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Entrepreneurs and risk: A study of German and UK entrepreneurs in Spain

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**Anglo-German Foundation
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Executive summary

This report details the research and findings of a comparative study of UK and German entrepreneurs establishing and running enterprises in Spain. For our study, we conducted 20 in-depth qualitative interviews and carried out extensive desktop research. Our research objectives were to understand more about the risk perceptions, behaviours and risk mitigation strategies of the two nationality groups in a third, neutral country, in order to understand more about the determinants of risk in entrepreneurship. In reporting our findings, we developed an initial typology of migrant entrepreneurs in Spain, reporting similarities in the types of people who decide to relocate to Spain and establish businesses as well as the push and pull factors that underlie these highly personal decisions. We found extensive differences in the risk mitigation strategies pursued by the two different nationality groups, with the overall conclusion that it is largely the 'prepared professional' and the 'artisan' groups of migrant entrepreneurs who appear to both understand the risks associated with their decisions more clearly, and seek to reduce their exposure to risk more astutely and more frequently.

So, can we conclude from our findings which nationality appears to be the more entrepreneurial? Our somewhat controversial conclusion is that it is predominantly the Germans who display a more classic entrepreneurial mindset insofar as a realistic assessment of business risks and the development of adequate risk mitigation strategies are essential components of successful entrepreneurship. While there appears to be many thousands of would-be entrepreneurs in the UK with no hesitation in releasing the considerable equity in their properties to establish businesses in that most risky of settings – a foreign country – it is our impression that many British entrepreneurs do not take the careful, informed and well-planned approach that can provide the basis for the future success and longevity of their enterprises.

We contend that deficiencies in risk perception and risk mitigation strategies may be an important factor for the limited success that both the UK and Germany have in fostering entrepreneurship 'at home'. Given the differences we identified, we suggest that the UK government in particular should promote entrepreneurship education and training that is predicated on a better understanding of the business risks inherent in entrepreneurship, and especially migrant entrepreneurship, including the need to prepare for the institutional environment of host countries, to have adequate language skills and a solid level of competence in the chosen entrepreneurial field. The German government, on the other hand, would be well advised to look more deeply into the reasons for German nationals' pronounced fear of failure, low confidence in their entrepreneurial competence, and reported lack of perceived entrepreneurial opportunities 'at home'.

1 Introduction

Since the early 1970s, small and growing businesses have been recognised as major contributors to economic productivity and growth (Bolton Report, 1971; Birch, 1979; Storey, 1994; Acs and Audretsch, 2001). Latterly, European policy-makers have focused on the role of Small and Medium-sized Enterprises (SMEs, *Mittelstand*) as key agents of innovation and drivers of the knowledge economy (The Lisbon Strategy, 2000; Common Actions for Growth and Employment: The Community Lisbon Programme, 2005).

Both German and UK policy responses to the small business sector pre-date Lisbon 2000. In the mid-1990s, German policy-makers started to actively tackle regulations and policies that hindered entrepreneurial endeavours – for example, actions included modernisation of the traditional crafts and guild system (*Handwerkerordnung*), which had been identified as an impediment to new firm formation in this sector, and the extension of the *Kreditanstalt fuer Wiederaufbau's* (KfW) '*Mittelstandsfoerungsprogramme*'. In the UK, the government has designed policy initiatives to address perceived entrepreneurial skills gaps, and additionally has attempted to foster entrepreneurship among disadvantaged groups. Currently, in national policy comparisons of enterprise support across Europe (EU, 2004), the UK scores highly among member states in Human Resource policy, and Germany scores highly in Innovation, Information Technology and Sustainability. However, the same study does suggest Germany is under-performing in Finance and Human Resource policy; thus, the policy environments for UK and German entrepreneurs can be said to be dissimilar.

Despite the growing policy focus in both countries, government efforts have not always met with success (CBI, 2005; Mueller et al., 2006), or are problematic in design and implementation (Welter, 2004; Wilson et al., 2004; Wilson and Warren, 2005). What is also clear is that the institutional frameworks and national business systems for entrepreneurship in both countries are markedly different: as one example, across five indices of entrepreneurial policy-making (EU, 2004), the UK and Germany, in cross-comparison with EU averages, show widely dissimilar variations from the standard. If policy-makers subscribe to Reynolds' proposition (2001; and numerous Global Entrepreneurship Monitor [GEM] consortium studies) that future global competitiveness for European nations requires many more individuals to establish new firms, then both countries face considerable challenges. It can also be concluded that these challenges are likely to require actions in different areas and involve different stakeholder groups, institutions and national policy-makers. Ultimately, many more thousands of individuals must be tempted or encouraged to start businesses every year than at present.

Against this background of difficult European and national policy design and implementation and an observable stagnation in new venture creation rates in both Germany and the UK (see Chapter 2), our research addresses a particular area of need. Risk management and risk modification behaviours are key constituent elements of entrepreneurship that have so far confounded many entrepreneurship researchers. Single-country surveys often struggle to provide clear evidence of how established and nascent entrepreneurs perceive and manage risk, and how this affects business start-up and growth decisions, possibly because entrepreneurs and researchers can be strongly

biased (for example, in survey design and response) by the background 'noise' of their own national or regional cultural environments and the many variables that influence risk perception. Some surveys do not factor the generally higher risk perceptions of women as compared to men, or fail to adequately distinguish risk perception with propensity to take risk. This project, drawn from research of the two nationalities attempting entrepreneurial ventures in a third, 'neutral country' environment (Spain), aims to better explain how the home country environment may influence perceptions of entrepreneurial risk. This preliminary study intends, therefore, to provide initial insights and a better understanding for German and UK researchers, policy-makers and institutions in further refining the support environment for new enterprises and entrepreneurs, and at the same time contributes to a scant body of knowledge in entrepreneurial risk.

2 Germany and the UK: Entrepreneurship background data

The definition of an entrepreneur, or indeed entrepreneurship as a concept, is notoriously fluid (for an overview, see Galloway and Wilson, 2003). Furthermore, the numbers of entrepreneurs and the contribution of various forms of entrepreneurship to an economy are very difficult to measure. For the purposes of this research and in the context of government policies aiming to foster a greater rate of self-employment within the general population, the authors cast a wide net. This research project, therefore, defines entrepreneurs as those actively engaged in starting and developing businesses, regardless of ambitions or lack of ambitions for growth, or the necessity of self-employment in cases where other employment options may be closed or problematic. We further disregard business sector or types of resources leveraged (such as utilising specialised financial instruments) as definers of entrepreneurial activity. By nature, most businesses tend to start small with a key person driving the business ('the entrepreneur'), and therefore it is appropriate at this point to set out the SME context in both nations.

2.1 The UK: Statistics and issues

Recently released statistics from the UK Small Business Service (SBS, August 2006) estimate that in 2005 99.3% of 4.3 million private business enterprises in the UK were small businesses, defined as 0–49 employees. The SME sector (up to 250 employees) accounted for 58.7% of employment and 51.1% of private sector turnover. Analysis of time series data from 2000 (SBS Analytical Unit, 2000–2005) shows marked and consistent increases in the number of businesses without employees over this period. Recent decreases in the number of businesses employing up to 49 workers is also notable, as is a noticeable decrease in the number of large organisations employing over 500 workers. Thus, the small owner-entrepreneur is undoubtedly the engine of any overall modest increases seen in the total number of private sector enterprises in the UK in recent years.

Further evidence of the rate of entrepreneurship in the UK is provided by a non-governmental source: the GEM research project. As a global, largely academic consortium with national research teams, GEM has determined a standard total entrepreneurial activity index, (TEA), which measures entrepreneurial activity by telephone survey, supplemented by focus group research and interviews with key people. GEM data viewed as a time series suggest only small or insignificant changes in entrepreneurial activity in the UK over the five-year period 2001–2005, factoring slight differences in the way TEA has been calculated over time and an effort to increase sample sizes.

Nevertheless, over time, the GEM research teams note some overall improvement in attitudes towards entrepreneurship and some interesting regional and demographic variations, but essentially, year on year, the UK seems to produce similar proportions of the population who actively seek to start a business. Indeed, the GEM research teams aim

to develop measures for other forms of entrepreneurship in future, such as 'high expectation entrepreneurship' (GEM, 2005), perhaps in part because the static nature of the current UK and EU rates and the lack of change in country ranking order make for rather dull reading.

While the UK TEA rates compare favourably within the EU with the UK consistently outstripping Germany, France, Finland and Denmark, UK rates do not compare favourably with Anglo-Saxon origin countries such as the USA, Canada, Australia and New Zealand (Minniti et al. 2005). Issues for UK policy, the researchers conclude, are that the government should look beyond Europe and not just to the USA in framing policy environments conducive to entrepreneurship.

This stagnation in entrepreneurship rates in the UK should be viewed in context and against a background of highly active government and non-governmental policy in the area of business start-up promotion and support. Policy and support measures within the UK for business start-up are extensive and include an active lobby for regulatory change in the form of the Federation for Small Business, Chambers of Commerce, the Institute of Directors and the Confederation of British Industry. Business enterprise support is available to anyone contemplating business start-up through a nationwide Business Link network. Additionally, there is a dedicated government initiative in the form of the SBS, which supplies a policy evidence base (in association with stakeholder groups and academia) to the UK Department for Trade and Industry, and an education sector that has succeeded in embedding entrepreneurship within the curriculum at all levels, and in higher education even across disciplines, with the support of a rich network of non-governmental and quasi non-governmental organisations. Arguably, too, finance and credit for small business start-up have never been more readily accessible (see Table 1). Therefore, with highly supportive business and educational environments, there appears to be no direct policy or economic cause for relative stagnation in entrepreneurship rates in the UK.

2.2 Germany: Statistics and issues

This section draws on the results of the 2004 GEM studies – in particular, the 2004 country report on entrepreneurship in Germany compiled by Sternberg and Lueckgen (*Laenderbericht Deutschland, 2004*). According to this report, the total entrepreneurial activity that comprises both nascent entrepreneurs (those adults of working age between 16 and 64 years old who are in the process of planning or preparing to start a business) and young entrepreneurs (who are [part]owning a business that has not existed for longer than 3.5 years) amounts to approximately 5% of the adult population in Germany, well below the 9.2% average of the 30 countries that participated in the GEM global study in 2004. The ratio of young entrepreneurs to nascent entrepreneurs can provide some indication of the difficulties that entrepreneurs face in implementing their intention to start the business venture they are planning, and this ratio, according to Sternberg and Lueckgen (2005), has been unfavourable for Germany compared with other GEM reference countries for some time (Sternberg and Lueckgen 2005: 13). Further interesting insights can be gained from a comparison of the ratio between opportunity entrepreneurs (the ones who use a business opportunity they have identified in the market) to necessity entrepreneurs (the ones who start a business because of a lack of

alternative ways to earn a living). The German ratio of the two entrepreneurial groups has been the worst of all countries used in their 2004 comparison, with 1 necessity entrepreneur for every opportunity entrepreneur in Germany on one end of the scale and 19 opportunity entrepreneurs for every necessity entrepreneur in Finland on the other end of the scale. Unfortunately, this unfavourable result for the state of entrepreneurial affairs has been persistent rather than a one-off (Sternberg and Lueckgen 2005: 15). Nevertheless, it is clear that the majority of business start-ups in Germany arise out of opportunity rather than necessity, even if the necessity factor is high by international standards and the number of enterprises founded by unemployed individuals has recently risen in line with the reforms of the German unemployment benefits and social security reforms.

In this context, it may be interesting to take a brief look at the German attitudes towards entrepreneurship – in particular, the perceived chances of entrepreneurial success, the fear of failure and the assessment of one's own entrepreneurial competences in a comparative perspective: according to Sternberg and Lueckgen (2005), Germany had the lowest ranking of all GEM countries for perceived favourable conditions for founding a business in 2004, and was one of the countries (only surpassed by Greece, Spain, France and Israel) with the highest percentage of respondents who stated that the fear of business failure would prevent them from considering starting their own businesses (Sternberg and Lueckgen (2005: 21). Furthermore, Germany scored very low (27th out of 34 countries) for respondents' perception of having the necessary skills and experience to found a business. It appears that the German adult population is neither confident about entrepreneurial opportunities in Germany, nor their own entrepreneurial competence, and that the fear of failure is a significant factor in entrepreneurial decision-making in Germany. However, it may well be that, in line with the well-known current German tendency to lament their economic fortunes, the actual economic situation may be more encouraging than the perceived one. This is reflected, to some extent at least, in the GEM expert/key informant-based assessments of the economic and business environment for entrepreneurship in Germany. Germany, after all, has the highest ranking of all GEM countries for its public support measures for new enterprises, and scores highly for its physical environment and its intellectual property protection. It did, however, recently experience a significant worsening of its previous strength in the provision of finance to new enterprises by the banking system, a strength that has now turned into a significant weakness with only Spain and Japan faring worse among the comparator countries of the GEM study sample.

Another well-discussed problem area for entrepreneurship in Germany is, according to GEM experts, its extensive rules and regulations – in particular, for obtaining permits and licences. The burden of complex regulations and taxation was only worse in Japan and Belgium, according to Sternberg and Lueckgen (2005: 29). Overall, the German business environment appears to have both significant strengths as well as significant weaknesses.

The GEM research does not assess the activities of immigrant or migrant entrepreneurs, but it is easy to see that the general economic as well as the specifically entrepreneurial conditions may have contributed to the recent trend of entrepreneurial migration away from Germany into other countries.¹ For lack of data, we cannot be certain, but it seems

¹ In 2005, 145,000 German nationals emigrated to other countries – the highest number for out-migration since 1954. More than half the migrants were in the age group below 35 years of age and many are believed to be very well qualified (*NTV news*, 23 October 2006).

reasonable to speculate that both opportunity and necessity entrepreneurship are likely to play a role here, and we hope that our study sheds some more light on this issue. Coverage in the media, at the very least, gives us the impression that individuals migrate into entrepreneurship abroad because of both a lack of economic opportunities at home and perceived better conditions abroad. This may be somewhat surprising, however, given the low ratings for perceived entrepreneurial competence and the high level of fear of failure among the German GEM respondents.

2.3 The business environment and Spain

The comparison of the German and UK situations suggests that the supply of entrepreneurs is problematic but that causality for this is currently considered to be different in each nation, despite obvious similarities in government intent and structures. Therefore, it may be appropriate to consider measures of 'doing business' within each country context alongside the focus on start-up rates of the GEM studies that may correlate less well with policy support environments in any case. A World Bank project attempts to measure the ease of doing business (see <http://www.doingbusiness.org>) and ranks 175 countries against 10 measures of regulation, bureaucracy and property rights, such as how many days it takes to start up a new venture and how difficult it is to hire or fire staff. The methodology is highly comparable across nations because the same business case scenario is tested in each country. Table 1, extracted from the Doing Business database (September 2006) shows the relative rankings of the UK, Germany and Spain – our chosen third 'neutral' country for the purposes of this research. Our empirical findings (see Chapter 6) on the expectations and experience of UK and German expatriate entrepreneurs 'doing business' in Spain should be seen against the data from the World Bank research project.

Table 1
Ease of doing business

	Rankings across 175 economies, 2006		
	UK	Germany	Spain
Doing business	6	21	39
Starting a business	9	66	102
Dealing with licences	46	21	53
Employing workers	17	129	161
Registering property	19	42	33
Getting credit	1	3	21
Protecting investors	9	83	83
Paying taxes	12	73	112
Trading across borders ¹⁴	7	25	
Enforcing contracts	22	29	42
Closing a business	10	28	15

Source: World Bank, 2006, Doing Business rankings, available at <http://www.doingbusiness.org>

From the country rankings, we can see that the UK has noticeable comparative strength in starting a business, employment matters, registering property, protection of investors and taxation compared with both Germany and Spain. The UK would appear from this comparison as the best 'nurturing ground' for its entrepreneurs with Spain almost consistently scoring worst in all dimensions against both comparator nations – in particular, the UK. Germany compares badly with the UK in all categories apart from 'dealing with licences' and 'trading across borders', and compares favourably with Spain except for registering property and closing of businesses. It is interesting to note that the UK has a better score for the enforcement of contracts than Germany. Finally, the very good ranking for Germany in the finance category is somehow surprising in the light of the results of GEM research that has identified a significant worsening of access to bank finance in recent years, but this could be explained by the very mature and well-developed special support programmes for start-ups in this country.

The EU also attempts an annual measure of enterprise policy within the 25 member states, which provides another useful comparison. The enterprise policy indicators span 9 policy areas, made up of 21 sub-indicators and ranked against an EU aggregate (EU, 2004). Thus, countries can compare their own enterprise policy performance against other EU nations, with a benchmark for performance set at percentages of the aggregate, determined by the EU. This project compares with the World Bank project in terms of attempting to assess entrepreneurial issues such as access to finance and the regulatory, administrative and tax environment that business operates within, but it extends the scorecard to include innovation and knowledge diffusion and measures of sustainability.

The EU data confirm the relative strength of the UK in the Human Resources area and Germany's weakness in this area (Table 2). Germany has comparative strengths in innovation, sustainability and IT, but the GEM finding of weakness in the finance area is confirmed by the EU's assessment. Spain's apparent strength in finance comes as a surprise in the light of the World Bank score mentioned earlier, and we conclude from the discrepancies between the GEM, World Bank and EU ratings for both Germany and Spain that assessment of the finance area can be seen as problematic and possibly of limited reliability.

Table 2
Policy indicators, EU

	Enterprise Policy Indicators, 2004	
	Strengths	Weaknesses
UK	HR	
Germany	Innovation, IT Sustainability	Finance, Open Market, HR
Spain	Finance	Innovation

Source: EU, 2004, Enterprise Policy Indicators, available at http://ec.europa.eu/enterprise/enterprise_policy/competitiveness/doc/pocketbook_2004.pdf

3 Review of extant research: Entrepreneurship and risk

Throughout the 20th century, academic commentators have attempted to refine the definition of an entrepreneur by closely examining underlying assumptions. Since Cantillon, the entrepreneur as a simple risk-taker has evolved to the present-day view (at least in academic circles) of the entrepreneur as a calculated risk-taker. Knight (1921) refined Cantillon's classic economic view, considering entrepreneurial risk as those elements of a business venture accepted by the entrepreneur as uninsurable. Schumpeter (1934) argued that entrepreneurs were not necessarily the true risk-takers at all, because he considered the shareholders and financiers of businesses to be the ones risking their capital in a venture. McClelland (1961) also considered that an entrepreneur was not a gambler, because risk was minimised by using information, knowledge and experience. Deakins (1999) explains that successful entrepreneurs are those who minimise risk by reducing the uncertainties associated with running a business. This is done by assessing the risks associated with, for example, the purchase of supplies or the process of production or market risks such as the strength of competitors. This modification of the association between risk and entrepreneurship in business is consistent with current economic theory, which makes a distinction between risk and uncertainty where, unlike uncertainty, risk can be regarded as quantifiable – it being possible to attach probabilities to outcomes. Indeed, Rae (1999) states that astute business people always seek to minimise their own risk in a venture. Thus, there appears to be (in as much as it is conceptually possible) a degree of academic agreement that true entrepreneurs are not risk-taking gamblers: rather, they are adept at identifying and minimising risk.

With this established, nevertheless the study of risk in entrepreneurial decision-making remains a rather complex and still maturing area of research, with contributions drawn from social science and psychology perspectives as well as the large body of knowledge from economics. Forlani and Mullins (2000) comment that given the persistently high failure rates among new ventures, it is rather surprising that relatively little empirical research has explored the role of risk in entrepreneurial decision-making. Much of the extant research has focused on investor decisions and the management of investment risk – only sporadically have researchers examined entrepreneurial risk-taking from the perspective of the entrepreneur. An important contribution from Liles (1981) suggested that entrepreneurs face more than just financial or investment risk, and went on to point out that career, social and family, as well as psychological risk, are also identifiable hazards. However, explorations of financial risk decision-making in entrepreneurial contexts remain popular with researchers. For example, March and Shapiro (1987), in exploring the financial hazard perspective, found that the magnitude of the largest potential loss arising from a (venture) decision played a much more important role in managerial risk perceptions than the probabilities of alternative outcomes. Their findings can be framed within Dermer's (1977) classification of three risk components or dimensions that entrepreneurs face, with perceptions of financial risk one constituent of conceptual risk, where wrong assumptions and imperfect information may mean that decision criteria are skewed. Dermer (1977) also identifies administrative and environmental risks, the former related to the entrepreneur's skill in managing the

business and the latter to unanticipated external environmental factors having a negative impact on the venture.

Such findings resonate with the work of Simon et al. (1999) in their exploration of the cognitive biases that may directly influence risk perceptions. Drawing on previous research on behavioural decision-making, their paper argues that entrepreneurs may be particularly prone to perception biases as a consequence of their need to employ cognitive heuristics and simplifying strategies that enable them to cope with the stressful, complex and ambiguous decision-making involved in new venture creation. Potential (over-)confidence, illusions of control and a tendency to believe in the law of small numbers can negatively influence entrepreneurial decision-making.

While we have briefly demonstrated that contributions from a variety of perspectives over time may have some common characteristics and focus, there is a strong area of disagreement in the literature when attempts are made to measure risk-taking propensity and risk perceptions of entrepreneurs. Sitkin and Pablo (1992) (following prior work by many other researchers) found that the risk propensity of the entrepreneur, defined as their tendency to either take or avoid risks, was more important than most other factors commonly considered as relevant in the analysis of decision-making on business ventures. In a later study (Sitkin and Weingart, 1995), evidence was found that differences in risk propensities influence the risk perceptions of decision-makers in the sense that individuals with higher risk propensities tended to perceive the risks associated with a particular decision alternative to be lower than those individuals who had a lower risk propensity. There is no consensus in the literature, however, on the exact inter-relationship between the risk propensity and the risk perceptions of entrepreneurial decision-makers. It seems intuitively convincing that individuals with a greater willingness to accept risks would perceive these risks as of a lesser magnitude than a risk-averse decision-maker and, therefore, would be more inclined to start a business venture. However, significant empirical research over a number of studies finds no relation between new venture formation and risk propensity (Brockhaus, 1980; Sexton and Bowman, 1983; Busenitz and Barney, 1997).

Ray (1986) offers one explanation for this conundrum, proposing that entrepreneur self-esteem levels are involved in risk propensity and perception, with individuals with low self-esteem more likely to make extreme risk decisions at either end of the spectrum. However, there are many factors that cloud this area of research including gender balance of respondents, because evidence demonstrates that men and women perceive and report risk in different ways; therefore, research findings in this area can be biased by a gender imbalance in the sample (Birley, 1989; Brindley and Ritchie, 1999; Slovic, 1999). This is particularly significant if the sample gender balance does not reflect the population. It has also been suggested that risk perception and propensity to take risks change over time as both the entrepreneur and the business age and mature (Schwer and Yucelt, 1984). Additionally, type of business and growth aspirations may influence risk perceptions (Brockhaus, 1980, 1987). Problems with survey instruments have also been reported (for a short discussion, see Stewart et al., 1998 and Malach-Pines et al., 2005).

Culture is also strongly suggested in the literature as influencing risk perception. Malach-Pines et al. (2005) argue that individuals will be more likely to become entrepreneurs in a society if that society places high value on entrepreneurs as 'cultural heroes'. Much of the culture and risk debate has centred round notions of a commonality in values and work attitudes from a Protestant work ethic perspective (Weber, 1904/05), which is often

taken as a proxy for an entrepreneurial dynamic. The work of Hofstede (1980) is often used as a framework for analysis, but this approach has been heavily critiqued (Harrison and McKinnon, 1999, quoted in Ritchie and Brindley, 2005). A more fruitful approach would appear to be one that aims towards an in-depth understanding of how people negotiate risk, and to tease out embedded cultural determinants of behaviour at the level of the individual. The issue here is how might this be achieved? Commentators over time have noted many risk modification strategies at the level of the individual, and this would appear to be a promising area for further exploration: in other words, what strategies can entrepreneurs use to modify risk? According to Schumpeter (1934), risking the finance of others (bankers, investors) is one approach. Deakins (1999) describes strategic alliances, joint ventures and licensing arrangements as strategies for reducing risk. Gibbons and Hong Chung (1995) describe the planning and gathering of intelligence as a risk modification strategy for entrepreneurs, and for McLelland (1961) information, knowledge and experience are all risk modifiers. The use of established social networks by immigrant entrepreneurs to the UK and the resultant moderation of perceived risk in establishing new ventures is well researched and understood in the literature (see, for example, Ram and Deakins, 1995; Ram and Jones, 1998; Fadahunsi et al., 2000). Immigrants use established networks for identifying opportunities for locating, establishing and growing business ventures and for access to finance. Employing staff is also a prime function of networks.

In conclusion, therefore, there are a number of risk modification strategies that it is possible to examine at the individual level across cultures, and qualitative research rather than quantitative surveys is suggested as a more robust approach against the background of problematic instrument design. It seems feasible and logical from the literature reviewed that a cross-national study comparing how individual entrepreneurs modify risk should enable the study of at least some underlying and embedded cultural influences. Caution must be used, however, in interpreting results, because it is recognised that how individuals filter their risk perceptions, and thus act in strategic, risk-reducing ways, will likely be determined in part by multiple prior experiences.

4 Project aims and objectives

4.1 Research aim and justification

The authors argue that environments for entrepreneurship in the UK and Germany are dissimilar, but that both countries' rates are stagnating despite policy environments that seek greater rates of SME start-ups. The literature review examined difficulties inherent in researching entrepreneurship and risk. This research, therefore, aims to better understand the development of successful entrepreneurial risk management and mitigation strategies pursued by German and UK entrepreneurs. This will be achieved through examining and comparing entrepreneurial risk-related responses to unfamiliar institutional frameworks and business systems in a third European environment, and noting how subsequent strategies are formed and adapted. The dissimilarity between the UK and Germany on many measures of entrepreneurial activity, and the marked differences in institutional frameworks and policy support, present an ideal opportunity. We consider that research into the poorly understood area of entrepreneurial risk, highly relevant to policy-makers in both countries, is facilitated as a cross-country comparison between entrepreneurs from these two very different nations. This bilateral comparison will yield clearer findings, in this particular circumstance, than studying two countries with more similar characteristics.

4.2 Research objectives

Our research objectives were to:

- investigate how both UK and German entrepreneurs successfully or unsuccessfully adapt their risk perceptions and risk management strategies in a third country business environment
- note differences in risk perceptions and risk management strategies between UK and German migrant entrepreneurs in business start-up and growth
- better understand how entrepreneurial risk perceptions and risk management strategies of migrants relate to respective home country experiences.

5 Methodology

The perceptions of the individuals selected for interview, as well as the perceptions of the researchers themselves, can never be entirely free of the influence of the 'accepted wisdom' of public opinion about the qualities of the business environment of the countries concerned. This can lead to bias unless one is able to choose respondents who have direct experience in both countries. It would, of course, be possible to compare the judgements of respondents in both groups with more objective ratings derived from the available international comparative studies on entrepreneurship (such as ratings for the availability of start-up finance from the GEM database), but our research interest in risk perceptions and risk management has not been adequately covered by previous comparative studies on entrepreneurship, so such recourse to 'objective' ratings for calibration purposes would not be possible. Our research design therefore evaluates the 'self-assessment' of German and UK entrepreneurs who have migrated to Spain, and we asked the individuals in both samples to compare their 'home' business environment with the Spanish environment and business system. Their evaluation of the Spanish business environment would naturally still be influenced by the experience they have had within their own national business system, but at least the comparator business system has the same properties for both groups, enabling us as researchers to make much more meaningful comparisons.

We adopted a qualitative research design that relied on loose, semi-structured interviews. We decided to concentrate our study on two different regions in Spain, reflecting the most popular immigration regions for both nationality groups. As risk management and mitigation strategies and the availability of networks of fellow expatriates are closely linked for immigrant entrepreneurs, we needed to select regions with sufficient agglomeration effects –that is, a sufficient number of fellow expatriates for both groups. For this reason, we conducted our study of UK entrepreneurs in the Malaga area of mainland Spain and the study of German expatriate entrepreneurs on the island of Mallorca.

Nine German and eleven UK entrepreneurs working and living in Spain (see Appendix 2 for brief bio-data) were interviewed – 20 in-depth interviews in total. We asked our interviewees a number of questions relating to their background and entrepreneurial experience in their respective home countries, their motives for moving and setting up business in Spain, and their evaluation of the business conditions and business environment in both their country of origin and Spain (see Appendix 1). These in-depth semi-structured interviews each lasted between 40 minutes and 1.5 hour, and the semi-structured format allowed us to create a relaxed atmosphere where most interviewees were very happy to talk about their background and experiences. Identifying potential interviewees and finding volunteers for our interviews proved time-consuming and required a significant amount of flexibility from the researchers; in particular, we were keen to ensure that our samples consisted of individuals who were broadly comparable in terms of both their professions/industries and their entrepreneurial and business background factors. We used a variety of sources to identify potential interviewees: we found business and trade organisations via the internet (but had very limited success in agreeing interviews via this route), we used local print media – in particular, regional

expatriate newspapers – as well as specialist business directories to identify individuals, and we asked the local chambers of commerce and other trade organisations to help us find volunteers. We discovered that the most successful way to recruit volunteers was to approach individuals directly, either by visiting their business premises and asking for an interview opportunity or by phoning them at appropriate times.

Given the explorative nature of our study and its qualitative methodology, we are aware of the limitations of this research project – in particular, in terms of scope for the generalisation of our findings. We appreciate that in order to generate representative results for the totality of expatriate German and UK entrepreneurs we would need to conduct a much larger study. However, we have been very careful in selecting our samples of interviewees for both nationality groups and have taken care to ensure that similar industries and professions were represented and that biographical factors (age, gender) as well as business success factors, such as specific education and prior experience in the chosen industry or profession, were adequately represented in both groups. We have also attempted to gain some explorative insights into the potential for change of risk attitudes and behaviour linked to the sustainability of business ventures by making sure that we had entrepreneurs with different lengths of stay in their expatriate business environment in both samples. To undertake such a study with a statistically valid and therefore highly systematic sampling would, however, have necessitated matched samples of more than 100 interviewees each and this was neither feasible nor necessary for our purposes.

In order to address the issue of generalisation, we also included a number of key informants in our sample groups, such as solicitors, business advisors and accountants who specialise in providing professional advice to expatriate entrepreneurs of their own nationality group in Spain. In these interviews, these key informants were able not only to relate their own personal experience to us, but also to provide us with their assessment of the experience, attitudes and behaviour of their clients, thereby significantly extending the range of our study in terms of the individuals reviewed.

6 Push and pull factors: Motivations to migrate

In trying to understand perceptions of risk, a key area for this research was to understand the reasons why our British and German entrepreneurs were attracted to another country when, at least superficially, there appeared to be no strikingly obvious 'push' factor in either the UK or Germany that could be compared with the economic situation that historically triggered out-migration from both countries. What emerges from our research is a very rich picture, with a complex interplay of push and pull factors that can only really be understood at the level of the individual and his/her family, sometimes migration decisions remaining very delicately balanced. Pull factors predominate, but we consider the push trigger of a critical life event to have emerged as the primary motivator. We now describe some common themes.

6.1 Pull factors

Love of Spain: This was the strongest and most consistent pull factor reported. Almost every respondent noted his or her love for Spain and its people. A typical comment would be: 'We can't believe we live here now, we fell in love with Spain years ago, we have been coming here on holiday for 15 years, it's a really friendly place...' (Respondent #6). However, we would caution that, among those we interviewed who strongly believed that their working life would be simpler and more pleasant outside Germany or the UK, the physical demands of the restaurant, guesthouse or bar trade came as something of a shock to some and they frequently reported a lower quality of family life, including poorer housing standards. Among the UK respondents, we discovered examples of whole families forced to live on permanent caravan sites, because the income generated from the business did not enable them to rent even a small apartment. Our respondents seemed resigned to this, while simultaneously reporting that this downgrading of their social status was a source of embarrassment.

Strong and weak ties: The existence of friends or family in Spain who had previously established businesses or retired there was found in almost all groups in the UK sample, and the type of contacts varied from powerful business networks established in prior, high-level employment, a new spouse's Spanish family to retired parents, neighbours and long-established friendships: '...My dad had a house down here, and we have been coming back and forward since I was a kid...yeah, we know loads of people...' (Respondent #5).

Fortune seeking in a global marketplace: Those who identified strong business opportunities included UK tradespeople who were attuned to property development opportunities and, from both nationalities, artisans in IT who could see business growth opportunities when markets for their services were more crowded in their home country. According to our key informants, there is a new group of professionals emerging who

move their main family home to Spain but continue to work mainly in Germany or the UK, often in some form of legal or financial consulting. Some of them may have a main office in Germany or the UK, with a subsidiary office in Spain. This may be a transitional arrangement before full relocation, but it appears that there is another group who do not relinquish their business base in the home country and may be described as more risk-averse, or who are simply content to straddle cultures as Euro-entrepreneurs.

Opportunism: criminals of both nationalities who defraud their fellow countrymen as a means of 'earning' a living are pulled to Spain by the apparently profitable opportunities for such behaviour and the alleged difficulties that defrauded expatriates encounter when seeking legal redress. They also rely heavily on the reluctance of expatriates to engage with the appropriate authorities.

6.2 Push factors

Critical events: We consider these to be primary motivators. Triggers commonly were bereavement and divorce. However, in the UK sample, we also found those who had experienced redundancy, often some years ago, from heavy industries such as steel production, where future employment opportunities in the UK were perceived as highly challenging. Substantial redundancy enabled the individuals to restart their lives in 'a better place' (Respondent #1). We also found a number of UK entrepreneurs in hospitality who had lost their driving licences through drink-driving convictions, and were forced to relocate in order to remain in the hospitality industry – licensing regulations would not permit them to be liquor licence-holders in the UK.

Value rejection: There was a sub-theme in the UK sample that seemed to reject British lives – people who were not pushed by economic circumstances and whom we considered naming as a distinct typology: the 'Bunking off Britain' group. This subset commonly cites negative perceptions of quality of life and prospects in the UK as a primary reason for relocating to Spain. They can gloat about the funds released from the sale of their UK properties, believing that these funds make them 'wealthy' in Spain. This group appear to take a rather cavalier attitude to business and also to the impacts on their children of their relocation decisions. We found evidence of children being allowed by their parents to drop out of school at a very young age because of stated problems with integration and bullying. This group reported the least concerns with securing a future income, although they frequently also reported that they were working illegally or barely legitimately as very low-level self-employed cleaners, for example, to keep food on the family table as their 'wealth' had long been spent. When probed, one admitted a string of business failures in their recent past. This group are the most likely group to report negative experiences with Spanish nationals.

7 Migrant German and UK entrepreneurs: Key similarities and differences

A number of similarities and differences related to risk between the two nationality groups emerged from our research:

7.1 Similarities

1. The first two to three years seems to be a crucial hardship period for both nationalities and entrepreneurs need sufficient capital resources to sustain this period. Approximately two-thirds of all new businesses appear to fail in the first three years, but this is no different from the norm in either home nation.
2. Generally speaking, entrepreneurs who persevere with a business in their prior field rather than change industry tend to be more successful, but this does not mean that all job-changers are unsuccessful. The successful are those who have already acquired general business skills and/or have managed to find a profitable niche. As more expatriates have settled in Spain, these niches have become scarce, so success requires entrepreneurial talent and is helped by candidates' critical evaluation of what they have to offer.
3. Contrary to widespread belief, not all bar and restaurant entrepreneurs are amateurs. There seem to be many UK gastronomic entrepreneurs with previous experience, as well as some Germans who run successful, profitable and, ultimately, saleable or scaleable ventures. There are also, however, those who are naïve and open a bar or restaurant without much understanding of either the industry or local conditions. These people are very likely to fail.
4. Both migrant UK and migrant German entrepreneurs in Spain can be inward-looking, restricting their clientele mainly to their fellow countrymen. Most of those whom we interviewed had very few Spanish customers for their services. This often artificial restriction tends to increase the already strong competition that entrepreneurs face in Spain, particularly with rising numbers of migrant entrepreneurs.
5. Within both groups, it appears that a significant amount of fraud occurs, as reported earlier. However, we did not hear any reports of fraudulent practices by Spanish entrepreneurs affecting either group, although both groups complained of bureaucratic obstacles. Both German and UK expatriates, however, reported that health and safety and licensing issues would suddenly emerge when an expatriate entrepreneur set up a new business, whereas apparently there had not been any such issues with the same business premises under previous Spanish ownership. We also need to refer in this context to a well-publicised graft scandal in the Costa del Sol that was occurring during the period of this research.

6. Both German and UK migrant entrepreneurs reported suffering from the property boom in Spain, which that made both their accommodation and the leasing of premises increasingly more expensive.

7.2 Differences

1. From the UK sample, we report that those strongly pushed into migration tend to stick with their business longest, and tend to be more successful in the longer term. This was not found in the German interviews but may be worth further investigation.
2. German expatriates seem to have a well-developed business support infrastructure at their disposal. There is no shortage of business advisors, accountants and solicitors available to them, whereas there appear to be far fewer such UK professionals. German expatriates also appear to have very good business networks in Spain, and business people are happy to support each other and recommend their services to each other. While the UK respondents reported favourably on community spirit and helping each other out, they appear more reluctant to form or join business networking groups, preferring a social focus to such activities.²
3. UK migrant entrepreneurs typically have more capital resources at their disposal than their German counterparts. Many UK migrant entrepreneurs have benefited from the UK property boom, which has enabled them to use the equity raised from the sale of their property to fund their business venture abroad. This is particularly important as a success factor for sustaining the initial hardship phase after the establishment of a new business.
4. In Spain, German building, construction and associated trades seem to be run on a more professional basis, appearing to consist of larger firms that often also have a business base in Germany. UK builders, plumbers, carpenters and electricians, on the other hand, tend to be small firms with less capital, expertise and machinery. However, it may be that they are more used to putting together teams of other self-employed labour to tackle bigger jobs, as is the norm in the UK.
5. In Mallorca, and also in other popular Spanish locations such as the Canary Islands and the Costa del Sol, it is very easy to find specialised German medical centres in the major towns that cater for both tourists and expatriates. This is markedly different from the equivalent UK health infrastructure, which is sparse. However, there is some evidence of UK dentists and cosmetic surgeons setting up in practice in the Costa del Sol, with their primary market wealthy expatriate retirees. The difference can easily be explained by the much higher payment that UK medical doctors achieve compared with their German counterparts and, the UK's status as a 'net importer' of medical personnel. Additionally, UK tourists and expatriates appear to have much lower expectations as far as health provision is concerned, and rate the Spanish health service highly in comparison to the British NHS.

² The difference in the business advice support infrastructure should have an impact on the business success and survival rate, but we do not have any hard evidence for this and the issue would be worthy of further quantitative research.

8 A typology of migrant UK and German entrepreneurs in Spain

While acknowledging that a typologies approach in entrepreneurship can both restrict and promote understanding, we did uncover typical groupings that our respondents seemed to easily fall under, although of course there are always exceptions. Key informants also added to and confirmed these findings, more often without prompting. Here we offer, therefore, an initial typology of migrant entrepreneurs in Spain:

- **The Professional Prepared:** Well-educated and well-prepared self-employed entrepreneurs with extensive professional experience at home prior to relocation. Most in this group have a good level of knowledge about their destination country, including appropriate language skills, and most are equipped with sufficient capital resources. Many have developed extensive business and networking contacts in Spain before migrating, and see their relocation as long term. They are most likely to become involved in large-scale development or investment projects, or businesses that generate significant income and employ significant numbers of people.
- **The Artisans:** Entrepreneurs operating on a smaller scale, typically in professions such as those in the building trade and some specialised service sectors (for example IT, media, telecommunications and also the sex industry), and with prior qualifications and business experience at home. Artisans do their 'homework' before moving and have sufficient capital resources to overcome the initial settling-in period, which can last up to three years. This group see great opportunities to exploit in Spain where a particular skill-set is perceived as absent or lacking locally. They frequently seek to engage with advanced language training. There also appear to be more female professionals represented among this group than any other group.
- **Tradespeople:** Small-scale entrepreneurs in lines of business such as building-related work (plumbers) and related services (decorators). Tradespeople are less well prepared than the artisans in our analysis, but are believed to be successful because solid work will eventually develop a good reputation among other expatriates and therefore generate repeat business. Often this group have a good language knowledge developed working alongside Spanish nationals, and some see their residence as permanent, particularly if they have a Spanish spouse.
- **The Accidental Tourists:** Entrepreneurs with some or little previous experience and professional qualifications in their new roles, who often spent vacations in Spain prior to relocation and seek the 'living in the sun' experience, genuinely appreciating the culture and climate. Spain is their choice by the happy accident of holidaying in the country year after year and falling in love with the food, landscapes, ambience and people. They can be ill prepared, though, to tackle bureaucracy and sometimes lack sufficient capital – that is, they have grossly underestimated both living costs and the costs of establishing and running a successful enterprise. Language skills in this group vary tremendously from those

who seek to be fluent to those who cannot pronounce, with any approximation to Spanish, the district in which their business is located. Typically, this group are the owners of small bars, small shops and food-processing units – a range of retail, service and manufacturing enterprises. However, we did discover many bar and restaurant owners who appeared to be both well prepared and well equipped, and were also successful. Accidental Tourists are also most likely to involve their spouses or partners and other family members in their enterprises.

- The Drifters: A group who appear rootless and with a low level of ambition, believing it easier or preferring to establish themselves in Spain rather than at home. Usually they have little or no experience in their adopted line of work, are often exploited by other expatriates working for low wages, cash-in-hand, which we propose is pseudo self-employment. Some offer gardening, others domestic and pool-cleaning services, and some are loosely involved with craft and design. Drifters sometimes talk about their attempts to establish low-level enterprises (craft and tourist services). They often have no social security or other means of supporting themselves when work dries up and, while some may become fixtures in a local community, many drift to other towns in search of a better opportunity. We found the offspring of accidental tourists prominent among this group, often completely unskilled and only partially educated because they had dropped out of school at a young age. Fluency in Spanish was rare.
- The Grifters: Respondents identified fraudsters and small-time crooks who prey on fellow expatriates as a highly problematic group. Every interviewee related their own cases or had close knowledge of another national defrauding fellow countrymen. We were told that the fraudsters managed surprisingly easily to gain the trust of their fellow expatriates and defraud them with 'business opportunities' in financial services or by offering themselves as facilitators in property purchase or contract negotiation. We had reports of one consistent scam perpetrated time after time on unsuspecting and aspirant UK bar owners, where a bar was sold with forged accounts suggesting it was highly profitable and, when viewed by the potential purchasers, was full of fake customers. Typically these deals go sour with funds invested not recoverable, but again, surprisingly, some fraudsters managed to remain in a particular location for considerable periods, befriending and defrauding waves of migrants, even when the new migrants had met those who had been conned previously. The accidental tourists appear to be particularly vulnerable to this practice. With the grifters, their apparent ease with local and national business practices in Spain often conflicts with a poor language facility, which appears fluent only to the naïve. We came across one example of a UK gangster with experience of jail who appeared to suggest that, while he was involved in crime of a more sinister nature, such fraudsters are 'unscrupulous' (Respondent #9).

9 Risk attitudes, risk perception and risk mitigation strategies

In this section, we report on the risk attitudes, perception and mitigation strategies among our sample of German and British entrepreneurs in Spain. In doing so, we adopt a broad interpretative approach as we link together our own results with our desk research. This interpretative analysis has to be treated as indicative because not all individuals from a society are likely to follow its cultural and social norms, and risk perceptions can be informed by prior experience in individuals. Nevertheless, there are a number of observations concerning the risk management strategies in our sample that can be intuitively linked with our previous observations on risk attitudes and behavioural preferences as well as the entrepreneurial business environment in our respective nations. We compare the UK sample to the German one in this section, as it is most illuminating of the differences. Some of the most striking quantitatively measured observations about Germany are:

- a high level of fear of failure as an impediment to entrepreneurship
- a noticeable lack of confidence among Germans in their own entrepreneurial competence
- being accustomed to and expecting to operate in a very complex and highly regulated legal and institutional business environment that may be bureaucratic but provides a commensurate level of legal certainty.

And we would, from the literature, expect risk mitigation strategies to include:

- risking the finance of others rather than own finance
- evidence of strategic alliances, joint ventures or licensing
- planning and gathering intelligence
- using information, knowledge and experience
- utilising social networks.

From these observations, one would expect German entrepreneurs on average to be relatively risk-averse and to put a premium on strategies that would help them to feel well prepared for handling the risks arising from entrepreneurial venturing. Indeed, if we take a closer look at some of the findings, we are able to see some connection. In comparison with our British sample, the German migrant entrepreneurs showed a number of interesting preferences that could be interpreted as signs of a preference for risk-reduction strategies and general risk aversion:

- a stronger preference for working in their previous profession or line of work
- a stronger preference for employing business support services when starting their business
- a greater likelihood to have invested some time in learning Spanish and to have informed themselves in some depth about the institutional business environment as well as the culture and society of their destination country
- a more extensive and exclusive use of social networks in their business operations.

All these preferences and differences relative to our British entrepreneurs can be interpreted as ways to attempt to reduce and manage the risks arising from entrepreneurship in an unfamiliar and new environment. For example, working in the same profession and employing business support services when setting up a new business abroad clearly reduces the range of unfamiliar challenges, raises the general competence level of migrant entrepreneurs and also includes some degree of insurance against liability risks during familiarisation with the local culture. Acquiring some degree of linguistic competence helps to reduce the likelihood of severe gaps between expectations and reality, and facilitates the general process of settling into the new culture.

We should be careful, however, not to over-interpret these findings. Both nationality groups, for example, exhibit a strong preference for conducting their business affairs with their fellow countrymen and, while this behaviour can easily be explained with reference to the trust literature as a recourse to characteristic-based trust (trust based on common background, see Zucker, 1986) to control the risk involved in dealing with strangers, there is some indication from our study that this very preference for dealing with fellow countrymen makes Germans and British expatriates more prone to fall prey to fraudsters who misuse this common-ground cue for their own purposes. It is very likely that a more open-minded approach among German and British expatriates and more trust in members of their host society would reduce the chances of their falling prey to criminals among their own fellow countrymen.

In a similar vein, the use of social networks for business purposes can be instrumental in reducing risks in uncertain environments, provided that the network is able to sanction misconduct among its members effectively (Powell, 1990). However, networks can become counterproductive if they are too inward-looking and are not prepared to open up to new members, or if sanctions on members can result in negative outcomes for the group. With the UK sample, respondents sometimes appeared scared to 'rock the boat' by exposing fraudsters, with anything but essential interaction with Spanish authorities seen as something to avoid. That UK entrepreneurs also reported reluctance to puncture the illusions of the newly arrived by warning them about known fraudsters is hypothesised as not wishing to admit to the often grim reality of their own situation and thereby exposing their own poor judgement. There was an impression too of shared experiences of fraud actually creating 'social bonds' between the new expatriate business owners and the more established UK entrepreneurs.

If we compare our findings, we can see a number of differences that indicate a higher propensity to take risks by British migrant entrepreneurs in Spain in that they:

- appear to be less likely to use professional business support services when setting up their business, or use them very sparingly and with deep suspicion
- are more likely to set up business in a profession or industry where they have not worked before at home, and which does not capitalise on their skill-sets
- appear to be less well prepared and less knowledgeable about the business systems in their host country before they migrate, assuming wrongly that some form of EU standardisation applies
- sometimes do not speak Spanish or speak very little Spanish when they relocate, although it is not at all clearly the preserve of one typology or another and there are exceptions

- appear to have less access to or be less prepared to seek out the help of social networks for business referral and other business purposes than their German counterparts.

These observations can be seen as indications of a more risk-accepting attitude among UK entrepreneurs in Spain. In general, there appears to be a more 'trial and error' orientation among UK entrepreneurs compared with their German counterparts; this may possibly be linked to their experience of a less regulated home business environment with more labour flexibility and greater ability to move between jobs and professions, as well as less emphasis on holding specific qualifications as a precondition for being permitted to work in a particular line of work, be it a craft or a liberal profession.

We suggest too, that UK entrepreneurs may lull themselves into a false sense of security about business ownership in Spain, possibly because they may have visited the country as tourists more frequently than Germans prior to relocation and therefore consider themselves familiar with the country and its customs. Many respondents reported their surprise and dismay at discovering radically different business systems, particularly local and national taxes, and stricter employment legislation in Spain than in the UK, commenting that they simply did not anticipate this, believing erroneously that EU membership had created similar conditions across member states: 'I didn't realise you can't sack Spanish nationals, even if they go off sick for a year; that's the reason my first business went bust' (Respondent #1). Some reported that, while they had been aware of 'red tape' issues, they had no conception as to what extent this and poorer infrastructure issues would impact on their fledgling ventures – for example, the time it takes to obtain a telephone line, or having to pay for regular health inspections of their premises. Some UK entrepreneurs with growth aspirations quickly curtailed their vision for the new business on discovering how problematic employment practices are in Spain, relative to the laxer rules in the UK. However, as stated previously, very few had taken advice on such matters and relied almost exclusively on hearsay from the expatriate community rather than checking the position for themselves. The networks, as they exist for UK entrepreneurs, appear to be a healthy rumour and gossip mill rather than a professional support.

We do need to be careful with our analysis, however, as these differences could also, at least partially, be explained by differences in the socio-economic status of the individuals in our samples. Although we took care to match the samples in many respects, the German sample contained a higher proportion of professional individuals with a higher socio-economic status, and this may have biased our results. However, our document research, trawling through business directories, contacting business organisations and searching the internet did reveal significantly fewer liberal professionals (lawyers, accountants and medical doctors) of recognisable UK nationality than Germans, and we are confident that on the balance of probabilities our study is representative. It might be suggested, therefore, that the German entrepreneurs were more prevalent in professions where professional networking is the norm, and that this method of business support has simply been transferred to Spain.

An interesting difference between German and UK entrepreneurs is their possession of capital to finance their business ventures. The recent property boom in the UK, together with the regular media coverage of UK nationals migrating to and buying property in southern Mediterranean countries, may well have fuelled a migration wave of relatively unprepared and naïve new entrepreneurs (as indicated, for example, by the phenomenal

rise of UK nationals resident in the Balearic islands)³. From a risk perspective, the availability of equity capital from rising house prices in the UK is likely to have made the decision to migrate to Spain much easier for many individuals than for their German counterparts who have experienced a relative decline in prosperity in their national economy. However, one should also note that it takes a strong degree of propensity to take risk to use this equity for setting up a business in a foreign country without much planning and preparation. A risk-averse individual would, in all likelihood, prefer lower mortgage debts to investing equity in business ventures abroad, or aim to risk bank or investor capital to a greater extent than their own finance.

There is some recent data on numbers of German and UK business migrants to Spain,⁴ but we have reason to believe that the proportion of necessity entrepreneurs is relatively low for both groups and that opportunity entrepreneurs predominate, albeit that sometimes the nature of the opportunity is miscalculated. The relatively risk-averse German attitudes do not seem to be conducive to necessity entrepreneurship in a foreign country, although one has to note an increasing tendency for unemployed Germans to seek employment opportunities abroad as indicated by the recent prominent TV media coverage (with titles such as *Die Auswanderer* and *Mein neues Leben* shown by private TV channels in Germany) and the 2005 German migration data that showed more outward migration than inward migration for the first time in a long period (*NTV news*, 23 October 2006). UK entrepreneurs who have recently migrated to Spain are even less likely to be necessity entrepreneurs than their German counterparts, with the noticeable exception of those individuals identified in our UK sample who were working in the hospitality industry and moved to Spain in response to losing their UK driving licences. Other critical triggers we uncovered are not factors in necessity entrepreneurship.

Following our indicative finding that German entrepreneurs appear to be better qualified on average than their UK counterparts, we can also identify two main and distinctive types of opportunity entrepreneurs in Spain: well-qualified professionals who seek more economically attractive professional opportunities (mostly German professionals but with young UK professionals included here, although in different sectors) and a larger group of UK nationals working in a wider range of professions who use their capital assets to establish a range of new enterprises in Spain. We may, however, be well advised to look again at the recent economic history of the two countries. One reason for the higher percentage of 'middle-class' German entrepreneurs in Spain may be that until the 1980s buying property abroad and migrating to live abroad was almost exclusively the preserve of middle-class individuals in both the UK and Germany; also, with the Germans having been economically more successful than the British until the 1990s, the higher level of German middle-class entrepreneurs could be a remnant from their economic success in the past as well as a consequence of the worsening economic conditions for certain liberal professions in recent years. In the UK, on the other hand, there is no need for younger medical doctors or solicitors to move abroad to improve their economic conditions, but the recent property price boom has enabled many more UK families than German families to consider moving abroad as a consequence of (perceived) financial wealth. We did,

³ The number of British nationals registered as residents on the Balearic islands grew from 8,900 in 2000 to 17,600 in 2006 according to *Majorca Daily News*, 26 July 2006.

⁴ The Spanish Savings Bank, *Caixa Catalunya*, recorded 21,000 registered UK businesses and 13,579 registered German businesses in 2005 (reported in *The Independent*, 31 August 2006).

however, also find some evidence among the UK sample of professional, younger, opportunity entrepreneurs (in IT and telecommunications, for example) who moved to Spain because the Spanish market was less crowded and better opportunities for growth were perceived to exist there.

Encouragingly, we also found evidence of flexible and dynamic responses in the UK sample, whose willingness to alter their aspirations, business and strategy in response to environmental changes or unanticipated market conditions can be considered a valuable entrepreneurial characteristic. We found no evidence, however, of the use of strategic alliances, joint ventures or licensing agreements such as franchising among either group. There was some evidence from the UK sample of entrepreneurs attempting to raise debt finance at Spanish banks, but as a last resort when other funds had been exhausted, and some patchy evidence of the use of equity finance from friends and family in this group was also indicated for similar reasons.

From the perspective of our key informants, those who were not in regular contact with British expatriate entrepreneurs tended to rate them as more entrepreneurial than those who had actual experience with UK clients. There is not sufficient evidence for generalisation, but a minimum consensus would be that informants felt that UK entrepreneurs were more deal-oriented than the German, but that the German would be inclined to put more effort into finding new niches, particularly in the retail sector, rather than joining the queue in already overcrowded markets. Conversely, the British retail sector entrepreneurs would either join in the queue or stay away from retail altogether. There are some trades, however, that appear to appeal to UK entrepreneurs' somewhat trial and error approach to starting new businesses.

10 Conclusions and policy implications

This report details the research undertaken and findings of a comparison of two nationality groups on entrepreneurs and risk. The background to entrepreneurship in both Germany and the UK has been outlined and problematic areas have been identified in both countries in the supply of entrepreneurs, although quite different policy environments that support entrepreneurship exist in each nation. From the desk review of relevant literature, a number of issues were discussed from the knowledge base of risk and entrepreneurship, and our qualitative research approach has been explained. The research captured entrepreneurs from both nationalities, interviewed in a third neutral country – Spain, a country chosen because it has high numbers of both nationalities who are actively engaging with new enterprise development. The interviewees were asked about their perceptions of risk and their risk mitigation strategies. Their responses were analysed and a number of similarities were found in both the type of people attempting to establish businesses in Spain and the push and pull factors that underlie their relocation decisions. However, the research also uncovered a number of key differences between UK and German migrant entrepreneurs, both in the type and the relative proportion of different groups as well as in their risk mitigation strategies.

We conclude that German entrepreneurs are more risk averse than UK entrepreneurs, but also demonstrate a more classic entrepreneurial mindset in minimising their own risk in a venture. British entrepreneurs are more sheltered from business risk by the larger amount of capital they bring to new enterprises, but they may lack the risk mitigation strategies of Germans in prior planning, and in utilising social networks effectively for business purposes. Both groups could do more to minimise their exposure to business risk, and both groups are, in our view, too trusting of their fellow nationals.

In our review of the entrepreneurship conditions in the UK and Germany, we have identified disappointing and stagnating new venture creation rates in both 'home' countries and we have argued that risk perception, attitudes and risk mitigation strategies have a strong influence on the success of new ventures over time. In the light of our findings about the differences between the two groups, we conclude that in the UK entrepreneurship education, training and promotion should put a stronger emphasis on risk identification, analysis and mitigation – in particular, for those individuals who may consider setting up a business abroad. This should be done not least as a public awareness-raising counterweight to the ethically questionable treatment of migrant entrepreneurship in the UK media that may well have been a significant contributing factor to the problematic risk attitudes we found among the UK migrant entrepreneurs in our study. For the UK, the risk issue is particularly pertinent for its migrant entrepreneurs, but we believe that entrepreneurship education and training for 'home' entrepreneurs should also put more emphasis on understanding and managing entrepreneurial risks.

Conversely, the German entrepreneurs, and in particular those individuals who set up businesses abroad, seem to be much better prepared to handle entrepreneurial risks. German nationals 'at home', however, appear to suffer from a lack of confidence in their abilities and have a pronounced fear of failure that goes some way to explaining the

disappointing new venture creation rates in the domestic economy. Given that we have no compelling reason to believe that the German migrant entrepreneurs per se are very different from their counterparts at home, we must therefore conclude that the German government should investigate the reasons for this lack of confidence and fear of failure in the nature of the business opportunities and the institutional framework for entrepreneurship in the domestic German economy.

Future research

There are certainly research-rich opportunities among expatriate business owners in Spain – for example, confirming via large-scale surveys the full range of motivating factors to migration for business purposes, and expanding on our initial typology. Other research questions that have emerged include:

- To what extent is a new 'Euro-entrepreneur' emerging, with a work-life balance that straddles different European cultures? Do these individuals exploit structural divergence or could they inform and drive policy convergence?
- Critical life events are important triggers for those relocating to Spain to establish new businesses. To what extent do the same events trigger entrepreneurship in both home country environments?
- Why do migrant entrepreneurs seem to shun risk-mitigating opportunities such as franchising, licensing or joint ventures in their smaller scale service industries?
- In what way does the stronger German business support infrastructure impact on the longevity and success of German ventures compared to UK ventures?

Appendix 1

Interview schedule

- Prior experience before Spain: What did you do before you left for Spain?
- How did you end up running a business in Spain?
- What planning/preparation did you have to do in order to relocate/set up this business
- Did you/do you have a fall-back position if things don't work out?
- How has the business developed? Is this according to expectations? What changes, if any, have you had to make?
- What are the advantages and disadvantages of doing business in Spain?
- Would or could you have established this business in the UK?
- Is it easier to do business here or in the UK?
- What would you do differently if to do again?
- What advice would you give to someone from the UK thinking of setting up a business in Spain?

Basic company information

1. Number of years in Spain
2. How long business running
3. Proportion of customers non-British
4. How financed?
5. Type of business
6. Number of employees

Appendix 2

Respondents' biographical data

UK sample #	Brief biographical data	Business
1	Male, age approx. mid-50s. Previous business ownership experience (10 years+) in construction in Spain. Married to a Spanish woman who is active partner in the business.	Large newsagents, offering bill paying and other services.
2	Female, age 36, previous managerial experience in the UK but not in the hospitality industry. Owns bar with husband who has had to return to employment in the UK. Resident circa 2 years.	Small bar restaurant
3	Male and female couple, in their late 40s. Previously owned a hotel in the UK. Resident 3+ years.	Self-employed cleaner and taxi driver
4	Female, age 42, no prior work experience in the UK. Father relocated many years ago. Resident 20+ years.	Interior design.
5	Male, age 46, previous high-level management experience in the UK. Married to professional Spanish woman. Business not run jointly but with other UK partners. Resident 5+ years.	Investment broker for venture capital.
6	Male and female couple, in their early 50s. Extensive previous business ownership experience in the UK. Bar owned and operated jointly. Resident 3+ years.	Small bar restaurant.
7	Male, 40s, previously a bar owner in the UK. Divorced. Resident 10+ years.	Wholesaler of food and other products to British owned bars and restaurants.
8	Male, 50s, some previous management experience. Resident 10+ years.	Bookshop owner.
9	Male, age 58. Reports previous convictions in the UK for violent crime. Property development experience in the UK.	Property development.
10	Female, 30s, previous business experiences in the UK in same industry.	Adult shop.
11	Female, mid-40s, IT industry experience in the UK	IT service and supplies, several outlets.

German sample #	Brief biographical data	Business
1	Female, early 40s, has lived in Spain for more than 20 years. No previous experience before moving to Spain.	Business advice and business support services, several subsidiaries (interviewee as well as key informant for this study).
2	Female, 40s, has lived in Spain for more than 10 years.	Business advice services.
3	Male, mid-50s, solicitor, has lived in Spain for circa 10 years.	Corporate and private clients, several offices in Spain.
4	Female, late 20s, solicitor, has lived in Spain for less than 3 years.	Solicitor.
5	Male, 30s, has lived in Spain for approximately 3 years.	Solicitor.
6*	Male, late 20s, has lived in Spain since circa 3 years but is Spanish national who has grown up, been educated and worked in Germany before moving to Spain.	Gastronomy, no previous experience in this sector before, but business graduate with relevant business experience.
7*	Male, late 20s, has lived in Spain since circa 3 years.	Gastronomy, no previous experience in this sector before, but business graduate with relevant business experience.
8	Female, 40s, has lived in Spain since circa 10 years.	Translation and interpreting as well as office support.
9	Female, 30s, has lived in Spain for circa 3 years.	Recruitment and HR services.

* These are two different individuals who have similar characteristics. One of them is a Spanish national.

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