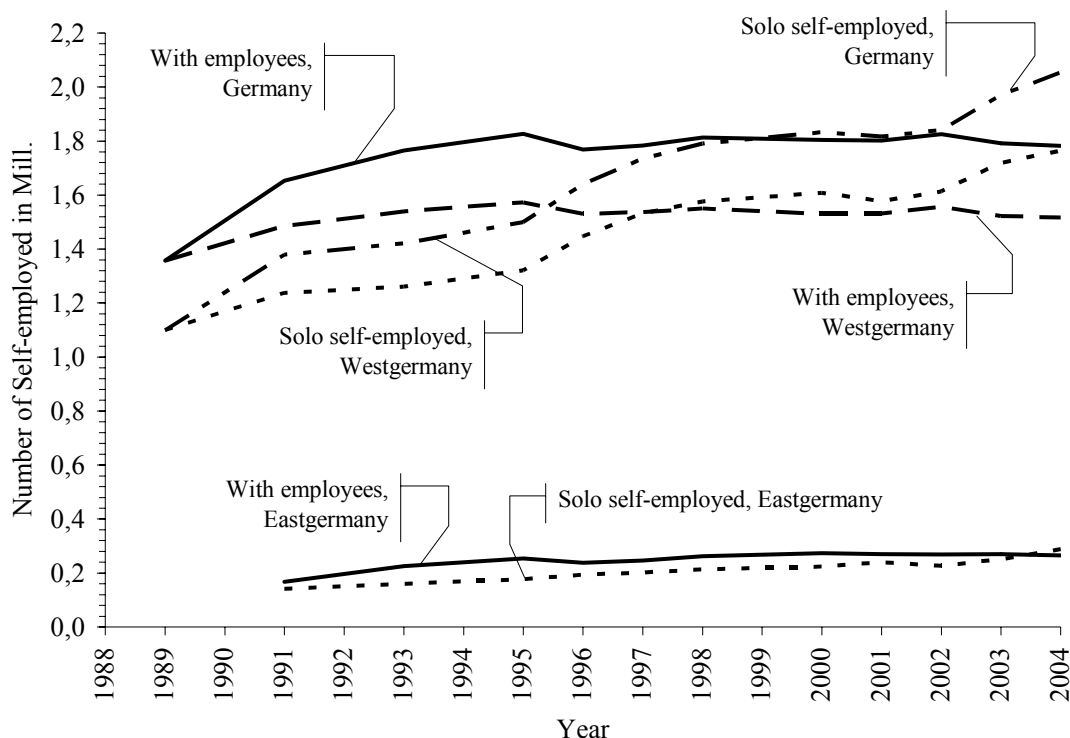
1. Since the self-employment quota in the service sector is higher than in any other branch of economy apart from agriculture, a shift in the economy towards the direction of an expanded service sector will inevitably lead to a rise in the amount of self-employed activity. A large part of this – currently dubbed “new self-employment” – is quite simply a structural consequence of tertiarisation.
2. Firms and companies in the service sector are staff-intensive rather than capital-intensive, but on average they are far smaller than manufacturing companies. From this point of view alone a shift in occupational and company structures towards services results in a trend towards a reduction in average company size.
3. A combination of several other individual factors has an impact on the fabric of company structures. As already mentioned, of course, one such factor is the strategy of large companies to outsource parts of their range of activities. The purpose of outsourcing generally is to maximise operational flexibility, a strategy which in turn ties in with transaction cost calculations. In actual fact, however, such strategies defy rational scrutiny to a certain extent; they are rather based on subjective calculations by decision-makers whose actions are guided by their own logic (Jensen 1998). New marketing strategies and sales rationales such as franchising are also worth noting here.
4. Finally, as new communication and information technologies become more widespread, there is an expansion in the range not only of new products but also new companies, and above all many small firms offering software and computer services (Castells 2000; Schiller 1999). There is no exact knowing how many more new companies will be spawned by the internet and teleworking. Furthermore, the new information technologies lay the foundations for virtual companies, which are likely to play an increasingly important – but not necessarily unproblematic – role in view of the debate about globalisation.
5. Demographic change, the leisure society and mounting individualisation are furthermore producing completely new social needs and requirements which create a basis for independent economic activities and new companies. Social services, care of the elderly and consultancy in various specialist fields will gain ground. There is a veritable commercial market in medical care and related appliances, which is coming more and more under the spotlight (Light 2000).
6. Another important point and an undoubted result of increasing tertiarisation is the rising quota of self-employed women. The rate of female self-employment has soared, above all in the liberal

professions and in private social services: whereas in 1970 not even one in five self-employed workers was female, the figure for 2004 was already one in less than three.

7. In addition to organisational and sectoral change we are all first and foremost witnessing a drastic transformation in the conditions and composition of the labour market. A high or rising rate of unemployment drives more people into occupational independence; in other words, business start-ups function in part as an outlet for an over-stretched labour market. What is happening at present is paradoxical in that a succession of mega-mergers between economic giants has been announced in recent months and years, while at the same time small companies are visibly sprouting in the shadow of these emerging amalgamations and oligopolies. Small businesses and micro-firms in Germany have been growing vigorously for some years (Bögenhold et al. 2001).

Figure (1) and (2) provide information about the statistical numbers of self-employment but are silently regarding further qualitative information. Do we witness a revival of entrepreneurship or are we confronted with new pictures of an emerging economy increasingly based on new developments towards service sector employment? Our analysis is lead by the research question for the nature of self-employment. However, statistical data of German Micro Census<sup>2</sup> limited the observation to the discrimination between those self-employed people having further employees within their firms and those without and who work alone or just with family members.

**Figure (3): Self-Employed with Employees and Solo Self-Employed in Germany, 1989-2004**



Source: Own calculations on the basis of the scientific use files of the Microcensus.

2 See for a short description [http://www.destatis.de/micro/e/micro\\_c1.htm](http://www.destatis.de/micro/e/micro_c1.htm).

**Figure (4): Self-Employed with Employees and Solo Self-Employed and Gender, 1989 – 2004.**

Source: Own calculations on the basis of the scientific use files of the Microcensus.

What we are seeing is that the continuous increase in self-employment was carried out predominantly by the group of the solo self-employed. Whereas both groups, self-employed with employees and solo self-employed, contributed to the overall increase of self-employment in the first part of the 1990<sup>th</sup>, the period from 1995 until 2004 shows that the increase of self-employment has been carried out only by the increase of solo self-employment while the percentages of self-employed people having employees in their firms stagnated or declined slowly. Furthermore, it is remarkable, that the development for women and men are nearly identical. The only difference is in the level of solo self-employed people: The rate is nearly 15 percentage points higher for women.

#### IV. Professions and Freelancers

Talking about recent revival of entrepreneurship is difficult to do since we are lacking precise indicators how to define and how to measure entrepreneurship. If we follow one common procedure saying that fostering entrepreneurship consequently means fostering the ratio of self-employment, we must acknowledge such rise of self-employment for more than a decade in Germany. However, a closer look shows that this rise of self-employment is due to an exceptionally high increase of solo self-employment. Solo self-employment is not just what in public opinion is identified with the common positive image of entrepreneurs as heroes of business life contributing to wealth and prosperity in

modern economies since by definition solo self-employment is identified by small and smallest firms – micro-firms – where one-man- or one-woman-firms are run by individual owners working alone or with family members. Discussion wants to shed further light on that issue asking for more specific information about the nature of solo self-employment. An over-averaged increase can be found within the group of (classic) free professions and an multiplication within the group of freelancers.

Most occupations belonging to groups of free professions and freelancers are based on academic training and academic curricula<sup>3</sup>. They can be regarded as manifestation of overall tendencies of professionalization as they are already discussed in anglo-american debate since the 1930<sup>th</sup> (e.g. Parsons 1939, 1954; Marshall 1939). In course of increasing academic knowledge within education and further education we observe that occupational specialists have been in advance since decades. Self-employed specialists having expertise in different areas of a growing variety of use in differentiated market societies are among them. As more complex market societies proof to evolve as more new branches and niches are created (Shane 2004) where independent businessmen find new opportunities to exploit (Bögenhold 2000). The emergence of (self-employed) free professions and (self-employed) freelancers must be regarded within that context. They mirror secular tendencies towards the establishment of so-called knowledge societies (Stehr 2005) in which the stock of academic education is much higher than in any historical society before.

We will take a closer look at the two specific groups of self-employment, namely the free (“liberal”) professions as a well established subcategory of self-employment with own firm interest groups and related organizations on the one side and the freelancers as a heterogeneous group with a somehow fragmented image on the other side<sup>4</sup>.

As can be seen in both figures<sup>5</sup> (5) and (6), the development of the self-employed free professions with and without employees was for most occupational groups neither steady nor homogeneous. For each occupational group, the total numbers of solo self-employed are always lower. What catch one’s eye are the sharp rise of the numbers of medical doctors with employees in figure (5) as well as the increase of solo self-employed civil engineers, architects, legal representatives, solicitors and also medical doctors in figure (6). Table (1) summarizes the development between 1991 and 2004<sup>6</sup>.

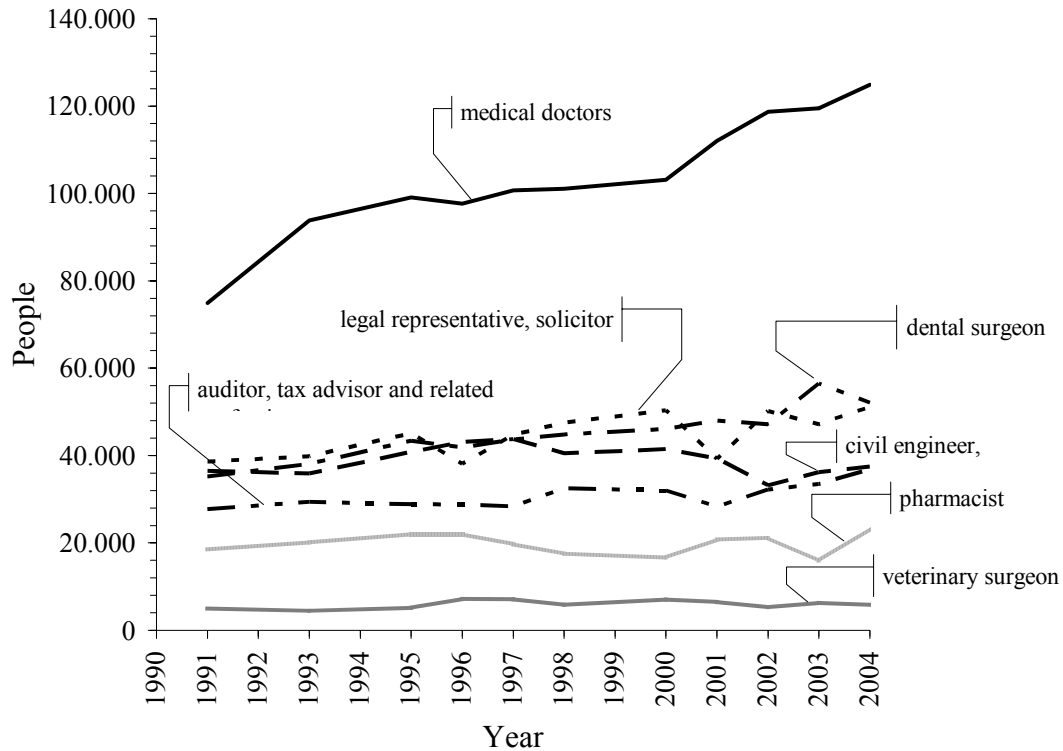
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<sup>3</sup> See e.g. Betzelt 2007, chapter 2, or for the special occupational group of the cultural professions Betzelt/Gottschall 2007: 126.

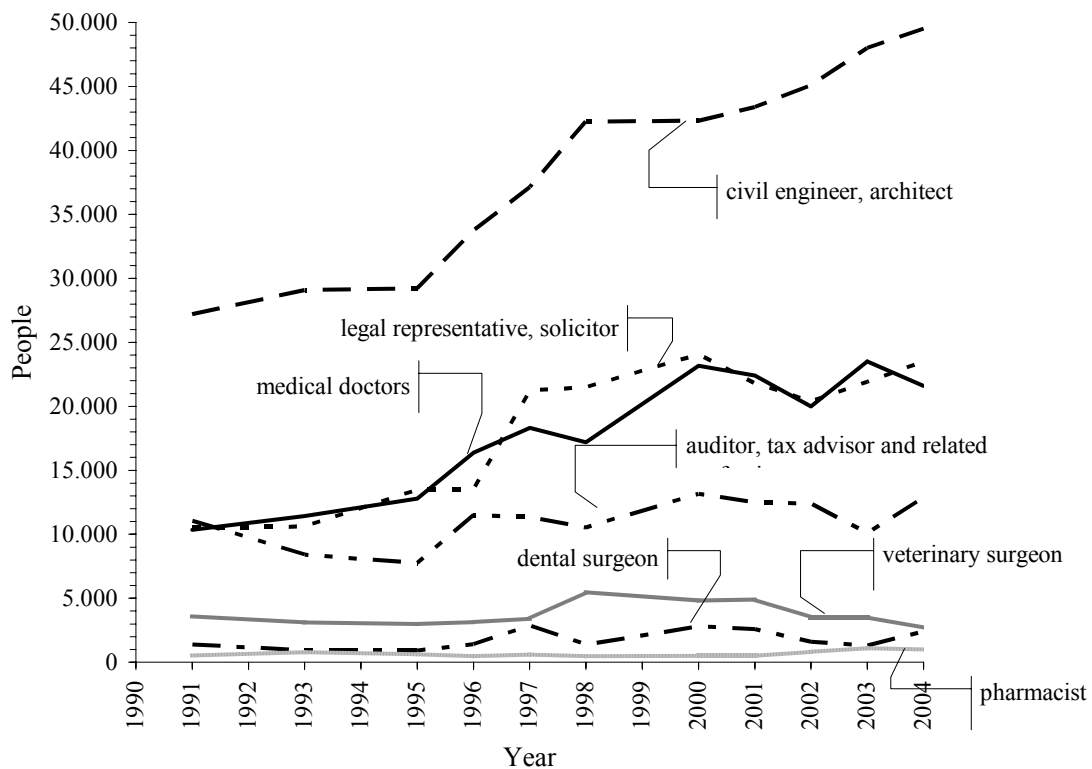
<sup>4</sup> See for a detailed analysis of a specific group of freelancers in Germany: the publishing and new media professions Betzelt 2006 and Betzelt/Gottschall 2004.

<sup>5</sup> Regarding the interpretation of the figures, bear in mind, that the scales of the ordinates are different.

<sup>6</sup> For yearly growth rates see Appendix.

**Figure (5): Free Professions, Self-Employment with Employees, 1991 – 2004.**

Source: Own calculations on the basis of the scientific use files of the Microcensus.

**Figure (6): Free Professions, Solo Self-Employment, 1991 – 2004.**

Source: Own calculations on the basis of the scientific use files of the Microcensus.



**Table (1): Free Professions – Changes in Percent, 1991 to 2004**

Occupation unit group*	all	Solo Self-employment	Self-employment with Employees
Civil engineers, architects	36,6	81,9	2,8
Accountants, auditors, tax advisors	28,4	16,5	33,1
Legal professionals (solicitors, notaries)	51,9	123,9	32,3
Medical doctors	71,7	108,4	66,7
Dentists	49,0	74,3	48,0
Veterinarians	-0,6	-24,7	16,8
Pharmacists	27,8	87,6	26,0
Liberal professions, in all	47,9	75,8	40,3
Self-employed people, in all	27,1	48,9	7,9

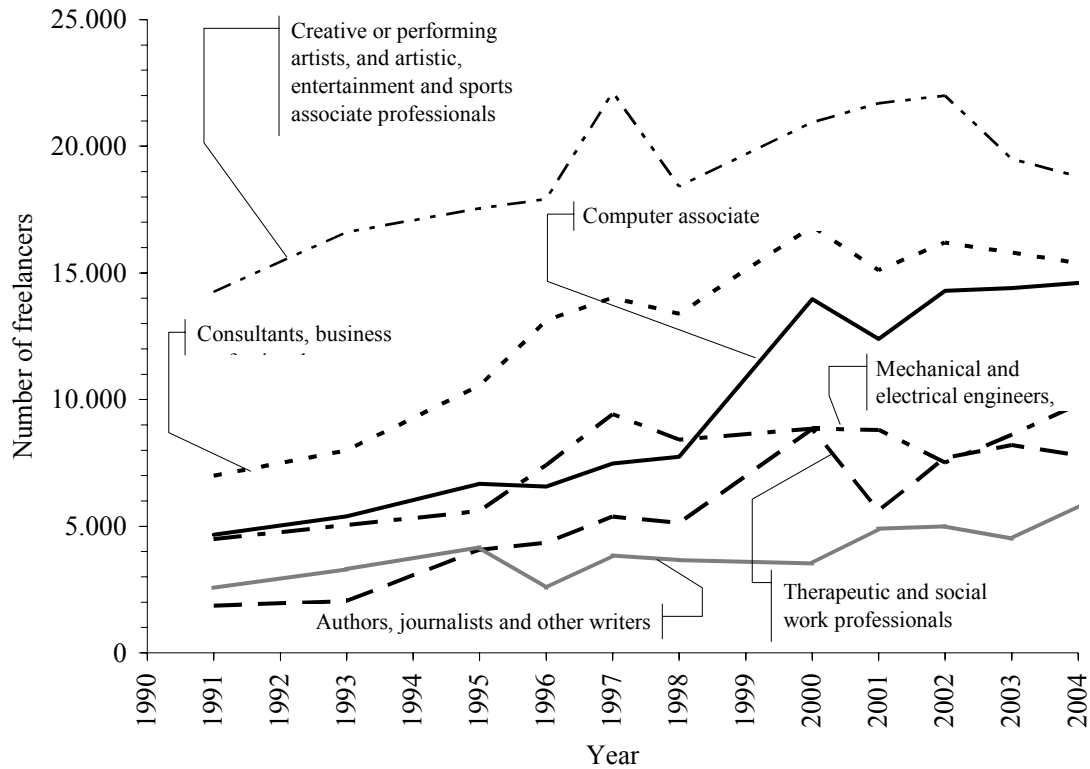
\* International Standard Classification of Occupations 1988 (ISCO 88) (COM), Eurostat.

Source: Own calculations on the basis of the scientific use files of the Microcensus.

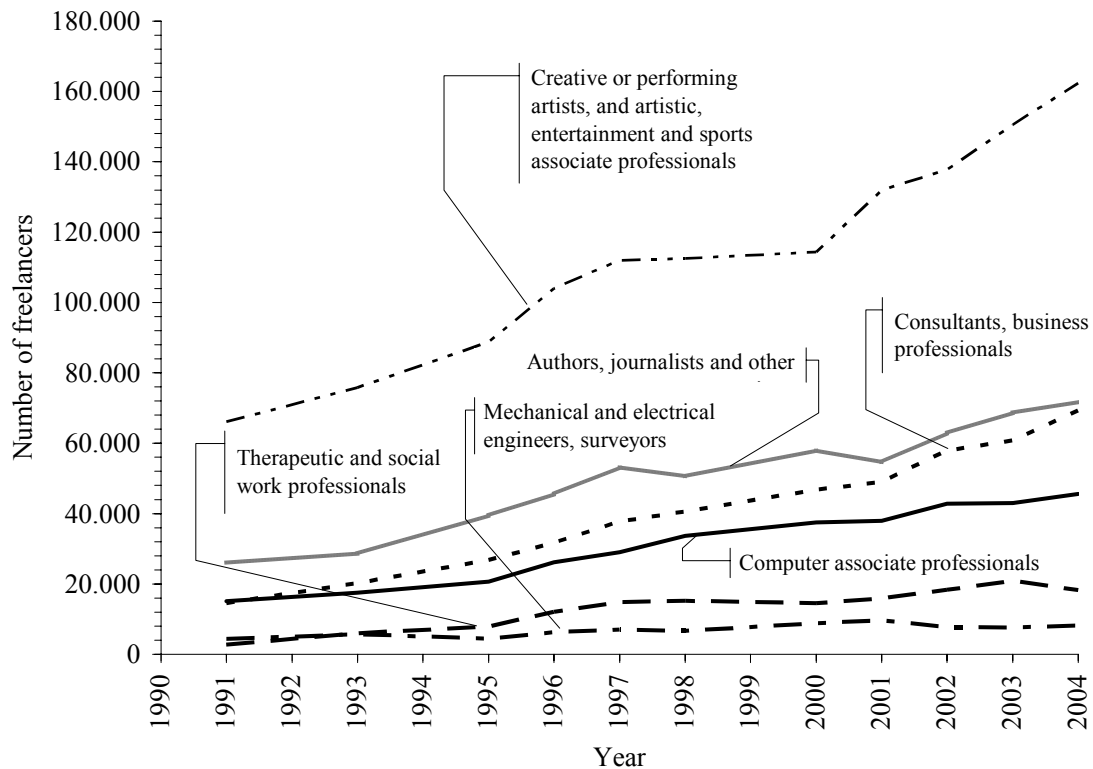
During the observation period the group of free (“liberal”) professions increased with nearly 48 percent much higher than the category of self-employed people in general did. Especially, medical doctors, solicitors and dentists maximized their numbers considerably whereas only veterinarians had a reduction of their size. Distinguishing if the liberal professions employ further employees or work in solo self-employment, table (1) indicated the over-averaged increase of solo self-employment for the most part.

The most striking changes are visible when having a look at the group of freelancers. Self-employment increased at 27 percent whereas the number of (independent) freelancers exploded during the same time by 118 percent. The freelancers can be subdivided in three different groups: (1.) Professions where the level of absolute numbers remained constant over time which was valid, among others, for health associate professionals, (2.) professions with slight disproportionate changes over time which concerned agronomy and forestry technicians and mechanical engineers, and (3.) professions with a growth rate much higher than that of other groups which concerned e.g. consultants or business professionals. Also here, the fast increase of solo self-employment is obvious<sup>7</sup>.

<sup>7</sup> Regarding the interpretation of the figures, bear in mind, that the scales of the ordinates are different. In figure (8) the scale is more than seven times higher.

**Figure (7): Freelancers, Self-Employment with Employees, 1991 – 2004.**

Source: Own calculations on the basis of the scientific use files of the Microcensus.

**Figure (8): Freelancers, Solo Self-Employment, 1991 – 2004.**

Source: Own calculations on the basis of the scientific use files of the Microcensus.

**Table (2): Freelancers – Changes in Percent, 1991 to 2004**

Occupation unit group*	all	Solo Self-Employment	Self-Employment with Employees
Mechanical and electrical engineers, surveyors, cartographers	103,3	87,9	118,3
Consultants, business professionals not elsewhere classified	293,5	376,9	120,2
Computer associate professionals	204,6	202,0	213,1
Therapeutic work professionals, social work professionals	202,3	558,2	319,3
Authors, journalists and other writers	170,3	174,7	126,3
Creative or performing artists, and artistic, entertainment and sports associate professionals	125,4	145,6	32,0
Freelancers, in all	118,3	135,9	85,0
Self-employed people, in all	27,1	48,9	7,9

\* International Standard Classification of Occupations 1988 (ISCO 88) (COM), Eurostat

Source: Own calculations on the basis of the scientific use files of the Microcensus.

## V. Rise of Micro-Firms and Related Socioeconomic Logics

In addition to organisational and sectoral change we are above all witnessing a drastic transformation in the conditions and composition of the labour market. A high or rising rate of unemployment drives more people into occupational independence; in other words, business start-ups function in part as an outlet for an over-stretched labour market (Bögenhold/Staber 1991; Acs et al. 1992). In Germany, small businesses and micro-firms have been growing vigorously for some years. It is hardly surprising, given the developments described, that they are located primarily in the service sector. Even though economic/structural, institutional and labour market factors go a long way explaining the renaissance of self-employed activity, cultural factors cannot be ruled out entirely. Greater account should perhaps also be taken of psychological factors, whereby individuals prefer to work independently and for themselves in the form of occupational independence, rather than taking instructions from superiors in dependent employment (see Hakim 1998).

Too less is taken into account the extent to which the quota of self-employed workers is differentiated, and of how different the processes of socio-economic logic are which lead people for the first time in the direction of vocational independence. Bögenhold (1985) distinguished between two rationales, which lie at opposite ends of a continuum of varying combinations: on one hand a social rationale of human self-realisation, where people have good alternatives in dependent employment, but become self-employed for reasons of self-fulfilment, and on the other hand a rationale of it being their only chance of participating in working life, i.e. following the "social economics of need". This latter channel of access to vocational independence, logically enough, experiences a surge at times when the labour market is stretched and the unemployment figures rising. In this sense increasing unemployment functions as a kind of valve in the direction of vocational independence.

Of course it should not be forgotten that self-employment is constantly becoming more diverse. A gulf is opening up between the winners, who have above-average incomes and are able to make their own provision for sickness and old age, and, on the other hand, those who are in a much weaker social

position. Such differences in social status can even be concealed within individual economic aggregates, such as that of professionals<sup>8</sup>.

The choice of occupation and the training undergone is largely responsible for a person's decision to become self-employed (Brüderl et al. 1996). The correlation with such chance circumstances and possible opportunity costs is evident for instance in that journalists and creative artists, and legal, economic and tax consultants are two occupational groups whose patterns of development have been completely different over the same space of time: whereas the amount of self-employment among the latter has declined markedly, it is at a significantly high level among the former. The total number of legal, economic and tax consultants has almost quadrupled, and yet the self-employed rate has fallen sharply because lawyers, tax advisers and their assistants are increasingly able to learn a living in dependent employment. In other words, they can operate as salaried staff in chambers, partnerships, the public service and various types of large private companies. On the other hand, writers, journalists and artists – whose absolute numbers have gone up considerably – have shown a stronger tendency towards occupational independence. This development is probably partly a manifestation of the trend towards greater flexibility in companies, such as the attempt in the press and publishing trade to minimise staff rolls and costs by means of outsourcing<sup>9</sup>.

Many experts surmise that a new world of work is taking shape outside of normal working relations, one in which so-called “job nomads” earn their living as freelancers thanks to teleworking, home working and part-time work. Discussion around changes in the world of work and the flexibilisation of employment relations has focused attention in particular on these entrepreneurs who operate without any staff. It is assumed that some of these “self-employees” should be classified in a grey area between dependent and independent activity. This phenomenon is significant in terms of social and labour market policy, since the protection afforded to wage-earners by social and labour legislation is frequently undermined when contractors wave goodbye to sections of their workforce and increasingly hire micro-firms to perform their duties.

Nevertheless, it would naturally be wrong to imagine that all solo-entrepreneurs are engaged in “dependent self-employment”. Many new entrepreneurs start out alone or with the help of family members. Moreover solo working is traditional in certain occupations (such as farmers, commercial representatives, artists); a further factor is that structural change - especially the growing demand for services - not only boosts the total sum of self-employed people but perhaps also strengthens occupations in which people have traditionally tended to work alone. In any event the decentralisation of companies fosters the emergence of specialist micro-firms, the main reason being the temporal and spatial independence in the organisation of work processes brought about by outsourcing and new technology (consultants, business professionals, law and tax experts).

But even in the above-mentioned segments of the tertiary sector the organisation of work activity varies considerably in this respect. In the offices and practices of many professionals, such as legal advisors, tax consultants and medical doctors for example, a comparatively small proportion of self-employed persons can manage with only a small staff. Thus if we scrutinise more carefully the structure of self-employment within individual economic segments, we find a particularly large quota of people working

<sup>8</sup> See for the cultural professions Betzelt/Gottschall 2006: 263 pp.

<sup>9</sup> For a detailed analysis see Betzelt 2006.

alone in parts of the retail trade, traditionally in commercial representation, but also in the fields of adult education and entertainment (e.g. artists, journalists, film and radio producers), as well as publishing, brokerage and insurance, where some two thirds of all the self-employed operate “solo”.

It is easier to embark on self-employment in some of these service segments than others because the barriers to access are lower. This does not only mean a smaller input of capital; the growth of one-person businesses in certain economic and knowledge-intensive services leads us to conclude that, in this age of modern and convenient communication and information technologies, many self-employed persons are in a position to function without staff, in some cases even within their own four walls. This fact does however mask a flexibilisation of both company and employment structures whereby, as activities are progressively outsourced, increasing use is made of freelance and self-employed experts who (voluntarily or involuntarily) market their own labour.

Supposing then that “unspectacular” forms of self-employment are what dominate the field, the question that arises is whether the rediscovered revival of entrepreneurship merits the public celebration which it is currently enjoying in some debate. This question appears all the more pressing once we realise that much of the “new” self-employment consists merely of one-person companies, micro-firms and undoubtedly also many hardship cases of “working poor”.

## **VI. Conclusion: Downgrading of Work or Departure to a Knowledge Economy?**

The above-described ascendancy of micro-firms and solo entrepreneurship deserves further attention, since the extent to which it can promote a revival of the economy and labour market is unclear. The Schumperian idea of a coincidence of new swarms of entrepreneurs and a rise of prosperity (Schumpeter 1926, 1954) is widely shared. The hope is that more entrepreneurs will come onto the market with both the desire and the intention to expand.

By no means can be said that all solo entrepreneurs found their businesses “out of necessity”, the underlying career profiles, motives and other circumstances are much too diverse. There are two conflicting assessments of the phenomenon of solo-entrepreneurship, one extremely bleak and the other equally positive. According to the bleak variant, the phenomenon of newly emerging micro-entrepreneurs can be likened to that of day-labourers in the early 20<sup>th</sup> century, when people offered and sold their own labour on a daily basis without receiving any protection under social or labour legislation. Many small itinerant traders belonged to this group. In his classic study on the “social stratification of the German people” (1931), Theodor Geiger referred to these economic players as “proletaroid” self-employed. In this light it could be feared that – at least in certain economic sectors – the same kind of hand-to-mouth existence might reappear in the guise of solo self-employment. In this context the rise of solo self-employment might be seen as part of a so-called “brazilianization” (Beck 2000) of societies with a growing ratio of unstable and precarious working locations (Smeaton 2003).

The optimistic variant, on the other hand, paints an entirely different picture: here, solo entrepreneurship is not regarded as a “dead end” but as a typical initial and experimental phase among young self-employed persons wishing to explore new avenues. After all, in many countries one-person companies are considered to be the normal form of self-employment and to hold at least the potential for future growth and employment; a further reason is that the internet and teleworking are now opening up new

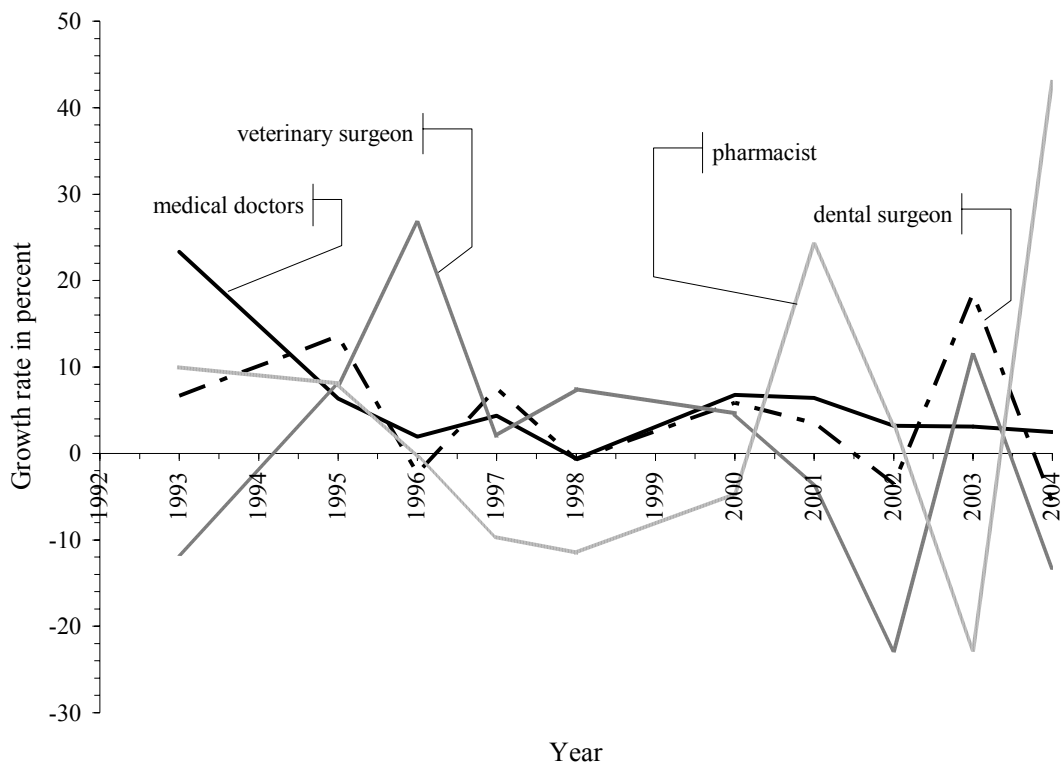
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types of individual activity. If this trend is promoted rather than discouraged, these solo entrepreneurs will be more likely to sow the seeds for businesses in the category “self-employed with employees”. Even if the emerging number of micro firms may remain small, one may interpret this as a new element within a growing fragility of modern societies (Stehr 2001).

It is hard to say which of these scenarios will come closer to reality in future. It can be assumed, that, as it so often happens, the truth will lie mid-way between both positions. There is a lack of systematic empirical investigations looking at people’s careers over a long period of time on the basis of individual *curricula vitae*. Such surveys would be the only means of obtaining sound scientific findings. Current debate on entrepreneurship in the policy area uses the term entrepreneurship often only as an “appetiser” behind which minor substantial in-depth analysis in the sense of an understanding of economic history, economic theory or social economics is concealed. Competing definitions of the term entrepreneurship are overlooked in current discussion. What is being trumpeted as a “departure for new shores”, meaning a fresh period of rapid industrial expansion, emerges partly as a mirror effect of new developments in the labour market and in occupational structures and is ultimately linked to structural shifts towards an economy increasingly based on service sector employment. All that is ultimately interlinked with the history of innovation progress sending own signals for the structuration of production, demand and diffusion (Smil 2005, 2006). The story of micro firms within the margins of entrepreneurship is a complicated one since the *area of indifference* between the two poles of an “either-or” is of greatest research interest. A related return to socioeconomics and academic thought of institutionalism (Hodgson 1994) can certainly lead to a deeper understanding of complex economic phenomena and to an attempt to build economics on sound micro foundations which seems to be appropriate when mapping a thematic field between business and society and between labour market research, economic sociology and entrepreneurship.

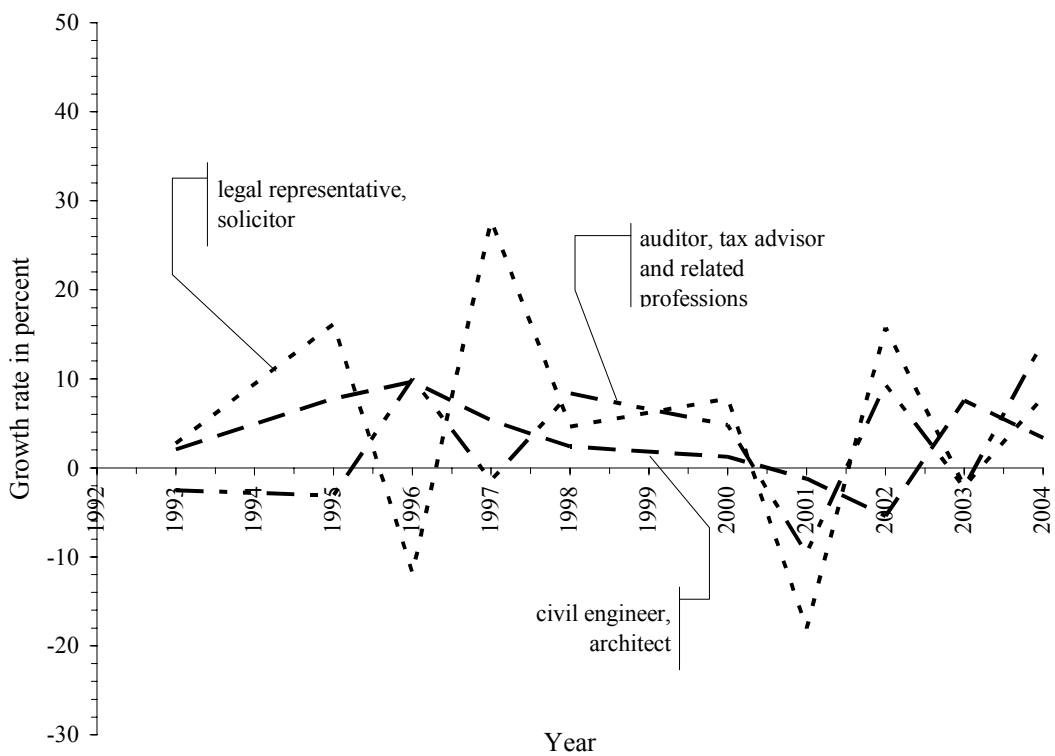
## VII. Appendix

**Figure (9): Free Professions, all, yearly growth-rates 1991 – 2004**

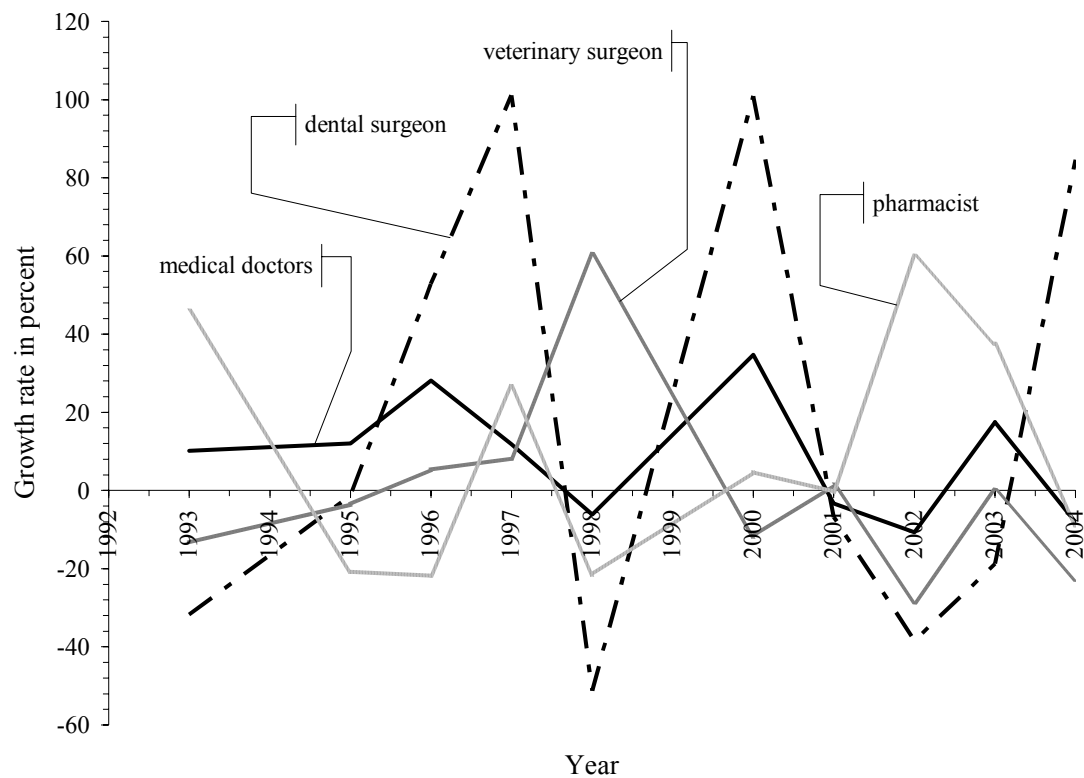


Source: Own calculations on the basis of the scientific use files of the Microcensus.

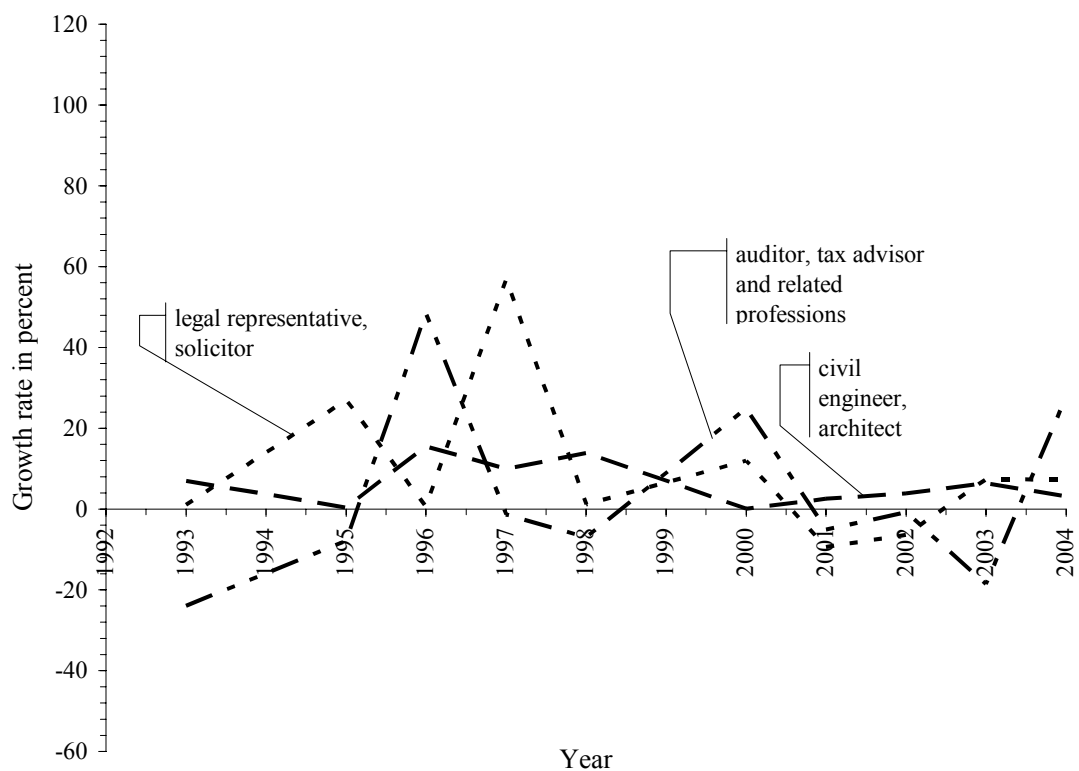
**Figure (10): Free Professions, all, yearly growth-rates 1991 – 2004**



Source: Own calculations on the basis of the scientific use files of the Microcensus.

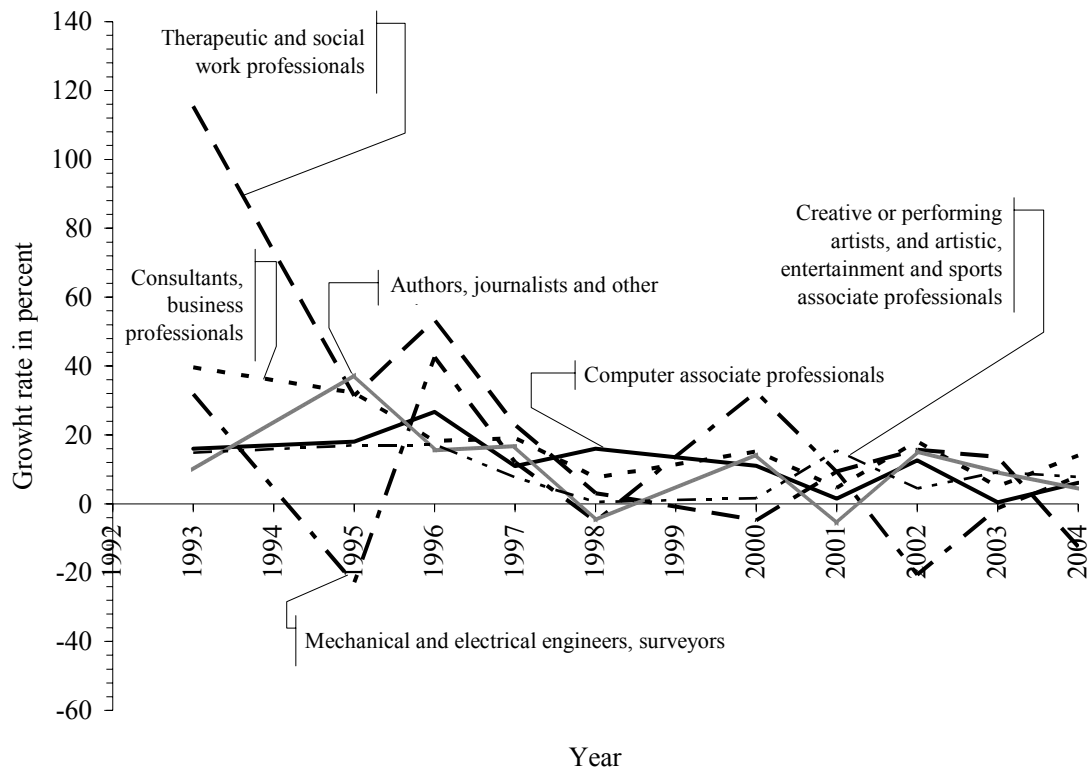
**Figure (11): Free Professions, Solo Self-employed, yearly growth-rates 1991 – 2004**

Source: Own calculations on the basis of the scientific use files of the Microcensus.

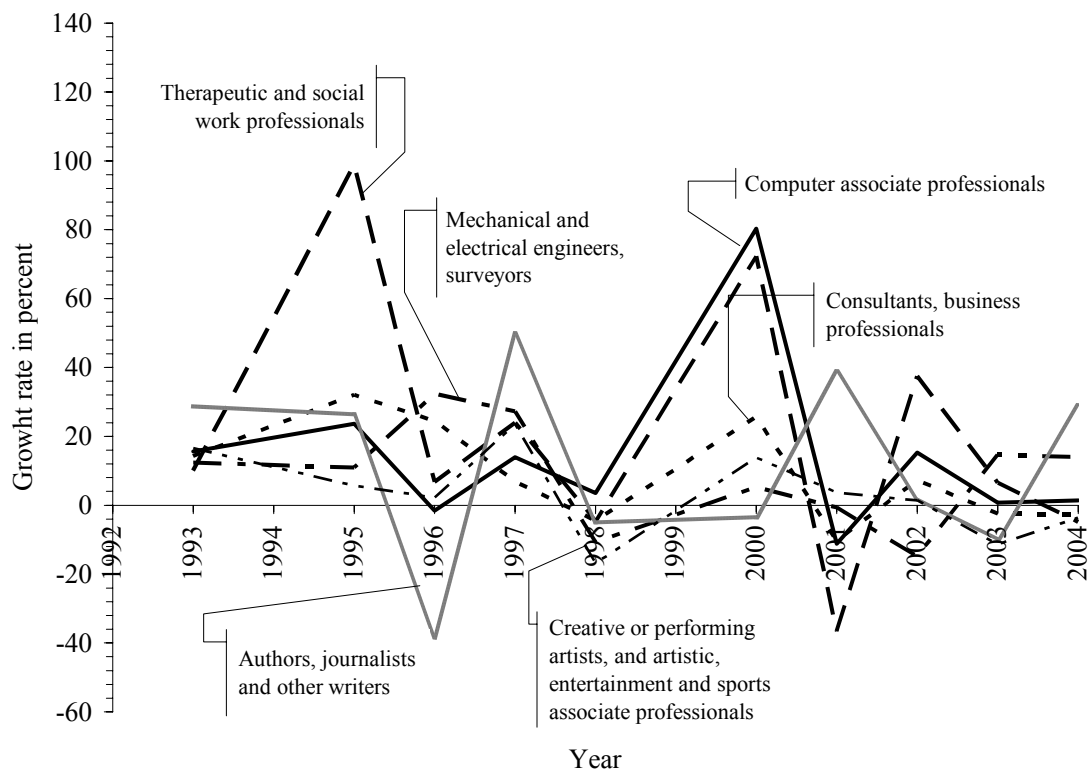
**Figure (12): Free Professions, Solo Self-employed, yearly growth-rates 1991 – 2004**

Source: Own calculations on the basis of the scientific use files of the Microcensus.



**Figure (13): Freelancers, Solo Self-employment, yearly growth-rates 1991 – 2004**

Source: Own calculations on the basis of the scientific use files of the Microzensus.

**Figure (14): Freelancers, Self-employment with Employees, yearly growth-rates 1991 – 2004**

Source: Own calculations on the basis of the scientific use files of the Microzensus.

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