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Missed potential? The role of migrant entrepreneurs in shaping Germany's future economy

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Missed Potential? The Role of Migrant Entrepreneurs in Shaping Germany's Future Economy

Entrepreneurship is essential for innovation and economic growth. Newly founded companies contribute to innovation and technology diffusion and increase pressure on incumbent firms to innovate. In Germany, migrant entrepreneurs play an increasingly important role in the entrepreneurial landscape. Their integration into this ecosystem is not only essential for fostering inclusive economic growth, but migrant founders also display a comparatively higher propensity for innovation. Based on data and insights from the IAB/ZEW Start-up Panel, this policy brief highlights the characteristics of and challenges for migrant entrepreneurs to understand how future policy frameworks could be designed to make better use of their potential. We find that while young migrant-founded firms are often opportunity-driven, have high growth ambitions, and are innovative, they are constrained in their access to external capital and have to rely more frequently on their founders' and their families' resources. These findings suggest that frictions in financing young firms hamper migrant entrepreneurship in Germany and that there is room to address these constraints through targeted policies facilitating access to support programmes and bank financing.



KEY MESSAGES

- Germany misses out on innovation-driven start-up growth by migrant entrepreneurs.
- Facilitating access to start-up support programmes strengthens opportunities for migrant entrepreneurs.
- Reducing barriers to debt financing by ensuring unbiased screening and evaluation enables migrant entrepreneurs to access external financing.
- Improvements in the “ease of doing business” would benefit all entrepreneurial activities, especially those of innovative migrant founders.

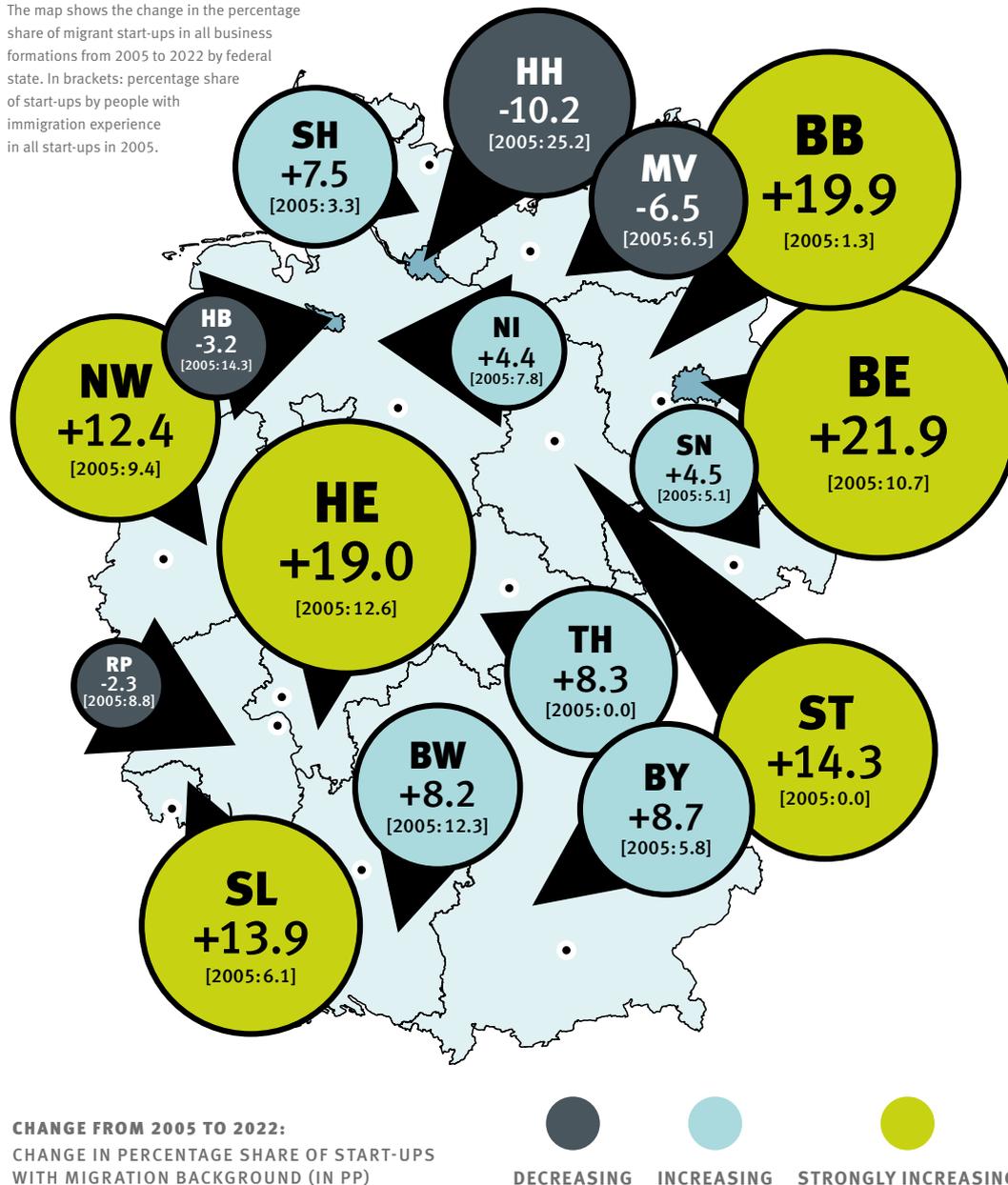
MIGRANT FOUNDERS IN GERMANY

Germany’s start-up landscape faces significant structural challenges, including low business formation rates, a prevailing reluctance to engage in entrepreneurial activity, and underutilised innovation potential in emerging technologies. Against this backdrop, one group of entrepreneurs is attracting increasing attention: migrants who establish new ventures. Evidence on entrepreneurial dynamics in the USA and Europe shows that migrants enter entrepreneurship at higher rates than the native population (Clark & Drinkwater 2000; Andersson & Hammarstedt 2010; Fisher & Lewin 2018; Kerr and Kerr 2020) and are more innovative than their native counterparts (Ostrovsky & Picot 2021; Hunt 2011).

Diverse backgrounds shape Germany’s entrepreneurial ecosystem

FIGURE 1: CHANGE IN THE SHARE OF MIGRANT-FOUNDED START-UPS AMONG ALL START-UPS SINCE 2005 (IN PERCENTAGE POINTS)

The map shows the change in the percentage share of migrant start-ups in all business formations from 2005 to 2022 by federal state. In brackets: percentage share of start-ups by people with immigration experience in all start-ups in 2005.



In Germany, the share of inhabitants with a migration background – and of migrant entrepreneurs – has steadily grown in recent years, making them a vital part of Germany’s entrepreneurial landscape and a key factor in addressing structural economic challenges (Hottenrott, Schoonjans & Rodepeter 2025). This policy brief summarizes the distinct entrepreneurial profiles of migrant founders in Germany and highlights both the specific challenges they face and the unique opportunities they create for economic growth and innovation.

The analysis draws on data from the IAB/ZEW Start-up Panel, a large-scale representative survey of young firms in Germany. The panel covers the period from 2005 to 2022 and captures the migration background of founders through self-reported information. It reflects the respondents’ own perception of their migration background, rather than an “externally assigned” migration status. Half of the founders in the group of founders with a migration background hold a German passport, and one-fifth were born in Germany. Consequently, the category of “migration background” used in this policy brief should be understood in a broad sense that goes beyond nationality or country of birth. A start-up is classified as migrant-founded if at least one member of the founding team reports having a migration background.

Over the observation period, the share of start-ups with at least one founding member with a migration background in our sample increased significantly. In 2005, only 8% of start-ups involved at least one founder with a migration background; by 2022, this share had more than doubled to 19% (compare Figure 1).

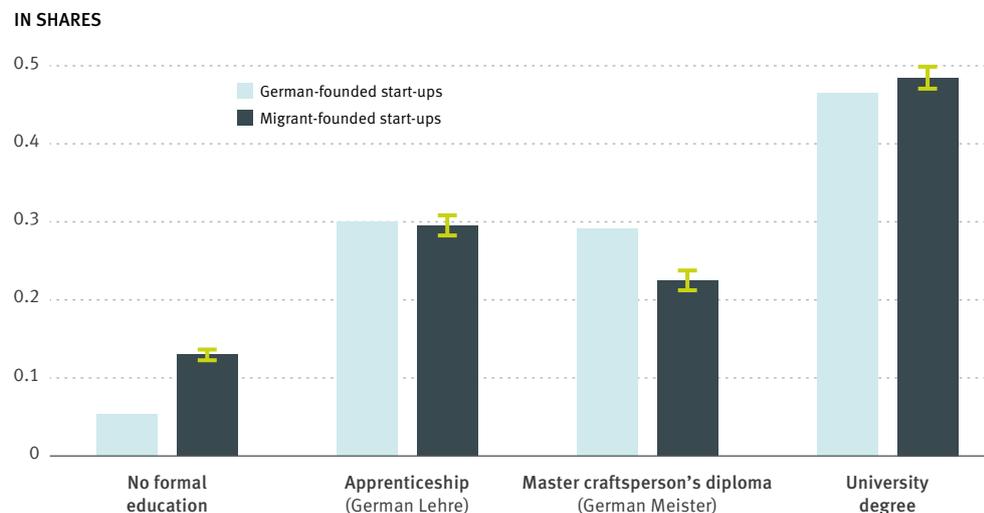
The number of migrant-founded firms is increasing

ENTREPRENEURIAL PROFILES

In order to understand the differences in challenges, opportunities and the success of young firms founded by migrant entrepreneurs, one has to be aware of the differences in the profiles of these entrepreneurs. On average, migrant founders are younger, and women founders represent a slightly higher share in firms with at least one migrant founder, although this difference is small. Further, migrant founders are more often serial entrepreneurs, that is, they tend to have founded a start-up before and thus have more entrepreneurial experience. This speaks to the notion that migrants in general have a higher propensity for entrepreneurship (Clark & Drinkwater 2000; Andersson & Hammarstedt 2010; Fisher & Lewin 2018).

Profiles and challenges differ between migrant and German entrepreneurs

FIGURE 2: EDUCATIONAL ATTAINMENT OF FOUNDERS AND FOUNDING TEAMS (WITH 95% CONFIDENCE INTERVALS OF TWO-SIDED T-TESTS IN GREEN)



Another important driver for entrepreneurial success is formal education. Compared to German founders, migrant founders are more clustered at the extremes concerning their level of education. They are more likely to lack formal qualifications and also more likely to hold a university degree (compare Figure 2). These patterns naturally depend on the sample and the underlying sampling procedure; however, when controlling for the panel's stratification criteria, the differences remain statistically significant – apart from the gender difference.

Another notable difference between migrant and non-migrant founders is the industries in which migrant-founded businesses are founded. Migrant-founded firms are more concentrated in consumer services, retail and construction and they are comparably underrepresented in low-tech sectors and research-intensive and technical services. Only 9% of migrant-founded businesses are in low-tech sectors (vs. 11% of native-founded businesses), 7% are in knowledge-intensive services (vs. 10%) and 14% are in technical services (vs. 19%). However, migrant-founded businesses are proportionally represented in cutting-edge-tech manufacturing, high-tech manufacturing, and software, which are among the most innovation-driven industries.

In all of the following analyses, we focus on financing, innovation and firm performance outcomes while taking the differences outlined above into account. Our findings are based on linear regression models controlling for education level, founder experience, industry experience, age, team composition, industry, geographic location and founding year.

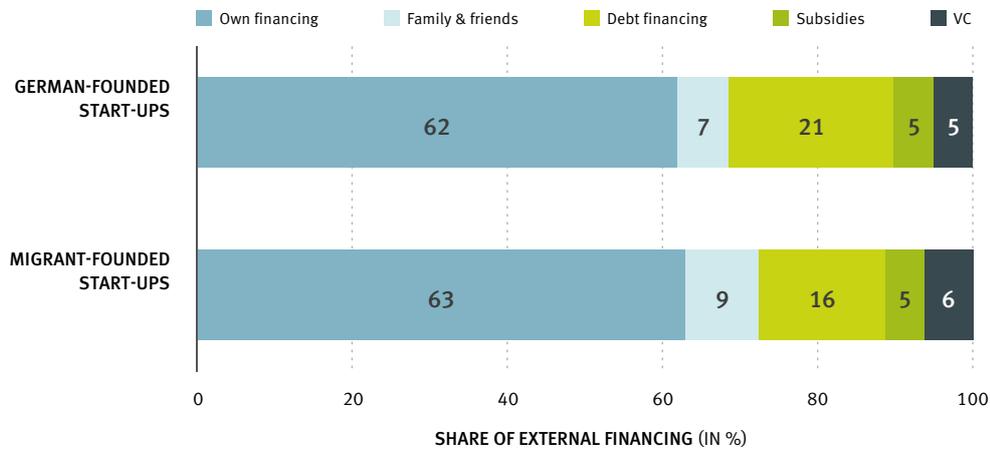
ACCESS TO EXTERNAL CAPITAL

Lack of capital is one of the main barriers to entrepreneurship in general (Hottenrott & Richstein 2020), and difficulties in raising capital in the early years of a new venture are common. However, migrant-founded businesses are more likely to report difficulties in accessing external capital than their German-founded counterparts. Although this has improved slightly over the observation period – at least partly due to firms recovering from the 2008 global financial crisis – in 2022, migrant-founded firms still remain 50% more likely than German-founded firms to experience problems securing funding (18% vs. 12% report difficulties accessing external financing). In migrant-founded-businesses, founders' own funds may be scarce capital to rely on, and previous academic research has repeatedly highlighted discriminatory patterns in business loan approvals affecting migrants more than others (Henley 2005; Asiedu, Freeman & Nti-Addae et al. 2012). Young firms in Germany typically draw on a mix of internal and external funding, including personal savings, support from family and friends, bank loans, public grants and venture capital (VC). However, access to and use of these sources of financing is not equally distributed, as migrant entrepreneurs are less likely to secure external funding. Migrant founders are more reliant on personal capital and financial support from family and friends. They have a lower share of capital from banks in their financing mix but a higher share of VC (see Figure 2). The high share of owner financing is likely a result of limited alternatives, such as bank loans, rather than reflecting a greater availability of personal capital. Especially when uncertainty is perceived to be higher – e.g., due to the lack of a relationship with a house bank – credit financing tends to be expensive or even unavailable (Hottenrott et al., 2018). After controlling for firm and founder characteristics described above, we find that the differences in bank financing, founders' own funds, and financial support from family and friends are statistically significant.

Migrant-founded firms are underrepresented in low-tech sectors and research-intensive services

Access to external capital as a main barrier for young migrant-founded firms

Migrant entrepreneurs rely on own resources and informal funding

FIGURE 3: DISTRIBUTION OF EXTERNAL FINANCING SOURCES FOR MIGRANT-FOUNDED AND GERMAN-LED BUSINESSES

GROWTH ORIENTATION, SUCCESS AND INNOVATIVE CAPACITY

The primary motives and drivers of migrant entrepreneurs to launch a start-up are greater self-determination and higher income. The goal of higher income is likely linked to structural wage disparities between the migrant and non-migrant population in Germany (Constant & Zimmermann 2006). These disparities are reflected in average earnings: Migrant workers earn, on average, significantly less than their native-born counterparts (Destatis 2024; Fisher & Lewin 2018). Accordingly, migrant entrepreneurs rarely start businesses to escape unemployment, but rather to overcome limited upward mobility and to achieve financial independence. Only a small share of migrant-founded firms in Germany were founded out of necessity rather than opportunity. Migrant entrepreneurs are also more growth-oriented: 33% of migrant-founded firms state ‘business expansion’ as a primary objective, compared to only 25% of non-migrant firms. This shows the important role migrant entrepreneurs could play in driving high-growth entrepreneurship in Germany. However, constraints on the realisation of such ambitions mean locked-up potential for innovation, productivity and long-term economic growth.

These ambitions are also mirrored in a higher engagement in innovation activities. Our findings indicate that migrant-founded businesses are statistically significantly more innovation-oriented, showing a greater tendency to invest in research and development (R&D), and more often bring new products or services to market. Specifically, they are two percentage points more likely to conduct R&D (8% vs. 6%) and 1.5 percentage points more likely to introduce nationally or globally novel products or services (14% vs. 12.5%). This is consistent with prior literature, showing that migrant-founded businesses are especially innovative (Ostrovsky & Picot 2021; Akcigit Grigsby & Nicholas 2017; Hunt 2011).

However, we also see that the realised firm growth in terms of sales and employment growth is not different from that of non-migrant firms. Given the higher innovation performance, we could expect that these activities also translate into greater overall firm performance. The finding that this is not the case suggests that – despite their higher innovativeness – migrant-founded firms encounter certain obstacles in their development. Difficulties in access to external financing may partly explain why their innovation potential does not translate into business performance. Other possible explanations include hiring constraints or product market discrimination, which are beyond the scope of this analysis.

Most migrant-founded firms are opportunity-founded firms

Migrant-founded firms are highly engaged in innovative activities

This study shows that migrant entrepreneurs' contribution is under-acknowledged in Germany's entrepreneurial system. If their potential is to be fully realised, policies should not only remove structural barriers but actively support migrant-founded innovation through targeted programmes, improved formal funding and integration into the entrepreneurial ecosystem. Greater integration would enable migrant entrepreneurs to establish businesses in sectors where they are currently underrepresented, thereby allowing them to channel their innovative capacity into these markets. The detailed study is available for download in German and English language (DOI: 10.11586/2025038) <https://www.bertelsmann-stiftung.de/en/publications/publication/did/innovatives-gruenden-durch-menschen-mit-migrationsbezug-entrepreneurship-and-innovation-among-founders-with-migration-ties-in-germany>.

Data Source

The data set on which this research built is the IAB/ZEW Start-up Panel. The panel collects data on a representative set of young firms founded in Germany and tracks their development via computer aided-telephone interviews that are conducted annually. It surveys individuals who were actively involved in the founding process and provides valuable information about this process, the composition and dynamics of the founding team, as well as the development of these very young firms. The panel focuses on the first seven years of business to provide a representative data source on the first phase of the firm's life cycle. The panel is stratified by founding year and industry and slightly oversamples high-tech industries as these are expected to play a particularly significant role in driving innovation, structural change and job creation. We limit our sample to the period from 2005 to 2022. For more details on the IAB/ZEW Start-up Panel see Rodepeter et al. (2025).

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