



*Governing Urban Diversity:  
Creating Social Cohesion, Social Mobility and Economic Performance in Today's Hyper-diversified Cities*

## Report 2k Fieldwork entrepreneurs, Leipzig (Germany)

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<b>Authors:</b>	Katharina Kullmann, Till Bickel, Katrin Grossmann, Annegret Haase, Christian Haid, Christoph Hedtke, Juliane Renno
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## 1. Introduction

Achieving high levels of economic growth and increasing the well-being of citizens (Fainstein, 2005; Bodaar and Rath, 2005), which are the main objectives of urban policies, are closely connected to their levels of entrepreneurship and ability to create new enterprises. In the global era, cities compete for enterprises with strong economic performance and talented entrepreneurs, besides creating conditions necessary for new start-ups. The literature emphasises that cities open to diversity are able to attract a wider range of entrepreneurs than those that are relatively closed (Fainstein, 2005; Florida, 2002; Tasan-Kok and Vranken, 2008; Eraydin et al., 2010). Empirical research on how economic competitiveness is connected to urban diversity, however, is limited and usually provides evidence only at macro levels. One of the aims of this project is to close this gap with empirical evidence collected at the neighbourhood level from 14 diverse European cities.

In this project report, we focus on the economic performance of enterprises in deprived, dynamic, and diverse neighbourhoods in selected cities and the conditions that support and sustain their competitiveness and longer term development. We aim to demonstrate the relationships between urban diversity and the success of entrepreneurs. More specifically, we want to explain and document the reasons why certain neighbourhoods provide conditions for individuals or groups that strengthen their creative forces and enhance their economic performance.

Especially in the aftermath of Florida's (2002) theses on the creative class, diversity is seen as an asset for urban economic competitiveness. Here, the overall atmosphere of diverse, tolerant, and inspiring local livelihoods has been ascribed the power to attract innovative and successful entrepreneurs who can foster the economic performance of a city (Nathan, 2015). Related to this, scholarly work has aimed at testing whether such a "diversity dividend" actually exists – as Syrett and Sepulveda (2011) expressed this line of reasoning in a nutshell. Frequently, the impact of diversity is measured by quantitative modelling approaches (Nathan, 2011, Kemeny, 2014). Nathan (2011) shows how urban diversity contributes positively (in statistical terms) to urban economic performance; what is less clear, however, is how it contributes to individual economic performance. Other scholars stress that it is not diversity itself, but rather catalysing circumstances, such as the level of trust, which transform diversity into a stimulation of economic success (Kemeny, 2014). Again, statistical analyses and simulations are chosen here to confirm such effects.

From a social perspective, Syrett and Sepulveda (2011) criticise the emphasis on highly skilled middle class entrepreneurs that appears in the literature on the diversity dividend, whereas the perspective of deprivation and inequality is not given sufficient attention. Also, the potential disadvantages of diversity, such as more conflicts, have not been recognised appropriately. They link this to challenges for policy interventions that, in this view, would need to address social inclusion, to overcome polarisation and, simultaneously, to build trust (Syrett and Sepulveda, 2011: 490). Reuschke et al. (2015) explicitly link research on entrepreneurial activities to neighbourhood research, formulating open points of a research agenda that includes many of the topics we address here, e.g., motivation for self-employment, resources of entrepreneurs, or type of neighbourhood.

This report examines, firstly, the entrepreneurs, who start their businesses in diversified neighbourhoods and the factors that define their economic performance. It might be expected that factors such as the ethnic background of the entrepreneur, his/her age, family background, gender, education, and previous experience are important variables in determining the success of their enterprises. These factors mediate the influence of diversity on the neighbourhood and city

level. Second, it explores the main motivations of entrepreneurs and assess whether neighbourhood diversity is important for starting their business at their current location. Third, it evaluates the market conditions that are important for the economic performance of entrepreneurs. Fourth, the report evaluates the role of policies and measures at different levels and the institutionalisation of such policies.

These issues will be addressed by the concrete research questions listed below, which will constitute the focus in the chapters of this report:

1. What are the main characteristics of the entrepreneurs and their business? What are their evolutionary paths and fields of activity? What are the physical conditions and the ownership patterns of their offices/production sites/shops? (Chapter 2)
2. What were the main motivations of entrepreneurs for establishing a business? What is the importance of neighbourhood diversity for starting their business in the current location? Why did he/she select this line of business and from whom has the entrepreneur received various forms of support when starting this enterprise? (Chapter 3)
3. What are the success and failure factors important for the economic performance of enterprises? What is the current level of performance and how did it change? To what extent does the diversity of the neighbourhood play a role in this? What are the long-term plans of entrepreneurs? Do they have any plans to change their size, market and business strategies in order to reach higher levels of competitiveness? (Chapter 4)
4. Which policies, measures, and organisations contribute to the performance of enterprises and what are the contributions of being a member in various initiatives? What do the entrepreneurs want from policy makers at different levels? (Chapter 5)

In this report, we document the findings from the case study Leipzig, gained from interviews (conducted during September to December 2015) with entrepreneurs in our two case study areas Leipzig Inner East and Leipzig-Grünau. Before describing the local economy in Leipzig and the two neighbourhoods, we will briefly refer to the German debate in this context and how we understand local economy in this report. The German scholarly debate about small entrepreneurial activities in deprived neighbourhoods began with a search for the role of locality and region for economy, as a counterpart to globalisation. Eventually, a discourse on the so-called “local economy” emerged that aims at understanding the relationship between entrepreneurial activity and the locality, the neighbourhood, it is based in. The stereotype for this discourse has been the local entrepreneur, producing for local customers, based on local resources with employees from the neighbourhood (Läpple, 2004). A general definition of local economy has not yet been established. Instead, narrow definitions that are often closely related to practice-related projects interpret local economy as: *‘All goods and services producing and welfare generating activities that mainly cover local needs and recruit a relevant part of its workforce in a definable part of a city.’* (Rommelspacher, 1997: 11)

In our report, we expand the narrow definition of local economy to a *‘district economy with primarily local orientation’* (Krummacher et al., 2003: 117). For our research, we rely on the suggestion of Läpple, who proposed using the term *“locally embedded economy”*. This term still emphasises the rootedness of such enterprises in a locality but gives up the strict notion of the narrow stereotype. We see our interviewees as part of a locally embedded economy that relates not only to the specific local context but is also open enough for the analysis of tensions between local embedding and global interdependencies (Läpple, 2004).

#### *Local entrepreneurship in Leipzig*

The context of local entrepreneurship and its development is decisively shaped by recent changes in Leipzig’s economy that was highly impacted by the systemic changeover in the 1990s. During

the first years after reunification, Leipzig's economy was reinvigorated by several public, transfer-dependent activities that established a new service sector. Several small enterprises were founded in some of Leipzig's districts after the introduction of market economy, and some of them still exist.

At the same time, between 1990 and 1995, Leipzig lost 80,000 jobs in the production and administrative sectors, and unemployment rates increased dramatically. Labour market related policies tried to counteract this development by implementing "job-creation schemes, early retirement. [and] retraining measures" (Rink et al., 2011: 20). This "economic shock" (ibid: 19) led to a vulnerable economic situation in need of finding new ways to implement an economic basis and to provide subsidized work for the local population. The loss of thousands of industrial jobs and the difficult situation on the job market were major drivers of the out-migration of mainly younger households with dependent children (ibid: 14). Since the 2000s, a new positive net migration has occurred, again impacting on the social composition of Leipzig. New in-migrants were mainly students and young adults from East German regions and the surroundings of the city (Haase et al., 2012). This in-migration was mainly driven by the establishment of universities and other schools of higher education (Rink et al, 2011: 14). Leipzig today is growing and it is anticipated that this trend will continue in the future. Currently, Leipzig adorns itself with the economic development of the last decades. Numbers show that the unemployment rate sank from 21.5% in 2005 to 9.5% in 2015 (Stadt Leipzig, 2015: 57). Since 2006, more than 50,000 jobs have been created, even though many of them are located in the low-paid sector. This growth in jobs represents one of the main reasons for the dynamic regrowth of the city and most probably convinced many of those who came to Leipzig during the last 15 years to stay. Whereas Leipzig saw a phase of severe shrinkage and economic disinvestment in the 1990s, the second half of 2000s and the 2010s have been a period of new growth and of re-investment. Nevertheless, Leipzig's economic development is far from being stable. The city's economy is dependent on some major investors, such as BMW, Porsche, DHL, or Amazon. Furthermore, its economic regrowth was, to a large extent, supported by state money. Moreover, despite all the economic success, problems such as long-term unemployment and large numbers of early school leavers remain crucial for the future.

#### *Local entrepreneurship in Leipzig Inner East and Leipzig Grünau*

Set against this overall context, the research in Leipzig has been conducted in two areas: the inner-city area of Leipzig Inner East and the large housing estate Leipzig-Grünau. Our two case study areas provide quite distinct settings.

Leipzig Inner East, a former workers' area that developed between 1850 and 1920 currently has 45,000 inhabitants. Due to large-scale dilapidation and physical decay, it experienced a selective wave of out-migration, which led to a residential diversity that is currently characterised by, on average, higher proportions of older, poor, and socially disadvantaged people. First waves of in-migration occurred when migrants started to (re)populate the district in the late 1990s. In the meantime, the area has developed into Leipzig's first real migrant area with a current share of around 30% of migrants in certain districts. In addition, the area includes some of Leipzig's recent hotspots of population growth and upgrading. It has above-average rates of unemployed and long-term unemployed, although these rates decreased recently, due to an overall improvement in employment in Leipzig. The local economy in Leipzig Inner East is characterised by a variety of business sectors: many small shops and enterprises, mainly located in shop fronts along the main retail streets. The centres of local economy are situated along these main streets and in various clusters in a traditional retail and service area. Some of today's enterprises had already started to do business during the GDR era. The largest sector is retail, followed by hospitality and health sectors (see figure 1.1). An emergence of small clusters of similar shops (e.g. Kebab stores) and an increasingly "ethnic economy" can be observed. We find many

branches of national scale enterprises, such as franchise companies. Recently, a differentiation of businesses, due to marked immigration, new types of enterprises, and enlargement of the creative economy (artists, cafes, specialized shops, etc.) has occurred.

Leipzig Grünau, a large housing estate built during GDR times, lost population after 1990 and has only recently experienced a new influx of population. At the end of 2014, it had 47,000 inhabitants. Ageing is a dominant process. The majority of the population has been living there for 20 years or more and is relatively homogeneous in socio-demographic terms: An older, German, white population with a lower-middle to middle social status. In-migration is gradually bringing a more culturally diverse population to the estates. The 1990s brought in Germans with a Russian migration background; in recent years, the share of migrants has grown, introducing a variety of ethnic backgrounds, even though the total numbers are still low. Within the estate, foreigners concentrate in the central parts (see Großmann et al., 2014). Furthermore, in-migration is introducing a larger share of households with lower social status, even though in-migrants occupy a variety of social strata. The estate struggles with a negative image of being an unattractive place to live, both in terms of architectural design and of social composition. Like Leipzig Inner East, Leipzig Grünau has above-average rates of unemployed and long-term unemployed, although rates decreased in recent years, due to an overall improvement in the employment situation. Leipzig Grünau is characterised as a residential area rather than as a hotspot of entrepreneurial activities. Existing retail only supplies local needs. Today's local economy consists of a strong medical and health sector (doctors, physiotherapists, medical specialists, etc.) due to ageing of the local population. Additionally, we find various business segments for local daily supply, retail, and service (see Figure 1.1). The local economy concentrates in some central places. Only a few shop fronts are located outside the large supply centres. Some of the current local economy has existed since GDR times (family enterprises and entrepreneurial tradition over several generations). In contrast to Leipzig Inner East, only a marginal share of creative economy is evident.

In both study areas, there have been active initiatives for job-creating measures and local business support. Since the mid-2000s, Leipzig has followed a number of concerted programmes and projects to support the local economy and labour market in some disadvantaged areas, such as Leipzig Inner East and Leipzig-Grünau (see Grossmann et al., 2014).

#### *Methodological remarks*

In order to better understand the economic structure in our research areas, we started with a pre-study mapping of the local economy in specific sections of the two neighbourhoods. These mappings give an overview of locations (Maps 1.2 and 1.3) and sectors of businesses (Figure 1.1). Furthermore, we carried out a half-day workshop with experts (Local Consultant for Small Enterprises and Labour Shop (*ArbeitsladenPlus*), District-Management Leipzig-Grünau, Department for Urban Planning, Department for Urban Regeneration and Residential Development) in order to obtain a deeper understanding of the situation of the local economy, retail, and labour in the two neighbourhoods. Our sample is compiled on the basis of these insights.

In each of the two areas, we carried out 20 interviews. Thereby, we addressed the potential interviewees in several ways: approaching them in the enterprise or shop, via phone calls, or via stakeholder contacts. In 50% of all cases, we reached an agreement to perform an interview via these ways, in a first attempt. In the other half of the cases, we had to contact the enterprises repeatedly, left information leaflets, sent emails, and contacted the head of the business, because only employees were met.

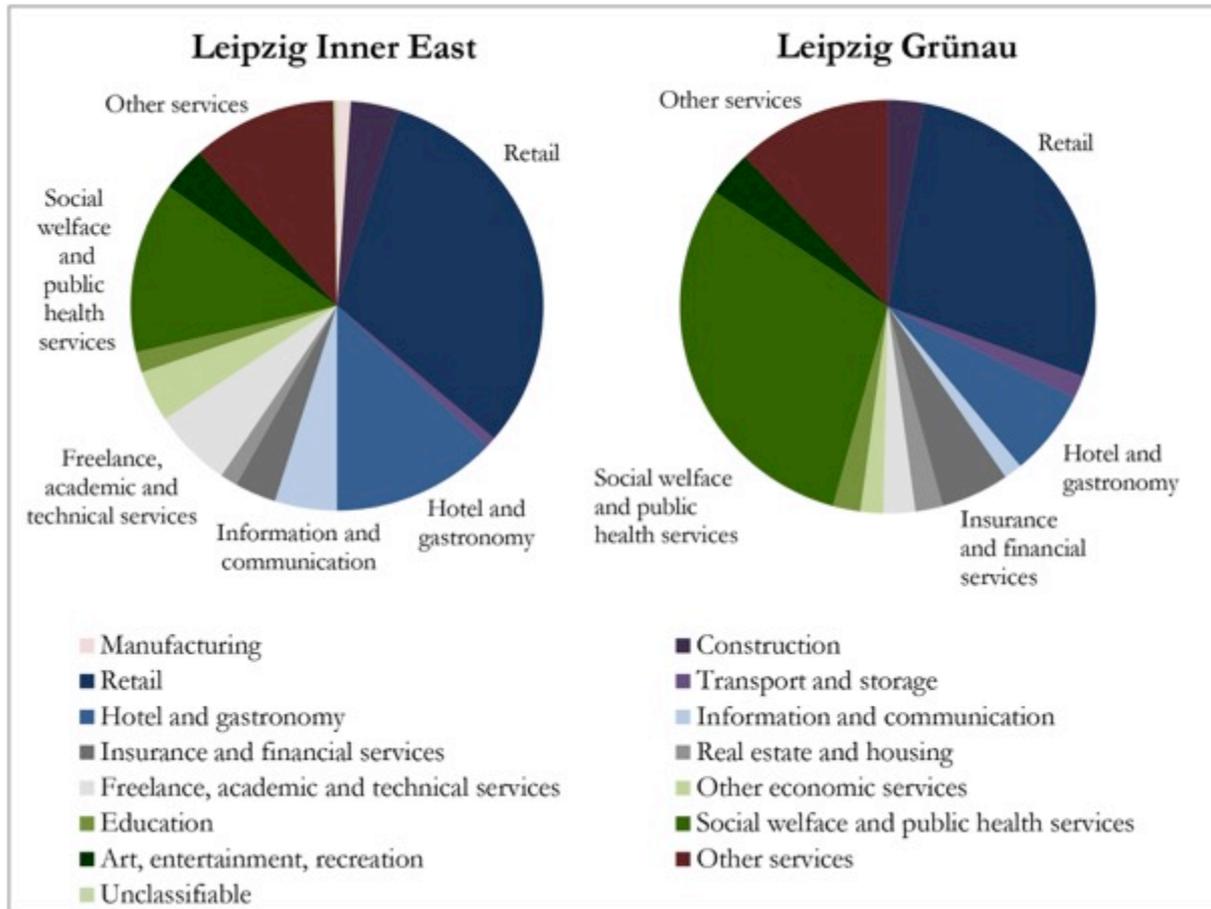
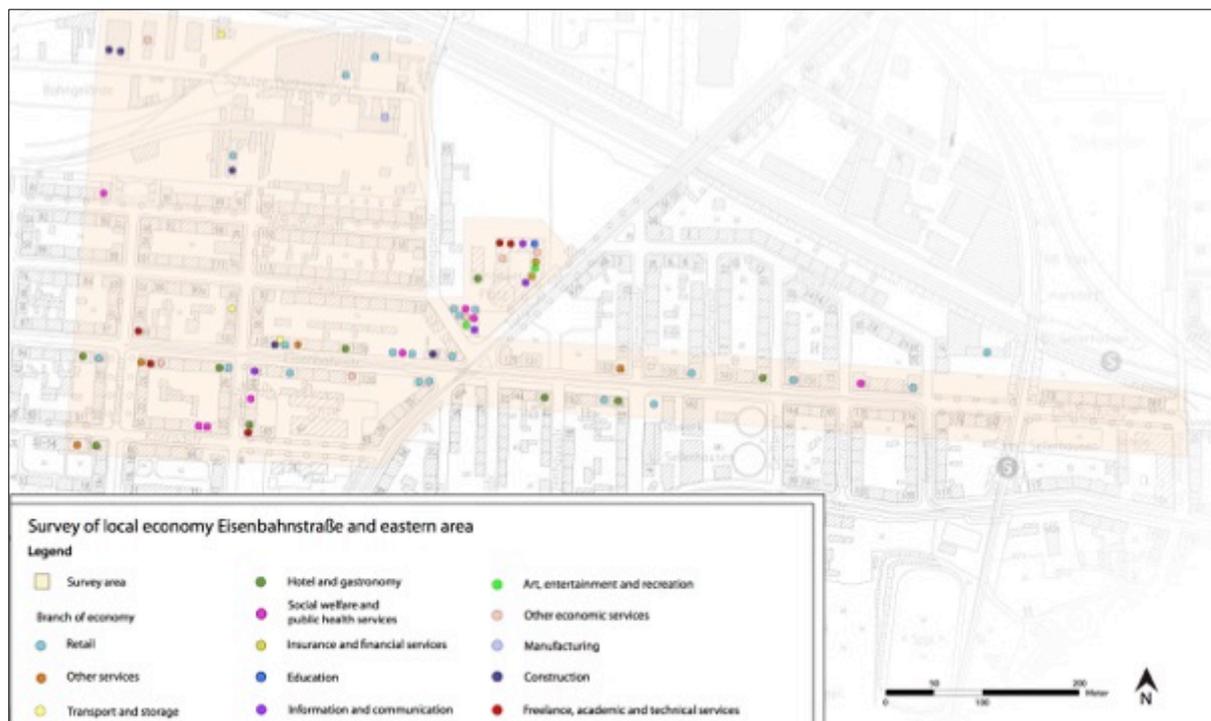


Figure 1.1: Distribution of sectors in the two neighbourhoods (gathered through the pre-study)



Map 1.2: Locations and composition of businesses in Leipzig Inner East



**Map 1.3: Locations and composition of businesses in Leipzig-Grünau**

With respect to our interviews, a significant proportion of the addressed entrepreneurs was not willing to take part in our research. Reflecting on the mentioned reasons for refusal, which we documented in a research journal, we found many responses were related to working conditions and precarity (such as lack of time and overload) in many small enterprises in our case study area. Furthermore, it clearly demonstrates the limits of our method regarding distrust and language barriers. Interestingly, we observed differences in the factors related to the different lines of business, for instance, for nail spas and bargain shops, which are often run by people with a Vietnamese background. The Vietnamese community in Leipzig is seen as being very reluctant in terms of “outside community contacts”. Another group of enterprises that was difficult to reach were kebab restaurants. Many of them were very sceptical about our request and could not afford the time to answer our questions. Additionally, the shop/restaurant owner was often not in the shop and employees did not give interviews without his/her agreement. Sometimes, language barriers also appeared. Because we did our fieldwork in the months before Christmas, the groups of hairdressers, florists, and upscale restaurants were extremely busy and could not make themselves available for an interview. The entrepreneurs we addressed expressed a strong time pressure. Entrepreneurs from the health sector, such as physiotherapists and ergo therapists, also mentioned general time constraints. Other enterprises from this sector, such as doctors’ practices, drugstores, and beauty salons were impossible to reach via phone. Overall, we found that a considerable proportion of the entrepreneurs we addressed gave the impression of strong time pressure and work overload; often, they run their business on their own and cannot afford any extra time dedicated to other issues: *“If I was busy over 11 hours with cosmetic services and customers, my immune system has to recover; so, I can’t really give you an interview.”*<sup>1</sup>

In the following, we will give detailed information about the interviewed entrepreneurs, their fields of activity, and the evolutionary path of their businesses.

<sup>1</sup> Source: Team research journal (full interview not given)

## 2. The entrepreneurs and their businesses

In this section, we present the general characteristics of the entrepreneurs and their businesses within our sample of 40 interviews. We will describe the entrepreneurs and their backgrounds as well as general social characteristics such as age, gender, level of education, ethnic background, and previous experience (see also appendix). Furthermore, we concentrate on the types of enterprises, their sizes, and fields of activities.

### 2.1. Characteristics of the entrepreneurs

Our sample includes enterprises that are located in either one of our two neighbourhoods (Leipzig-Grünau, Leipzig Inner East); in two cases, we spoke to entrepreneurs who have their main location elsewhere in the city. The age range of entrepreneurs in our sample is between 27 and 72 years old, 25 are male and 15 female.

Around half of the people we interviewed were born in Leipzig or in the federal state of Saxony. The others were born in other parts of Germany, Algeria, Bulgaria, China, Nigeria, Tunisia, and Ukraine. We could reach out to relatively more interviewees with a migration background in Leipzig Inner East, compared to those in Leipzig-Grünau. Almost half of our interviewees had already started their professional career in the GDR. Also, half of the entrepreneurs had received professional training or had done an apprenticeship, and about a third had a university degree. The rest received no specific job training, two stated that their highest educational level is compulsory school, and another two held a higher education entrance qualification (Abitur). Hence, most of our interviewees are rather skilled entrepreneurs; however, not all of them are skilled in the sector their businesses are operating in.

#### *Previous experience*

In terms of previous experience, all our interviewees operating in the health sector had worked in this field, also before they opened their current business. We also have interviewees who are trained in another sector and continued to establish their businesses in the same sector. Entrepreneurs who continue a family business typically are trained in the sectors they are operating in. However, not all have such a relatively linear professional development. For many, becoming an entrepreneur also meant a break in their professional fields. We have a zookeeper who opened a restaurant, a warehouseman running a video store and event management business, a student of japanology who opened a purchase and sale store for videogames, an owner of an ice cream parlour with university degrees in journalism and German studies, a land surveyor and financial consultant who became a dressmaker and who also teaches sewing courses, and a young woman who studied philosophy and runs a youth hostel. Furthermore, we find examples of people who became entrepreneurs in order to stop receiving social benefits. The former GDR and the systemic change also caused breaks in professional careers. Many people were not able to continue with their jobs, meaning that they either had to face unemployment, or find a new job, probably also in a very different professional field (Kullmann et al., 2015) or become self-employed. Self-employment, for most former GDR residents, was a rather new chance that the systemic change entailed. As we can also assess from these examples, many interviewees tried out many different things in their lives before they became entrepreneurs. Within this group, becoming an entrepreneur meant a new beginning. Their motivations for becoming self-employed will be discussed in detail in Section 3.2.

In summary, for a large proportion of our sample, previous experience was very diverse in terms of their field of activity and in terms of their backgrounds and range: we identify people with university degrees, graduate students who gave up their studies, people who were unemployed, people who worked in blue collar but also in white collar jobs.

## 2.2. Characteristics of the business, and core fields of activity

### *Fields of activities*

Our interviewees established businesses in various sectors. These sectors ranged from health, education, crafts (manufacturing), gastronomy and hotel industry, to various types of commerce and various kinds of services. In our sample, in accordance with the pre-study (see Introduction, Section 1.), the health sector predominates in the neighbourhood of Leipzig-Grünau (mainly due to ageing population), whereas the sectors the businesses operating in the neighbourhood of Leipzig Inner East are much more diverse, ranging from gastronomy to everyday services, retail, creative and cultural industries, and small scale manufacturing. The number of ethnic businesses is also higher in Leipzig Inner East than in Leipzig-Grünau

Within the health sector, our sample consists of doctors (2), therapists (2), a pharmacist, health technicians (orthopediatric supplies and hearing aid devices), and the owner of a fitness studio, of which only one therapist and one health technician is located in Leipzig Inner East. Furthermore, our sample contains 14 businesses offering different kinds of services that range from event organisation to a bike courier service, renting out office space, funeral homes, model building, tattooing, hair dressing, a housing agency, repairing TVs, selling insurance, instructing sewing courses, and cleaning radiators. In our sample, these businesses are balanced between the two neighbourhoods. Within the sector of retail and commerce, we could reach out to 9 businesses, two of which are located in Leipzig-Grünau. Within the sectors of gastronomy and hotel industry, our sample comprises 7 businesses containing 5 restaurants and small bistros, one café and ice cream parlour, and one hostel. The small-scale manufacturing sector in our sample contains a knife grinder, a painter, a dressmaker, a baker, and an instrument maker. Within the education sector, we have one business in our sample. Some of the businesses in our samples are hybrids combining two different sectors, such as a combination of retail and event management or a combination of gastronomy and real estate.

### *Employees*

In terms of size of the business in relation to the number of employees, we concentrated our sample on small-scale enterprises. Fourteen of our interviewees are either self-employed without any additional employees or only employ temporary workers. Nineteen businesses have 2-10 employees and 6 businesses 10-20. The largest business, in terms of employees, is a hearing aid business that employs 44 people in 11 branches. The event manager draws from a staff of 30-40 workers he engages when events are taking place. These are not employees in the strict sense, but are paid an hourly rate.

According to our sample, it seems that it is rather difficult for an entrepreneur to make the jump to hire employees. This is related to the relatively high labour costs involved. Especially the precarious businesses, which we identified in various sectors, are not able to take the risk of an additional employee without being sure that their business will thrive. Domian (service sector)<sup>2</sup> explains, in this respect:

*“I do not want employees. Too expensive, too inflexible (...) if the business is not running well your employee gets the salary and you are left standing. I try to be small and flexible.”*

Some of the entrepreneurs within this group receive temporary assistance from family or friends, for instance, partners helping out in the shops at busy times or when entrepreneurs are sick. We furthermore came across “workarounds” to the relatively high labour costs. One interviewee stated that he employs a temporary worker off the books. Another interviewee receives help via

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<sup>2</sup> Interviewees are indicated via pseudonyms with relevant characteristics in brackets.

an online platform where prospective workers seek experience rather than good payment. Quite a few outsource certain tasks.

The places of residence of employees, in relation to their work places, vary across the group of business with employees. Some employees commute to work from within other parts of Leipzig or from surrounding villages. Other enterprises have employees living close by; however, this tends to be the exception.

The way how entrepreneurs find employees also is rather different across the sample. Some enterprises are companies that take on trainees who are eventually employed. Others find new employees via private or professional networks. Gabriel (health sector), an ENT physician who took over a doctor's office in Leipzig-Grünau, also took over the former employees. It seems to be important that the company has a good reputation for getting new employees. If this is the case, entrepreneurs need to search actively for new employees to a lesser extent; they receive a number of unsolicited applications.

One difficulty in finding employees that was expressed by our interviewees stems from the stigmatization of our case study neighbourhoods (Kullmann et al. 2015). Fatih (gastronomy) clearly expressed this when asked about new employees: *"The people don't want to come to work in Grünau."*, partly due to its bad reputation and partly due to its location on the city's fringe. Some entrepreneurs also indicated that they have difficulties in finding skilled employees in their field.

### 2.3. The location and site/s of the enterprise

Our two case study areas differ markedly in terms of the structure of the built environment and, subsequently, also in terms of opportunities, offers, and types of premises for entrepreneurs. Leipzig Inner East is an inner-city, former working class area whose housing stock was mainly built in the 19<sup>th</sup>/beginning of 20<sup>th</sup> century. The main arteries are lined with shops on the ground floor, with housing on the upper floors, and with *Eisenbahnstraße* and *Dresdner Straße* as the main commercial streets. The area offers premises for businesses with rather different characteristics in terms of size, facilities, degree of publicness, visibility, connectedness to public infrastructure, etc. Through the influx of newcomers to the area in recent years, the high vacancy rate of business units has also decreased. During this period, additionally, the housing stock has been renovated successively. However, in certain parts, some shops are still vacant.



Image 2.1: Leipzig Inner East: Store fronts on *Eisenbahnstraße* (Photos: L. Dörfer)

In contrast, the neighbourhood of Leipzig-Grünau is characterised by large housing estates built in phases at Leipzig's western fringe during the GDR era. Generally, monofunctional large-scale housing blocks were planned around local centres with infrastructures that should serve local needs. Strips of storefront premises on the ground floor (e.g., *Stuttgarter Allee*) or commercial centres (e.g., Jupiter Centre) were the main structures where businesses should settle. However, especially during the period when the city as a whole and Leipzig-Grünau in particular was

shrinking, the vacancy rate of business units increased. Recent efforts by the local administration to renovate these units have had only limited impact. The layout of many of the units is relatively inflexible and only moderately suitable for a diverse range of business. As a consultant for local businesses explained to us, the fact that the units are too large and have overly long window fronts, that their density is too low, and that some have poor insulation makes it difficult to rent them out to new businesses. In contrast to a rather high vacancy rate, a whole range of businesses operates out of people's flats or is located in former flats (doctors, beauty salons, insurance companies, hair dressers, etc.; see image 2.2). Also the construction of a large-scale shopping mall had an impact on diminishing the number of small-scale and more independent shops.



**Image 2.2: Leipzig-Grünau: Store fronts on *Stuttgarter Allee* (left), businesses operating from the upper floors (right)** (Photos: L. Dörfer)

However, as diverse the two areas are, in terms of physical infrastructures for businesses, the relatively low rent levels unite them. As it will be explained in Section 3.3, for many of our interviewees the low rents have been an important factor in starting their business in one of these neighbourhoods.

The ownership pattern is balanced across our sample. Some entrepreneurs are renting their premises (especially newer businesses), others are owners of their premises because they have bought and, in certain cases, inherited them. A significant part of our sample is comprised of family businesses (5) that are now in the second or third generation. Typically, within this group of businesses, the entrepreneurs or the companies own their premises. Most of the enterprises in our sample have only one location they operate from. It was a conscious decision to focus on more independent entrepreneurs. Therefore, local, national, and international chains and franchises are underrepresented in our sample. Five businesses have 2 or 3 locations, two 5 or 6, and only one (health sector) has 11 branches. The sizes of premises vary across our sample and are dependent on the line of business. When businesses need storage space, they are usually attached to their main locations. Some of our interviewees indicated that they had very specific needs when searching for an appropriate property. Clemens, a baker, had to find an already existing bakery with a functioning baker's oven. Feng-Yi, who runs a teahouse, needed a property with an attached garden in order to offer dinners and tea ceremonies in summer. Not all of our interviewees needed to find a property in order to run their enterprises, since their line of business (offering services) requires them to be mobile (e.g., Leopold, the bike courier, Dieter who cleans radiators, Domian who works in education as a lecturer). These businesses are operated from the homes of their owners (living room businesses) and only need a small office space to deal with paper work and accounting.

Generally, interviewees are mostly satisfied with their premises. Only one interviewee stated that they actually wanted to renovate their premises, which at the moment, however, is not possible as it is located in a building under monument protection.

## 2.4. Conclusions

Our sample covers a broad range of different characteristics of entrepreneurs and businesses. We were able to reach out to entrepreneurs of different age, gender and ethnicity. The age structure in our sample is rather balanced; however, our sample is skewed towards more Germans and more male entrepreneurs. In terms of educational levels, our sample has a tendency towards more skilled entrepreneurs, although we can identify a mismatch between the type of skills and lines of businesses in parts of our sample. In terms of the previous experience of the entrepreneurs we interviewed, we can assess that we reached out to two main groups: First, those who continued within their field, also as an entrepreneur (they are active mainly in the health sector and entrepreneurs continuing a family business), and second, those for whom becoming self-employed and opening up a business meant a break in their professional careers (they are typically entrepreneurs who started their professional life already during the GDR era, who were living a precarious life, e.g., were unemployed, and who are discriminated on the job market). The lines of business within our sample range across six main sectors, with an emphasis on the health sector in the neighbourhood of Leipzig-Grünau. Generally, we concentrated on more small-scale companies, as we expected to identify a closer and more direct relationship between the companies and the neighbourhood.

We are not able to claim that our sample is representative for the economic structure in the two case study areas. However, generally, we are confident that we have a sample consisting of a diversity of entrepreneurs with a diversity of characteristics, and which also incorporates, whenever possible, the locational specificities of the economic structures and the social compositions of the two neighbourhoods.

Type	$\Sigma$	Economic performance			Size (number of employees)			Customers			Years in business		
		Precarious	Medium	Successful	0	1 - 5	> 5	Local	Citywide	National + international	> 10	3 - 10	1 - 2
Everyday and health services	14	1	1	12	1	4	9	9	7	3	10	4	-
Commercial and retail	10	7	2	1	3	7	0	6	7	5	2	8	-
Hospitality	7	4	3	-	1	6	0	4	2	3	-	4	3
Specialised services	11	7	-	4	7	2	2	7	4	4	4	5	2
Manufacturing and crafts	5	-	1	4	2	1	2	1	3	2	4	1	-
$\Sigma$	47	19	7	21	14	20	13	27	23	17	20	22	5

**Figure 2.1 Types and characteristics of entrepreneurs (note: there are multiple classifications possible in different categories)**

According to the characteristics of entrepreneurs and their businesses within our sample, we can distinguish between five types of enterprises: First, as the largest group in our sample (more than 30%) we can identify **businesses providing (everyday) services including health services**. Typically these businesses provide services predominantly for the local population in their neighbourhood. This group contains health sector entrepreneurs such as doctors, therapists, opticians, and pharmacists, as well as painters and decorators, hairdressers, etc. Given the focus

on the health sector, entrepreneurs within this group have a relatively advanced educational background, and run rather successful businesses. Second, approximately 25% of businesses in our sample relate to **commercial and retail activities**. These are mainly shops selling food and other goods. Again, they serve a rather local population, with the exception of those who offer a more specialized product range, such as produce for a specific ethnic population or for a wealthy clientele. Generally, entrepreneurs within this type in our sample are in a rather precarious situation and low-skilled. Third, a significant part in our sample is comprised of businesses that can be grouped under **hospitality** services, such as restaurants and hostels. These businesses have a slightly larger radius of customers but are still more locally oriented (with the exception of the hostel). The educational background is quite varied in this group of entrepreneurs; however, they tend to be precarious situations. Fourth, we can identify businesses that provide **specialised services**. This group is rather diverse in terms of what services they offer and includes innovative and creative businesses. The educational background varies as does the economic performance. Also, in terms of customers, they seek to attract a local, citywide but also regional clientele. The fifth and last type covers enterprises engaged in **manufacturing and crafts**. The manufacturing sector in our neighbourhoods is relatively small; hence, in our sample, this category is represented by 5 examples - 3 of which also operate in other sectors such as retail or provision of everyday services. Through their specialisations in production, their customer base is more regional, national, and also international. Most of the entrepreneurs in this category can be classified as successful.

### 3. Motivations to start a business and the role of urban diversity

#### 3.1. Introduction

The literature on entrepreneurship in diverse neighbourhoods emphasises ethnic or immigrant economies. The motivation to start a business, according to this body of literature, is often a self-employment strategy, searching for market niches to simply make ends meet rather than out of entrepreneurial spirit: “high unemployment rates, low participation rates and low status are main determinants, which in general push immigrants into entrepreneurship in many European countries” (Baycan-Levent and Nijkamp, 2009: 394). The decision of an immigrant to become self-employed depends on “human capital, age, years since migration, family background characteristics, home ownership, and enclave living” (Constant and Zimmermann, 2004: 386). In particular, the service sector with ethnic shops and restaurants is the main field of such self-employment (Baycan-Levent and Nijkamp, 2009). Eraydin, Tasan Kok and van Vranken (2010) stress that filling such niches can foster the local economy. This leads to the question of what effect such entrepreneurship can have on the local economy. Kloosterman and Rath (2001) characterised such niches as opportunity structures. Opportunity structures have two main dimensions that are important for understanding processes of insertion and social mobility of immigrant entrepreneurs. The first dimension concerns accessibility to markets, and the second concerns the potential growth of the markets. Our report can inform this debate in a particular way because it focuses on small entrepreneurs, independent of their ethnic background, and thus analyse to what extent small enterprises face similar or different situations and to what extent they can possibly profit differently from policy schemes targeted towards supporting small local enterprises.

In this chapter, we deal with various factors that motivated the entrepreneurs in our sample to start a business, their locational choice, as well as their choice of the line of business.

### 3.2. Motivations for establishing a business

The motivations for becoming self-employed or establishing a business of a certain kind vary across our sample. Nevertheless, we identify the following issues as the major motivations to become entrepreneurial, often mirroring existing findings in the literature:

#### *Self-employment due to discrimination on the labour market and unemployment*

A significant number of people we interviewed mentioned that the main reason why they became entrepreneurs was being dissatisfied with the situation on the labour market. Entrepreneurs with a migration background found it particularly difficult to find a job and founded their own business due to a lack of alternatives – which very much resembles the classic picture of self-employment drawn in the literature. The motivation for them was to take their fate into their own hands. Fayola, a 45-year old woman from Nigeria, for example, had been trying to find a job for 10 years. Insufficient language skills, unaccepted educational degrees from Nigeria, no responses to her applications and a general discrimination on the labour market prevented her from finding an adequate job that matched her skills and education level: *“I am making much effort to do something. I went to school and want to do job training”* (Fayola). However, she could only find cleaning jobs, which she eventually had to stop, due to health reasons. After an event organised particularly for people with migration background by the local chamber of commerce, the motivation to become an entrepreneur became concrete for her – even before she had an idea about the line of business she wanted to pursue.

Similarly, Hasim, an Algerian in his 50s, answered to the question why he became an entrepreneur thus: *“Sometimes, you are fed up with the situation.”* He further pointed out his particular position and the associated mechanisms of discrimination on the labour market:

*“Well, finding a job if you are old and a migrant? You have to be proactive, if you don’t want to just sit in your living room.”*

Hence, besides having a migration background, age is also to be felt discriminatory factor that leads interviewees towards becoming entrepreneurs – an issue that was also mentioned by Hennadij (45), who runs a supermarket for East European goods in Leipzig Inner East:

*“I wrote applications for jobs in Leipzig and the surroundings. But the enterprises searched for young people. I was 36 years old and the firms said that I would be too old. Then the financial crisis came and the firms shortened their working hours and there were no offers anymore”.*

Furthermore, opening a business is an opportunity – and, for some – even the only perspective they have to move out of unemployment. Bike courier Fabian makes this very clear when he talked about how he started delivering mail:

*“Back then, I was unemployed, because of a slipped disc. And then I had to choose to either do something myself or to sit in front of the TV for the next 20 years.”*

Florian also started his ice cream parlour and café after being unemployed for several months.

#### *Self-employment due to struggles during the post-socialist transformation*

Within the group of former GDR residents, post-socialist history and its impacts on professional careers in Eastern Germany also influenced the motivation to establish a business. Many GDR residents had to face breaks in professional careers: unemployment and precarity in the 1990s (see Kullmann et al. 2015). One possible way out of such a frozen perspective for the future was to become self-employed and open a business. In order to prevent discontinuities in their professional careers, interviewees continued in their areas of employment by establishing their own business. We have some examples: Hanni, who runs a clothing store in Leipzig-Grünau, worked as a fashion shop manager for the local upper-market GDR fashion stores and took over

three of their branches in Leipzig-Grünau and Leipzig Inner East right after the political changes in 1989. Gisela worked as a technician for hearing aid devices and established her own business in 1991. During the GDR era, Guido was employed as a technical professional for orthopaedic products and founded his own orthopaedic aids company in 1992. Fabian, Leopold, Hubert, and Clemens, who all began their professional careers in the former GDR, became self-employed and founders of businesses much later – after years of trying things out and finding their paths, sometimes also after periods that were marked by difficulty and precarity. This motivation resembles the reaction to economic crisis mentioned by Reuschke et al. (2015, 4).

*Entrepreneurial Spirit – autonomy, self-fulfilment, flexibility and gained freedom*

Interviewees furthermore reported that the motivation to open up a business had a lot to do with self-fulfilment and self-responsibility, freedom, flexibility, and independence. Clemens, who was born in the GDR and who runs a bakery in Leipzig Inner East, explains the advantages of being self-employed:

*“I did not like to get up at 5am and the daily routines of work (...) As a self-dependent person, I can determine my benefits myself and get them all – not just a fixed wage. Moreover, I can determine my timetable of work myself.”*

Gregor, a young physiotherapist in Leipzig-Grünau, speaks of similar motivations and points out the advantages of having a business instead of working for someone else:

*“I can decide on my own about my leisure time, I’m accountable to no one – these are the advantages of being self-employed. Nobody can say something against my decisions, and I can go on a trip whenever I feel like it. I do not have to consider something like vacation days.”*

Many of the interviewees were motivated to become entrepreneurs because they were dissatisfied with wage labour where they struggled with hierarchies and did not see opportunities for individual fulfilment anymore: “Subordination was a problem” (Gerda); “I couldn’t bring in my ideas as an employee.” (Gesa, Carsten)

*To turn one’s hobby/passion into a career*

For a significant segment of our interviewees, the idea of opening a business came before having a sense of what type of business this could be. However, some of our interviewees indicated that the reason why they opened up a business was to turn their passion or hobby into a career. Florian, for example, wanted to open a lunch place where he cooks the Japanese noodle soups he loved so much during the time he spent in Japan. However, eventually this was too expensive and too elaborate, which is why he, in the end, started an ice cream parlour. After years of working as a land surveyor, which made her unhappy, Dagmar became self-employed for the following reason:

*“Sewing is my hobby since I was 20, for more than 15 years. I have a creative streak and this is why I opened the sewing workshop. Upcycling is something I like most, meaning making something out of things that are just here.”*

Similarly, also for Helena, her passion for videogames contributed to the motivation to start her sales and purchase business concentrating on videogames.

*Family*

Family ties are a motivation for entrepreneurship often highlighted in the literature. Interestingly, this even applies in the post-socialist context, where family businesses were rather exceptional. For some of our interviewees, it was perceived as a natural process to become a businessperson, because the entrepreneurial spirit already existed in their families. Within the group of family businesses, the tradition to run or continue a business played an important role in the motivation

to become an entrepreneur. They took over or inherited the business from their parents (Gustav, Carsten, Dirk and Daniela, Georg, and Carl). Georg, for example, explains in this respect:

*“I come from a dynasty of pharmacists. My father was drugstore owner and my son is now studying pharmacy, too”*

The 72-year old Carl took over his father’s knife grinder business that was already established in 1955. However, despite his age, it is difficult for him to close down the family business because he has no descendants wanting to take over.

Within the group of family businesses, the line of business and motivation were already set., However, some of the interviewees in our sample who are not running a family business also mentioned that the fact that their family has a tradition of being entrepreneurial had a significant impact on starting a business for themselves. Hennadij’s case is illustrative of this:

*“In my family, everyone is self-employed. My brother is a car dealer and [my cousin] runs a nursing service.”*

Others also mentioned that they have it *“in their blood to run a businesses”*: Gregor, the 32-year old physiotherapist, argues in a similar manner:

*“I always wanted to be self-employed – no matter in which domain. Since 1849 this has been a family affair”*

This section sought to analyse a broad range of motivations for the interviewees to establish a business. Yet, not all of our interviewees gave one single motivation for becoming an entrepreneur. For some, it was a combination of different factors mentioned above that led to the decision to become an entrepreneur.

### 3.3. The importance of location and place diversity

The choice of location for most of our interviewees’ businesses was influenced by chance or pragmatism such as proximity to place of residence, low rent levels, only available option due to specific requirements concerning the size and layout of the premises, or lack of alternatives. A deliberate decision to choose the specific neighbourhood was rare. The characteristics of the respective neighbourhoods, let alone their social composition – with exception of low rent levels – were subordinate in the choice of location.

#### *Proximity to place of residence*

Proximity to the place where they live was most frequently mentioned as a motive for choosing the location. This holds true for businesses in both Leipzig-Grünau and Leipzig Inner East. These interviewees live in the same neighbourhood their business is located in. Fayola (restaurant and shop owner) explained her choice of location like this:

*“I live not far from here so I searched for a store nearby. Three years ago, I was walking around and saw that these [premises] was available.”*

Daniel’s locational decision was also very obviously related to the proximity to his flat: *“I chose Grünau for the short way to work since I am living here, too.”* Proximity between residence and workplace is a highly relevant category in our sample. Interestingly, this issue is very pertinent for those who established their enterprises rather recently. A connection to the types and lines of businesses as well as to the age of the entrepreneurs cannot be made (with the obvious exception of those three businesses which operate from their home).

#### *Chance*

The second most frequently mentioned impact on the choice of location was that entrepreneurs found their place of business accidentally (e.g. Fatih: *“Grünau was pure chance.”* Gerhard: *“It was a*

*coincidence that I landed here. The premises presented themselves as perfect.”*). Many of the interviewees who landed in the neighbourhood by chance have a business in the health sector. The reason for this is that doctors and therapists frequently take over existing premises from their predecessors; this has the advantage that they can expect an existing patient base they can continue to work with.<sup>3</sup> Some of our interviewees who indicated that they found their location by chance were looking for premises across the city and landed in the neighbourhood because the layout of the premise was favourable or the rent was reasonable. For example, in the case of Clemens’ bakery, there were only a very limited number of locations where the premises could host a bakery with its ovens or already was a bakery: *“There were left two possible locations: in Leipzig Inner East and Lindenau.”* Businesses from this group of hardly any neighbourhood preference either do not depend on local customers or do not depend on a specific group of local customers, but rather serve customers who can be found in any neighbourhood, such as a bakery.

#### *Low rents*

Flöger and Gärtner (2015) point to low rents as a factor that attracts entrepreneurs to deprived areas. A low or reasonable rent was also mentioned frequently as a criterion for locational choice in our sample. This was especially imperative for entrepreneurs in Leipzig Inner East. A correlation with the precarity of the enterprises or the time when the businesses were founded could not be found.

#### *Neighbourhood*

So far, we have only mentioned locational choices based on factors that have relatively little to do with the neighbourhood, its residents and its local economy, and the diversity of the areas. An extreme example for this would be Dieter (service sector):

*“There is no market reason for my business to be located here; it’s private reasons. My mother lives here, and I have to care for her (...) Grünau as a location plays absolutely no role in my business.”*

However, despite the fact that the characteristics of the neighbourhood (with the exception of rent levels) play a minor role in the initial establishment of the businesses across our sample, we encountered a variety of reasons related to how the location and its surrounding impact on the location of the business. One argument was that some businesses were established in the neighbourhoods because they expected only limited competition in their specific field. Dominik’s tattoo studio branch was opened recently because the owner thought that the existing studios in Leipzig-Grünau were of much lower quality. He therefore saw the chance of building up a customer base that is interested in high quality tattoos. For Fatih, the limited competition in Leipzig-Grünau also played a role in establishing his business; however he elaborates more on a combination of locational choice and the line of business:

*“I did not want to do a catering business only. At this place here, there was a bowling facility, too. I did not find anything that was comparable elsewhere. Also, I did not want a business where many others could just compete easily.”*

The combination of a specialized niche, a location that fits, and his personal interest generated a unique opportunity for Fatih to establish his business in Leipzig-Grünau.

In Leipzig Inner East, the experienced and expected neighbourhood changes and the associated diversification of its residents played an important role in establishing some businesses there. Many within this group mentioned that Leipzig Inner East is a good location because the area is

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<sup>3</sup> The number and type of doctors per area are regulated in Germany by a law on amenity structures (Versorgungsstrukturgesetz).

up and coming. These are especially entrepreneurs whose business relies on young and creative customers; David, for example, helps students find a flat share, Domian builds architectural models, Domna rents out shared workspace, or Dagmar, who is a fashion designer.

For some entrepreneurs, the locational choice was influenced by a combination of the above-mentioned factors. Florian explains:

*“I searched for something in Leipzig’s West where I live but I could not find a good/reasonable place there. Friends of mine then advised me to search for something in Leipzig’s East, since there should be a lot going on but also a lack of offers.”*

The expected change in the composition of residents in Leipzig-Grünau, however, had no influence on the location choice within our sample.

#### *Diversity*

Only for a few of our interviewees did the idiosyncrasy of the neighbourhood – including the diversity of shops and residents – have an influence on the choice of location. Hasim established his purchase and sale business on Eisenbahnstraße “because here are more foreigners”. However, arguments along these lines are rather rare within our sample.

Domna points to the fact that she likes the diverse neighbourhood but that does not necessarily have to do with the choice of location:

*“We like it as it is. If it is still getting better or nicer, even better. ... I don’t know why people are afraid here [in Leipzig Inner East – the authors]. We are a colourful community here and this is what I like about it. The most important thing is that we are here. That the business has developed well is nice, too, but not the main issue.”*

Hinting at, in his opinion, the unjustified bad reputation of the area<sup>4</sup> (see also Kullmann et al., 2015), Detlef points out:

*“The street Eisenbahnstraße, I don’t need to do any publicity for it, I do not need to explain to anybody where this street is. Everybody knows it. ... This has even a promotional effect in the psychological sense.”*

For those enterprises with a longer family tradition, the location of the business is not assessed as a location decision but as a “historic fact” that was created long ago and has not much to do with the current situation of the neighbourhood. Many of those enterprises are old businesses with a long-term relation to long-term residents as customers:

*“My family has had a shop at Stuttgarter Allee since 1984, i.e., already in GDR times. Many long-term residents but also people from Makranstädt and Bölitz-Ehrenberg are coming here.” (Gustav)*

Commonly, these businesses have existed at their current location for a longer time period and the entrepreneurs also live or at least formerly lived in Leipzig-Grünau.

### **3.4. Selecting the line of business**

Many of our interviewees selected their line of business after they had decided to become self-employed. Hence, the fact of being self-employed was more relevant than the line of business. Holly (hostel owner), for example, explains how she came up with her line of business after she decided to become self-employed and even after she had decided on the location: “First there were

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<sup>4</sup> Leipzig Inner East and Eisenbahnstraße, in particular, have received negative press and media coverage in recent years, stigmatizing the area as dangerous and as a place in decline.

*the premises, then there was the hostel*". In the following, the decisions for deciding for a specific line of business will be elaborated.

#### *Serving a niche*

As is typical for small entrepreneurs (Eraydin et al. 2010), many of our interviewees indicated that the choice of the line of business was to serve a niche. Some entrepreneurs have been rather inventive and are highly specialised. Dieter, who founded a company that specialises in cleaning radiators, in order to limit the fine dust pollution in homes, explains:

*"There is no other enterprise doing the same as I do. If you want to earn money, you have to find a niche."*

Others selected their line of business and products they offer by specialising within a segment. Hennadij, for example, who relies on costumers that grew up in the GDR or Eastern Europe, explains the niche his food store serves: *"The products that I sell have the traditional taste of the Soviet Union."* A storeowner who buys and resells second hand videogames explicates: *"These kinds of shops (like mine) are as good as dead in Germany."* (Helena)

As we have seen in Dieter's quote above, serving a niche is very often related to the fact that this is a good way to earn money. Hence, the expected economic yield is important for the choice of niche. For those entrepreneurs who are more connected to the neighbourhood with their businesses, serving a niche within the particular neighbourhood they are operating in has been a way to establish the line of business. For example, Domna's co-working space has been established because there was no such business in the area and she wanted to do something close to the place where she lives.

#### *Economic reasons*

Some of our interviewees indicated that the decision about the line of business was very much influenced by the anticipated economic success. Detlef started being self-employed as a real-estate agent, because he wanted to be autonomous and he selected his line of business because: *"At the beginning it was money earned quickly and easily."* Daniel, who, besides his video store also runs a business for event organisation, said that the reason why he started with the latter and seeks to enlarge this line of business was that it is a *"goldmine"*.

#### *Chance*

Some of the interviewees jumped into their current business more by chance, as Daniel explains: *"That I started a video store was pure chance."* Like Daniel, many of them are people who are more "hands-on" than people who weigh up possibilities before they start something. These are entrepreneurs who like to try out many different things to see whether they work or not. Hasim, who currently runs a purchase and sale business, is the most illustrative example within this group:

*"I tried everything and if it was not successful, I went for something else and had a new idea. I did something with catering, with clothes, with jewellery and with food. And with purchase and sale. Maybe in the future I will have another super idea."*

Also Gesa came to be a physiotherapist by chance:

*"That was a coincidence. Actually I wanted to do something different, like being a translator. But then a friend of mine told me about the possibility of getting trained as a physiotherapist."*

#### *Personal Interests*

In other cases, personal interests and passions were decisive for the decision on the line of business. Dagmar decided to open a sewing workshop because sewing has always been her

passion (see also her quote in Section 3.2 on Motivations). Dagmar is representative for those who wanted to turn their personal hobby into a business. She argues similarly to Domian, who made model building his profession as an entrepreneur. Feng-Yi, who owns a teashop, came to her business via the interests of her husband:

*“My husband was very much engaged in the field of tea and tea drinking already back in China. Many friends said ‘why can’t you open this tea house’. Tea is good for men’s health.”*

Generally speaking, for entrepreneurs in this group, individual fulfilment plays a major role both in becoming an entrepreneur as well as in the decision about the line of business.

#### *Family traditions*

For a significant number of respondents, family and family traditions play a crucial role in their entrepreneurial activity and field. This not only influences the motivation to run a business (see Section 3.2) but obviously also the sectors those entrepreneurs are engaged in. Some interviewees look back on family businesses of several generations, such as Carsten (painter):

*“I am painter in the 3<sup>rd</sup> generation in our family. We have worked under National Socialism, socialism and capitalism [laughs]; myself only under socialism and capitalism. And my son is also working here.”*

In the case of Clara (manufacturing), private relations influenced her decision about the line of business:

*“My ex-partner is a violin maker. I am a designer and do not have a musical background/ education. But I managed to educate myself over the years. I do not build concert instruments for children [but sell them – the authors]. You grow into it.”*

#### *Experience in the same sector*

Some had experience in wage labour in the field of the businesses they have now. Fabian had jobs in gastronomy (as well as jobs in other sectors) before he opened his bistro in Leipzig-Grünau. Comparably, Fatih, also had experience in this sector before he took over his restaurant and bowling bar. Hanni was working in fashion stores during GDR times and took over three branches of the same chain in the early 1990. Previous to opening his business specializing in selling and repairing TVs, Hubert worked for a similar company:

*“I was an employee in a TV shop here in Grünau. It had the same size as the one I have now, but had to close down at some point. Then I thought I could open such a shop myself.”*

David turned his part-time job of facilitating rooms in flat shares to students into his regular occupation.

#### *GDR legacy*

Some interesting motivations were expressed with respect to new opportunities after the political changes in 1989/90; some interviewees said that they benefitted from journeys to the world and jobs elsewhere, which they used as a preparation for founding their own business after they had returned

*“I have some experience in gastronomy. I had several jobs in this field over the last 13 years. I got the idea when my child returned from school. There is no good lunch offer for children.”*  
(Fabian)

After reunification, Clemens, who had already wanted to become a baker when he was a child, tested out other options before opening his bakery:

*“After the Wende (political turnaround), I worked on a cruise ship, then I was in Switzerland, then in Karlsruhe and only then I returned to [the idea of] becoming a baker again.”*

Others, such as Hanni (fashion store), already worked in the field during the time of the GDR. With the introduction of the free market after the systemic change, she continued in the same sector by becoming self-employed and taking over the shop she worked in as an entrepreneur.

### 3.5. The availability of advice, start-up support, and finance

The type of support obtained to start their business within our sample is diverse. In terms of capital that is needed for starting up a business, our interviewees' responses were varied. Entrepreneurs obtain financial support via loans from banks, start-up aid from institutions, or private loans from family or friends. Some of our interviewees also indicated that they established their businesses without any support at all.

#### *Family and private networks*

One group of interviewees mentioned that the role of personal ties – family, private networks and friends – were crucial to establishing the business (see various chapters in Mason et al. 2015). The type of support they received was quite varied. For example, Gesa explains:

*“I got support from family and friends ... my family helped in many respects, e.g., cleaned the windows and searched for locations for my business with me. Friends helped me to bring the furniture into the rooms and to arrange all things nicely.”*

Florian mentioned that it was also the little things that helped to establish his café: Garden furniture from his parents, dishes from his mother, help from a friend with designing and building the bar out of wood. His friends also influenced him in choosing the type of business:

*“I thought to open a soup restaurant. But a friend who lives around the corner told me that an ice cream parlour is lacking in the area. A soup restaurant would need much more initial investment. Spontaneously I then decided to concentrate on coffee and ice cream.”*

However, Florian recently sometimes got fed up with the good intentions of his friends suggesting different directions and product ranges that he should incorporate. Leopold also received support from his personal network in order to make a living out of being a bike courier:

*“I got to know somebody who helped me do this. We talked, and he said: OK, you won't make much money with this ... it is just a way to earn money.”*

Moral support, advice, manpower, or small donations were not the only types of support family and friends gave in order to establish the businesses. For some of our interviewees who needed capital to start the business, receiving a private loan from friends or family was a crucial contribution towards being able to build up the business.

#### *Banks and Institutions*

Only two of our interviewees stated that they had to get a loan from the bank (Fayola, Gabriel). This might seem surprising at first sight, but can be related to the design of our sample that concentrates on small and more or less independent companies. The investment costs within this group typically are either rather low or had to be low.

However, a significant proportion within this group received state support to establish their companies. The start-up programme of the job centre or the local SAB<sup>5</sup> was significant for those entrepreneurs who wanted to make themselves independent of the job market and become self-employed (e.g., Bob, Hennadij, Clara, Hasim). Florian received a similar kind of financial support

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<sup>5</sup> SAB is the central development agency of the Free State of Saxony. Acting on behalf of the state, SAB allocates and distributes development funding to businesses, technology companies and investors, housing developers and homeowners, as well as to other social groups in Saxony. Funding takes the form of grants, subsidies, loans, and guarantees ([www.sab.sachsen.de](http://www.sab.sachsen.de))

from an organisation at his university that specifically supports graduates in their transition to self-employment.

#### *Knowledge support*

With respect to the establishment of their business, some interviewees received support from institutions and associations that are related to their business. For example, Feng-Yi's Chinese tea shop was very much supported by the Konfuzius Institute for Far Eastern Culture. She explains:

*"We basically did it ourselves. My husband and I. [But] we entertain good relationships with the Konfuzius Institute, especially with the manager there." Gesa, a physiotherapist, states: "No, I did not get much support. A little from the association of pharmacists as well from the lawyer and Mr. L. with respect to information and insights on credits and micro credits."*

Gesa's statement also shows that interviewees mentioned the importance of support in order to gain knowledge about how to establish and run a business and where to get funding. For coaching new entrepreneurs, state institutions like the job centre, the Arbeitsladen (labour shop), but also the Chamber for Industry and Commerce (IHK) were supportive. Furthermore, private business consulting was also mentioned by some of our interviewees. Helena explains how she established her purchase and sale business: *"We got help from a consulting office where you get a support later on, between 3,000 and 6,000 Euro, and we had to pay back almost nothing."* Within the group of migrant-entrepreneurs, we would have expected – as the literature suggests – that entrepreneurs with comparable immigrant backgrounds would also get support from these networks. However, we could not find evidence for this in our interviews.

### **3.6. Conclusions**

In this chapter we have demonstrated the myriad different motivations to start a business, the significance of our case study areas as a location, and the reasons for selecting the sectors the businesses are operating in. The results from our sample represent some of the classic motivations, as documented in the literature on ethnic entrepreneurship, such as self-employment due to discrimination, as well as a way to escape from unemployment. Interestingly, this applies also to some of the non-migrant entrepreneurs, especially to older people who struggled in the years of the post-socialist transition. Other classic motivations are to sustain a family business or the search for individual freedom.

Rather unexpectedly, the neighbourhoods and its characteristics did not play a significant role in establishing the businesses. Moreover, the diversity of a neighbourhood and its processes of diversification play hardly any or only a limited role as a motivation to start businesses at specific locations. Instead, pragmatic reasons such as chance or low rent levels are prevalent. In the neighbourhood of Leipzig Inner East, the expected gentrification and the subsequently expected new group of people coming to the area plays a more important role than the positive effects of diversity. It is more the notion of expected growth of customers and market for one's business that is attractive here than a specific appreciation of the current composition of residents and businesses.

The significance of the neighbourhood the businesses are operating in as well as its diversity, however, becomes more relevant in the day-to-day operation and in the time after the businesses were established. The neighbourhood and its processes of change have a stronger impact on the economic performance and the range and types of customers. This will be discussed in more detail in the following chapter.

## 4. Economic performance and the role of urban diversity

### 4.1. Introduction

The literature dealing with the development of the economic performance of local businesses as well as with factors related to influence, success, and failure, mostly focuses on ethnic entrepreneurship and asks for the specifics of the ethnic factors as well as measuring their effect on the innovation or performance of a business. Since the ethnic background of local business is not as important for our sample, we concentrated more on what the literature says about networks, cooperation, and the role of social capital for successful entrepreneurship at a local base or within the field of small-scale economy (e.g., Pichler and Wallace 2007, Rath, 2000) and discuss the role of diversity in the success and failure of a local business as well as its influence (see studies by Lee, 2011; Nathan, 2011). We found some confirmation for our arguments concerning the role of social capital and networks for small enterprises (Flap et al., 2000) and the importance of being embedded in a local sphere of contacts/”social environment” (Rath, 2000). The last mentioned aspect applies to entrepreneurial networks but also to a social sphere of support (partner, family, friends) for either starting or running a small business, (see Section 3.5). Concerning the role of diversity, Lee (2011) emphasises that diversity might be relevant in different terms (depending on the variable); this also applies to our study, where diversity is important not only in ethnic respects but also in terms of specialization of a business for certain groups of clients who might represent, e.g., new in-migrants to a district/neighbourhood. Nathan (2011) sees diversity and ethnic community effects as factors of limited importance/influence.

### 4.2. Economic performance of enterprises

This section deals with the economic performance and factors for failure and success within our sample. In the first part, we elaborate on the effects the respective neighbourhoods have on the businesses, whereas the second part develops more general factors for failure and success. Additionally, we point out which aspects influenced the change of the evolutionary path of the business.

Gaining reasonable and quantifiable information on the economic performance was somewhat difficult in the interviews. Frequently, interviewees refused to talk about precise numbers and statistics. The gathered information is therefore more descriptive, as Doris’ answer illustrates well: *“It ranges from balanced to good... everything is good so far”*. Nevertheless, based on such statements, entrepreneurs can be distinguished according to the perceived economic success of their businesses. In general, three groups of enterprises can be identified: successful entrepreneurs, moderate performers, and entrepreneurs in precarious situations. Successful entrepreneurs typically operate larger businesses, managed to hire several employees, and usually look back to longer business traditions. With respect to business earnings, these enterprises have been able to increase their net income or to operate at a consistently high level of profit. Moderate performers, instead, manoeuvre between success that they expect to have in the near future and the risk of failing or only making poor profits. Entrepreneurs in precarious situations have to deal with a continuously low level of earnings. They are facing constant risks of losing certain markets and customers and to not being able to go on with their business. Our sample is balanced between successful entrepreneurs (17) and entrepreneurs in precarious situations(17). The group of moderate performers is comparatively small (6). However, more of the successful enterprises are located in Leipzig-Grünau and more of the precarious ones in Leipzig Inner East. In both research areas, the neighbourhood and the context the businesses are embedded in have a relatively significant influence on their economic performance. The dynamic changes in recent years in both research areas contributed to businesses failure and success, even though the dynamics are different.

*Neighbourhood Change – population and (infra)structure*

Respondents in both research areas frequently referred to the changing composition of the population in the neighbourhood as a factor influencing their businesses in positive but also negative ways. In Leipzig Inner East, some of our respondents stated that they focus their business on low income customers, reflecting a major population group in the area. Hennadij (purchase and sales business) remarks in this respect:

*“The stuff [that I’m selling] is affordable, customers don’t have much money. Also, I order goods on demand, I order to people’s liking; this is my advantage.”*

Furthermore, the influx of new groups of residents, such as young families and students in Leipzig Inner East, was mentioned as influential for entrepreneurs. Clemens, who opened his bakery in 2008, sees the current influx of residents positively: *“For two years, businesses have opened here, but have had to close down soon. However, since we experience an influx [of new residents] and change in customers, the businesses can stay.”* He especially talks about students and young families in this respect. Similarly, David, who runs a real estate agency, focusses on students in Leipzig Inner East:

*“When we started [in 2013] nobody wanted to live here. But then there was a pioneer spirit: This is the last neighbourhood close to the city centre with potential and affordable rents for students looking for flat-shares.”*

In Grünau, the composition of the local population and the recent changes also influence the economic performance of entrepreneurs. Interviewees referred to the history of Leipzig-Grünau as a district of substantial change. After significant population losses in the 1990s, the population grew considerably older, compared to the city as a whole. The high share of older generations explains why health businesses are prevalent in Leipzig-Grünau (and also in our sample). Entrepreneurs engaged in the health sector are also the most successful ones in our sample. Similarly – and specific to our sample – the two funeral homes are also either successful or medium performers. Entrepreneurs in precarious situations, by contrast, struggle with their slim turnarounds in the service, retail, and hospitality sectors. In recent years, the population of Leipzig-Grünau has been growing and stabilising, but newcomers tend to be younger and have lower incomes. Such shifting developments have also triggered discontinuous economic performance, especially for established businesses. Georg, who runs a pharmacy in the second generation, explains this relationship vividly:

*“In the past, Grünau had twice as many inhabitants as today, and we were the only pharmacy. Business was much better then. From such a high level it went down constantly. Then they demolished [many of the housing blocks]. Then at some point demolition stopped. And now business is running better again.”*

In general, interviewees in Leipzig-Grünau highlighted the importance of regularity. Regular customers appreciate the service of smaller enterprises and are more loyal to their entrepreneurs (cf. Chapter 4.3). However, this group of (older) customers has been – and will be – shrinking. Fabian, running a fast-food restaurant, explains: *“They all moved away during the last years, towards districts with better reputations.”* The performance of entrepreneurs therefore, is highly dependent on their ability to attract new customers and to adapt to changing needs of the population. Gerda, owner of a fitness centre for women explains that

*“At the beginning, we offered workouts for ‘belly-legs-and-butt’...Now there are also no aerobic classes any more since many of our customers grew old. Now we mainly offer health-oriented classes.”*

However, not all entrepreneurs have been able to adapt. Hanni (fashion retail) relies on a rather wealthy customer base, which is why the shrinking number of wealthier pensioners significantly reduces her profits. After a good start in the early 1990s, she currently thinks about closing her business in two years: *“Dropping even further is impossible”*. Hanni is concerned about the more

recent influx of gangs, immigrants, and the increase in street violence right in front of her shop. Especially in the evenings, she explains, people are afraid and nobody wants to come to the shop any more: *“When it is dark, I can close the shop”*. Similar concerns hold true for *Eisenbahnstraße* in Leipzig Inner East. Carl, who runs a knife grinder business in the second generation, relates his decline in profits to the transformation of the formerly well known and established shopping street (during GDR times) into a street lined with immigrant businesses. Furthermore, he points to the influx of less affluent groups and finds drastic words for how his business developed:

*“In 1998 the decay started. The two earlier years were great [and] then came the ultimate downfall.”*

In Leipzig Inner East, the anticipated changes associated with gentrification, and the influx of new groups such as young families and students, are rather seen as an opportunity. Domna, owner of a co-working space, sees the neighbourhood change in Leipzig Inner East as a more general influence:

*“The district really is on the move. One could say we need to wait for gentrification to get things going, but I don’t want this. We love it as it is. If it gets more beautiful and better it is ok. I don’t know what people are afraid of. We are mixed colourfully and that’s the nice thing about it.”*

Dagmar also finds similar words: *“At the moment there is a creative atmosphere and a new wind blows through the district”*. This experienced new atmosphere, rejuvenation, and reawakening in the neighbourhood has been specifically described by respondents in Leipzig Inner East. In contrast to this spirit of optimism, Grünau’s current situation and also future is seen much more gloomily.

In summary, in both neighbourhoods, the increasing diversification and population change significantly impact on the economic performance in positive and negative ways. Winners of such changes are those who are able to adapt or whose customer base coheres with the groups of newcomers. Being in a situation of change, however, also produces insecurities about the future for entrepreneurs (cf. Section 4.5).

Global trends in business and retail restructuring also play out on a local level. Some of our respondents are especially concerned about the increasing competition with large-scale and international companies. In Leipzig-Grünau, this is epitomized in the Allee Center shopping mall. Hanni, running her fashion store in close proximity to the shopping mall, complains: *“People are spending their whole day at Allee Center and save money for heating at home. The small shops, in contrast, don’t survive”*. Similarly, Hubert’s sales are also influenced by the influx of international companies: *“Since Saturn [an international electronic market] opened, walk-in customers are declining significantly.”* This is why his business can only survive because he has a regular, older customer base.

In contrast to Leipzig-Grünau, the opening of the *Kaufland* shopping mall in Leipzig Inner East has been perceived more as a catalyst for local businesses. Gisela, the owner of a company for hearing acoustics, explains:

*“This street [Dresdner Straße] was dying until the Kaufland opened [...] We have customers from all over the city. To move the business somewhere else would thus not have been a good idea.”*

#### *Neighbourhood reputation*

Both Leipzig-Grünau and Leipzig Inner East (and, here, especially *Eisenbahnstraße*) have been stigmatized as areas in decline, which also impacts the local businesses. In Leipzig Inner East, the reputation is ambivalent. Doreen, a hairdresser in *Eisenbahnstraße*, explains that she faces increasing difficulties in finding apprentices, due to her location: *“The address of my salon seems to discourage potential apprentices”*. David (real estate agency for students) answers the question whether the reputation of the neighbourhood influences his business:

*“Yes in terms of economic activity definitely. Students who explore the street [Eisenbahnstraße] are put off by all the bad [newspaper] articles [However] we try to be pro-active with this by shedding new light on the area”.*

However, for others, the reputation beyond the local level can also be useful for advertisement, as Detlef (insurance broker) expresses:

*“Eisenbahnstraße, I don’t need to put much effort in advertisement, I don’t need to explain where this is. Everyone knows where it is [...] it has some characteristics of psychological advertisement.”*

Holly (hostel owner), like other younger entrepreneurs in the district, tries to sell the area by pointing on the cultural and ethnic diversity of the neighbourhood to attract customers, albeit not everyone equally:

*“In comparison to other districts, this one is more multicultural [...] The Americans and the British like the location a lot, [people from] the Balkans or Asia, for example, not so much.”*

#### *Influences beyond the neighbourhood*

Respondents also mentioned a number of factors influencing their success that are of a more general nature and independent of the businesses’ locations. They point to two main issues: global economic trends and governmental regulations. Small retailers have increasingly faced pressure due to the influence of large-scale international chains that are able to provide less expensive products and are also able to react much faster to technological innovation and changing demand. Especially small businesses struggle with the impossibility of constantly adapting to changing circumstances. Health sector businesses are very much impacted by rising bureaucratic demands and a growing complexity in regulations, which forces them to spend more time on bureaucracy and less time with patients; see also Chapter 5.4.

Some of the interviewed entrepreneurs benefit from cooperation with other entrepreneurs in their branch. A local bike courier used to work together with larger postal operators because they “brought the mass of my orders” (Leopold). Furthermore, specialization and finding a niche has led to success especially for the group of entrepreneurs offering specialized services. A main pillar for business success is the ability to invest in future development and to work out innovative approaches to foster the business. This includes ways to expand the business as well as to change/modify/enlarge/adapt the offers. The owner of a video library developed a second line of business, event management, since the opportunities for video libraries are becoming more and more limited, due to the dominance of Internet streaming. Today, the event management line brings in the income whereas the video business will most probably be closed down.

An important factor dividing successful entrepreneurs from entrepreneurs in precarious situations is the ability to hire employees in order to enhance the business. In our sample, larger enterprises (with reference to numbers of employees) are more successful than small companies. Fayola, who owns a restaurant and runs it alone, stated, regarding employees:

*“I would need support. It is difficult and a strain for my health. I need assistance but I can’t afford it.”*

Similarly, for one-person entrepreneurs, illness means a loss of profit and business interruptions. Leopold, a bike courier, stated: “It is a problem if you are injured. ... I had to stay at home.” Furthermore, active advertisement proved to be effective in increasing the profits for some entrepreneurs but obviously depended on the segment. Gerda explains:

*“In the fitness segment, advertisement is essential. I invest 5-8 % of my revenues into advertisement. That is between 500 to 1,000 Euros a month.”*

Other entrepreneurs, by contrast, do not see the advantage of advertisement:

*“I do not advertise my business. ... In the beginning, I used flyers, but without any response.”* (Hasim, owner of a purchase and sales business)

In summary, the economic performance of entrepreneurs in our sample depends on both the specific contexts of the neighbourhoods and more general trends in society and the economy. It is more the processes of change than a static setting (in the neighbourhood and beyond) that matter definitely for entrepreneurs and contribute to both success and failure. For entrepreneurs who focus their business on local customers, the diversification of both neighbourhoods is either seen as a challenge or a potential. The adaptability to changes, the ability to find new markets, niches, and cooperation partners seems crucial in this respect. The next section elaborates on this.

### 4.3. Market, customers and suppliers

The aim of this section is to provide information about the importance of the neighbourhood with respect to markets, customers, and suppliers. First, we expand on the customers and suppliers of the interviewed entrepreneurs and discuss the role that diversity plays in this respect. Second, the catchment area with respect to customers and suppliers is analysed.

#### *Customers and suppliers: characteristics, role of diversity*

Diversity in a strict sense is not of prior importance for our entrepreneurs. Concerning the role of social diversity, some of our interview partners stated that they focus on specific groups of the local population only, others mentioned that the background of customers is irrelevant for their businesses. In Leipzig Grünau, many entrepreneurs emphasised that most of their customers are from the neighbourhood and come from all groups that live here: *“The composition of customers is just like the composition of the neighbourhood – normal people, workers, few better-off people.”* (Gabriel, doctor) In terms of diversity, some of the interviewees stated that their client base includes a wide range of different groups: *“... mainly pensioners and singles. It ranges from welfare recipients to millionaires.”* (Hubert, owner of a TV purchase and repair business) Despite the fact that interviewees described Grünau’s local inhabitants as coming from different social backgrounds, the large proportion of socioeconomically weak customers turned out to be especially relevant. Interview partners often stated that customers cannot afford their services at the end of the month: *“This concerns unemployed and socially poor people like workers who have to additionally get welfare support.”* (Gabriel). Migrant customers are mentioned relatively seldom.

In Leipzig Inner East, only a few entrepreneurs exclusively focus on customers from the neighbourhood (cf. next section). However, interviewees describe a mix of different groups including pensioners and migrants, as well as groups of newcomers like students and young families. Hennadij, the owner of a grocery store for Russian food, stated:

*“60% of my customers are Germans. It’s mainly pensioners and students. They come because I sell cheap products. Students want to get fast food and pensioners come because of the taste of the GDR times. 40% of my customers are migrants: Russians, Romanians, Bulgarians.”*

Depending on the range/type of offered products, the composition of customers may vary between enterprises. Clemens, a craftsman producing traditional German bakery products, described his customers this way:

*“Young people who are not that well off... a lot of pregnant women ... students are a bigger group because the rents in this neighbourhood are still low ... it is for students and pensioners with small budget.”* Furthermore, he specified: *“It is not welfare recipients, they go to a discounter, I cannot reach out to them ... we don’t have average earners here, it is below this level.”* (Clemens)

With respect to socio-economic diversity, entrepreneurs in Leipzig Inner East mainly serve customers with limited budgets. This is why businesses in this neighbourhood are often oriented to “*socially weak customers*”, as mentioned by Hasim, the owner of a sales and purchase store.

Entrepreneurs capitalising on markets beyond the neighbourhood tackle a huge variety of different customer groups. Businesses within this group comprise insurance agencies, different service providers, gastronomy, as well as crafts businesses. Some businesses offer products for any range of budget. Dieter, a start-up entrepreneur offering cleaning services for radiators, stated with respect to the diversity of his client base: “*Customers stem from all social classes, in Leipzig it is mainly academics ... but my service is also affordable for poor people.*”

Other entrepreneurs do depend on the socio-economic make-up of customers. Fayola, the owner of an African bistro and shop, stated:

*“The shop’s customers are mostly Africans who buy stuff for cooking for themselves. In the restaurant, most of the guests are Germans.”*

With respect to the latter, she added: “*Africans do not earn so much and the prices are too high, there’s nothing we can do.*” Also Feng-Yi, owner of a Chinese tea-house, depends on the specific interests of her customers, whom she finds all over Germany: “*It is basically people who think [drinking tea] is healthy*”. Finally, among the crafts businesses, a majority of entrepreneurs are serving several groups of professionals. Carl, owner of a store for household goods and knives, stated:

*“For example, we have professional cooks who did their apprenticeship in Leipzig and now work all over the world. They send their professional knives to my workshop to grind.”*

Similarly, in the relations between suppliers and local entrepreneurs, diversity plays a limited role. Within the sample, most of the interviewed entrepreneurs receive products and goods from wholesalers and subcontractors. Others import specialised goods from their home country in order to sell them in Germany. A very small group of entrepreneurs emphasized reliance on products produced in Leipzig and its surrounding areas:

*“The advantage of local providers is that I can reorder quickly. These providers are not my friends. ... Often providers were customers in my store and then they send a letter. Others I know from certain events.”* (Florian, owner of an ice cream parlour and cafe)

In summary, in the relations between local entrepreneurs and customers and suppliers, diversity does not play a major role but socio-economic status does. The small budgets of customers matter, because they limit the opportunities for local entrepreneurs’ performance. Sometimes, a link is made to specific ethnic groups, but the socio-economic make-up of customers independent of their ethnicity influences the success of local businesses.

#### *Customers: catchment areas and networks, specialization, change of client base*

With respect to the range of potential customers, some of the interviewed entrepreneurs focus on customers within the neighbourhood; a smaller group serves a mixed base of customers, including the neighbourhood and the city as a whole. A third group of a size similar to the first group addresses a citywide customer base. Finally, a few interviewed entrepreneurs serve nationwide markets; one entrepreneur even addresses an international customer base.

Interestingly, in Leipzig Inner East, hardly any of the entrepreneurs serves exclusively inhabitants of the neighbourhood: “*My customers stem mainly from the neighbourhood, but not all of them.*” (Hennadij, owner of a Russian grocery store) In contrast, we found a large number of entrepreneurs in Leipzig-Grünau who only serve customers coming from the neighbourhood: “*Our patients are Grünau people in heart and soul.*” (Gregor, physiotherapist) In Leipzig-Grünau, businesses focussing on the local audience can be found in all segments. A reason for this difference between our two

research areas might be the location. Leipzig-Grünau is situated at the western outskirts of the city, whereas Leipzig Inner East is located close to the city centre. Successful entrepreneurs mainly operate in everyday services and health care, whereas medium and precarious performers operate in retail and commerce or catering. Those who offer specialised services show both successful and precarious business performance.

In Leipzig Inner East, by contrast, local entrepreneurs tackle both local and supra-local markets. Within the sample, businesses serve everyday needs less frequently than in Leipzig-Grünau (including health care). Instead, a wide range of enterprises serving professional segments, such as catering/restaurant businesses or museums, is represented. The same applies to business performance: What is crucial is that entrepreneurs focusing mainly on the local audience seem to have restricted chances of improving their business performance because local inhabitants can afford to spend only a limited budget on the goods/services they offer. In contrast, entrepreneurs tackling markets beyond the neighbourhood run rather successful businesses because they can adapt services to customers who have a larger budget at their disposal. In sum, success depends on a combination of location, specialisation, and adaptability.

Regular customers turned out to be decisive for local entrepreneurs, especially the smallest ones, irrespective of where they come from. On the one hand, interviewees described that they are *“not dependent on passing by customers. My regular customers come to me”* (Daniel, owner of a video library). On the other hand, passing by customers serve as an additional client base, whereas regular customers ensure the continued existence of the business. *“With regular customers, the business is running ok. But, if they would not come to the shop, business would not go well at all.”* (Dominik, tattooist) Those entrepreneurs who serve specific groups of customers, such as pensioners and people living alone, even keep up contacts with regular customers that go a little beyond just sales conversation. When asked about his social responsibility in the neighbourhood, an interviewee answered:

*“Of course [I have something like that], especially for those who live alone. From time to time, we have a conversation beyond technical issues. After a while, you learn how to do this. Additionally, you learn how long you can have a conversation without losing too much time for your business.”* (Hubert, owner of TV repair and retail)

To compete with larger companies and franchise chains, local entrepreneurs emphasized the stand-alone qualities of their products and/or services. The direct contact and reliability of service provision turned out to be an advantage of local entrepreneurs, compared to the offers of larger providers. Thus, e.g., Hubert, owner of a repair and retail shop for TVs, mentioned: *“It’s especially small things and consultation that large companies cannot provide ... service as such is important.”* Additionally, entrepreneurs try to produce unique products and services to attract customers.

*“Maybe the diversity [of offers] distinguishes us from other providers. We offer funerals for every cultural group. We provide Islamic and Jewish funerals, too. Just like a non-franchised car repair shop – they repair every kind of brand”* (Dirk and Daniela, funeral service).

Disregarding catchment areas, personal and professional networks are generally important for attracting new customers. Most frequently, mouth-to-mouth propaganda was mentioned as the main strategy to promote one’s business. Advertisement in a stricter sense turned out to be more important for successful entrepreneurs who make efforts to get public attention in newspapers, poster advertising, and on the Internet. Entrepreneurs in precarious situations, in contrast, do not use, or gave up on, such investments.

#### **4.4. Relations among entrepreneurs: Evidence of competition or cooperation?**

The aim of this section is to determine in which ways entrepreneurial networks contribute to the performance of local entrepreneurs. Relations among entrepreneurs range from neighbourly and

informal ties to more professional and semi-institutionalised networks. Some of these networks are organised around certain sectors and consist of purely professional, business-related contacts. Others are locally based and restricted to the respective neighbourhood.

#### *Neighbourly relations and informal networks*

Within the case study neighbourhoods, we found a huge variety of informal networks. Firstly, networks characterised by friendship relations were identified:

*“I have contact to the corner shop, a hair dresser, the baker, a pub, and a flower shop ... This contact includes chatting once a while, giving them flyers, meetings at the corner, or even mutual invitations.”* (Clara, toy manufacturer)

The basis for this network is sympathy and close proximity in daily life. Entrepreneurs stated that they mutually recommend the services of their neighbours to their customers:

*“It’s a management of recommendation. You start to talk to each other and then the information is spread in several directions. Entrepreneurs in the neighbourhood inform visitors and customers about the services in other shops”* (Clemens, a master baker).

These networks also include working together with respect to problems occurring in close proximity to their shops:

*“The pharmacy and the baker, for example, are just like family to me. After a while you know each other ... but, I also have to go and help if a blithering idiot is making trouble in front of our shops.”* (Hasim, owner of a sales and purchase shop)

Another type of such informal cooperation is networks based on proximity of location and line of business. Helena, who runs a local purchase and sales shop, stated:

*“As entrepreneur you know each other. Self-employed persons know other self-employed persons.”*

In contrast to friendship-like relations, these contacts are less intense and more concentrated on business issues only: *“If I don’t have a specific product, I send my customers to other purchasers; it’s a short call and then I ask whether a product is available around the corner.”* (Hasim, owner of a sales and purchase shop) The level of cooperation depends on the type of products and services. But there is, of course, a thin line between cooperation and competition. Competition between enterprises serving the same market is especially prevalent in an area with limited purchasing power:

*“It is still difficult. There are a corner shop and a Russian food shop around the corner. One of them was closed some days ago; right away my sales have risen!”* (Hennadij, owner of a Russian grocery store)

Leipzig Inner East’s and Grünau’s landscape of networking are very different. In general, many interviewees in Grünau stated that they have hardly any contact to other businesses in the neighbourhood. Only in some cases could networks based on proximity of location and line of business be identified. These networks serve mainly to recommend customers to businesses next door. Dominik, a local tattooist, stated: *“We help each other but in general we have hardly any contacts with others.”* Gerda, the owner of a fitness centre, said: *“There is no conscious networking ... such a structure only works well if you can benefit from it.”*

With respect to the line of business, health care services are, compared to other lines of business, more connected among each other, due to the nature of their business. Entrepreneurs in this sector benefit from being in close proximity to other providers of health care services. For example, a local fitness centre profits from being surrounded by other health care providers: *“There is a concentration of doctors, speech therapy and ergo therapy that is good for our business.”* (Gerda)

Networks among health care providers are legally problematic, an issue interviewees are well aware of. On the one hand, local entrepreneurs offer a specialised service and therapy for certain

diseases. In these cases, doctors are recommending patients to the best/most suitable specialist they know. On the other hand, some relations, including ‘recommendation management’ between service providers, have existed for decades. Both paths of recommendation are illegal, due to laws concerning the prevention of corruption. Doctors, pharmacists, etc., are principally not allowed to recommend certain providers. Therefore, a mismatch between governmental regulations and reality is occurring (cf. Chapter 5).

#### *Professional networks*

Independent of location, entrepreneurs capitalise on professional networks in their line of business. Not only due to the fact that nearly every business sector in Germany has its own professional agency (cf. Chapter 5), entrepreneurs organise business activities on the basis of exchange with other professionals. This means discussing, e.g., the current development of the market, upcoming innovations, and forms of cooperation and mutual support. Professional networks appear in a two-fold manner: On the one hand, they exist in the form of stable relationships of exchanging goods and provision of services. On the other hand, connections serve as a basis to enhance business publicity and mutual cooperation:

*“We attend trade fairs together. Not because of financial reasons ... we share a van and it makes more fun. We help each other building up the exhibition stands and we are more people to look after the stand. Synergy effects develop as well.”* (Clara, toy manufacturer)

In some cases, these relationships are used to replace employees:

*“I don’t want to have employees – too expensive, not flexible enough. I prefer working together with other self-employed persons to whom I can send an invoice.”* (Domian, professional model builder)

#### *Semi-institutionalized networks*

In addition to more private business contacts, both case study areas provide semi-institutionalised arrangements for local entrepreneurs. These arrangements serve to support the needs of local entrepreneurs in contact with local authorities and to coordinate local forces in order to enhance the overall business performance in relatively disadvantaged neighbourhoods. In Leipzig-Grünau, a regular meeting or round table of local entrepreneurs has taken place every two months for about 5 years. In Leipzig Inner East, a neighbourhood-based association of local retailers has existed since 2004. Both arrangements look back on a longer history. Today, however, they seem to have lost much of their importance for the local scene of business and entrepreneurship. Especially young entrepreneurs rely on other structures or forms of cooperation than those that were established under other circumstances.

Additionally, a network of dentists in Leipzig Grünau was identified. Annual meetings serve to discuss recent developments within the segment. One of the interviewees, who initiated these meetings, stated:

*“Of course, if you have contact to other dentists in Grünau, a network develops and the atmosphere of competition diminishes. We formed such a network in order to limit competition, to keep it under control somehow. We do this since 1999/2000.”* (Gerhard, a dentist)

Finally, some of the entrepreneurs do not participate in any network at all. Fayola, the owner of an African restaurant, stated (when asked about cooperation with other entrepreneurs): *“Not at all. I did not consider all these things. No, I do not cooperate with any business.”* Additionally, newly established entrepreneurs have to build up informal networks and contacts within the neighbourhood. In these cases, interviewees described their first steps towards relationships: *“The business is still at the beginning, it still has to gain momentum.”* (Gesa, physiotherapist)

#### 4.5. Long-term plans and expectations of entrepreneurs

The largest group of our interviewees plans – or at least hopes for – an expansion of their businesses. This includes recently started businesses: *“The business is still at the beginning, it still needs to grow.”* (Gesa, a physiotherapist), as well as well-established enterprises:

*“In the future, we plan to expand our offers. But, planning for a longer term is difficult; you don’t know which challenges might come up.”* (Gisela, a provider of hearing acoustic systems)

Plans range from loose ideas: *“I would like the business to grow ... I would like to open a new shop, and to create more jobs.”* (Fayola, owner of an African bistro) on the one hand, to precise plans, on the other:

*“I want to establish an association together with my husband ... or something like that, not only for Leipzig but for Germany as a whole. So we can open a second and third store in other cities in the future.”* (Feng-Yi, Chinese teashop)

Other entrepreneurs see better business opportunities in changing their line of business. On the one hand, interviewees stated that they were tired of working in their business: *“After some years, I want to do something else. Maybe I will become a plumber or electrician ... the catering business is not manageable forever – you have no private life since you work from Monday to Sunday.”* (Fatih, owner of a restaurant) On the other hand, changing the line of business is a matter of exploring new, more promising business segments: *“The video library is running out slowly ... event management is my second foothold”* (Daniel, owner of a video library). In the health sector, interviewees wish to have more time for their original field of work (e.g., therapy). One interviewee stated that he, therefore, plans to concentrate more on occasional health services instead of those paid for by health insurance funds, so that he could operate more independently: *“The goal is to be more independent of health insurance funds. The idea is that patients come, get the service and pay directly.”* (Gregor, a physiotherapist)

Some of our interviewees expect an unchanged business performance. This group includes well-off businesses that continue capitalising on their recent strategy (Gabriel, a doctor, stated: *“If it stays like it is at the moment, we can continue this way for the next 30 years.”*), as well as precarious enterprises without mentionable growth perspectives. Interestingly, some entrepreneurs do not want their businesses to grow in order to enjoy some quality of life and to spend more time on leisure activities. Clemens, a master baker, stated, e.g.:

*“Once you come to a point where you have to decide whether you want your business to grow or not. I decided to not grow; instead, I prefer having time to ride my motorcycle and to enjoy life.”*

Yet other entrepreneurs seem to have established their business at a low-performance level, not expecting it to grow at all. Their strategy of success is to keep their business alive despite all problems. Hasim, the owner of a sales and purchase shop, employs the following strategy: *“I only can use my heart and love to show them that my shop is the best address.”* With respect to his business expectations, he said: *“I tried everything and if it went wrong, I changed my approach and tried the next idea ... maybe someday I will have a really great idea!”*

Furthermore, a group of interviewees within our sample will resign or give up their businesses. This group encompasses, on the one hand, entrepreneurs in precarious situations who already gave up modernising their businesses: *“I see my work as a kind of partial retirement.”* (Leopold, local bike courier) Especially older, one-person entrepreneurs serving a niche and very dependent on the needs of a declining customer base in the neighbourhood are affected by this problem. On the other hand, entrepreneurs decide to leave the neighbourhood because they see their business success endangered. A young tattooist stated, e.g.:

*“I don’t want to stay here. I don’t want to work here for the next five years. But, I don’t have precise plans [where to move].” (Dominik)*

The same applies to Helena, whose sales and purchase store is located next to a dubious café accused of be a meeting point for drug dealers and addicts in Leipzig Inner East. She said: *“It changed during the last year ... I don’t know whether we can stay here or not ... I see this as threat for our business.”*

Other entrepreneurs plan to sell or downsize the enterprise. This includes doctors’ practices, an orthopaedic workshop, a fitness centre, etc. In these cases, the entrepreneurs have grown old and plan to stop working or downsize the business for age reasons (e.g., give up a branch, reduce the size of the workshop, etc.). Downsizing the business is also a reaction to the current development of the neighbourhood. Changed social-mix led to a changed customer base. As a result, regular costs such as rents need to be downsized. Fabian, owner of a fast food shop, explained: *“Soon, I will move to a smaller shop. It is because the catering business fell apart and so, many customers moved away.”* Similar to this example, a craftsperson in Leipzig Inner East plans to share production sites:

*“It is more a restructuring of the studio. I work here alone ... my intern asked me whether she could move in with her own business. I expect that the rent for the studio will increase.” (Clara)*

Concerning neighbourhood development and future perspectives, several of our interviewees in Leipzig-Grünau stated that they were uncertain about the development of the housing estate. This also impacts on future plans of interviewees and leads to a feeling of helplessness. A second generation optician emphasised e.g.,:

*“Someday, the old people will be gone. The future is not very promising here. ... Old people who are the new customers are, in general, rather poor.” (Gustav)*

In general, many interviewed entrepreneurs mentioned uncertainty concerning their financial resources after retirement. Their earnings are not high enough to build up reserves, and according to law, they are not included in public pension schemes/funds. As self-employed entrepreneurs, our interviewees have to earn their living and to provide for their lives as pensioners on their own. Especially in the case of one-person entrepreneurs and entrepreneurs in precarious situations, this situation leads to uncertainty about the quality of life and fear of old age poverty. Domian, the owner of a one-person model building enterprise, stated, e.g.,: *“I postpone the question how it will be when I will be old. As many self-reliant entrepreneurs do.”* Especially entrepreneurs in precarious situations are concerned about this issue:

*“I think I will work in my shop until the end of my working life. The question is: What happens then? I don’t make pension contributions. One often hears about the development from small entrepreneur to a poor pensioner” (Hubert, owner of repair and retail shop for TVs).*

Future perspectives of local entrepreneurs depend, not least, on the catchment area. Entrepreneurs with a local customer base were often uncertain about the future. Especially in Leipzig-Grünau, an atmosphere of despair and uncertainty could be identified: Fabian, owner of a fast food restaurant, illustrates this:

*“Soon, I will move to a smaller location. ... Once, my customers lived in this neighbourhood but they moved away. This is really bad. Now there are only welfare recipients in this area. ... It is noticeable in my sales. There are only schoolchildren coming to my shop. I can sell food only in the first week of the month.”*

Similarly, Carsten, a local master painter, and the owner of a business in the fifth generation, described the situation thus:

*“It is not yet a ghetto, but ... we have youngsters who get money for doing nothing. When they become the majority, then the climate will get bad.”*

In contrast, entrepreneurs in Leipzig Inner East, in their majority, look ahead positively. This is partly because they do not exclusively work for local markets and partly because of a net influx of new population groups. The development of the neighbourhood represents a promising environment for the development of a business: *“You could start something here, maybe something artistic or cooperate with other businesses. I have got a lot of ideas. The only question is whether the local population is ready for those ideas.”* (Domna, owner of a co-working space)

#### 4.6. Conclusions

Summarizing, one can say that the role of diversity for the performance, markets, and relationships/networks in our two research areas is limited. Whereas, among the factors determining success and failure of the enterprises, diversity is not very important, social diversity and, especially, the socio-economic status of customers play a role. Some entrepreneurs did specialize on certain groups of customers or adapted to the range of budget, i.e., the precarity of their customers. Therefore, the social dimension of diversity turned out to be more important than, e.g., the ethnic one, as we already found out in our study on inhabitants' views on diversity (Kullmann et al., 2015). Ethnic entrepreneurs are no exception here. They are not oriented to their community or to people with migration backgrounds in general. They do not have their suppliers abroad. Generally, the issue of suppliers did not play a large role in the interviews; the entrepreneurs spoke instead about customer relations.

Even if not all entrepreneurs are mainly oriented to a local audience or “local markets”, for some, the neighbourhood, its structures, and effects play a crucial role for the performance of the business and for future expectations and chances; this is still often overlooked by the literature (see Reuschke et al. 2015a). Here, the situation in both areas differs – whereas entrepreneurs in Leipzig Inner East, although confronted with a customer base with restricted income, see much potential caused by the recent in-migration of young students and families to the district, in Leipzig Grünau, expectations are related much more to fears of social decline, ageing, and a gradual collapse of the base of regular customers. In this respect, some of the enterprises might not survive the next years, either because the current owner retires or because it is not possible to find a successor at all.

Networks and social capital (e.g., Pichler and Wallace 2007) among entrepreneurs play an important role, but in different ways: networks are either used as sources of mutual help and support or as means of exchange and information. Whereas some networks are restricted to professional issues, others also play a role as semi-institutionalized social support networks for daily needs, communication and wellbeing, as well as to develop and benefit from a sense of belonging and community (Reuschke et al. 2015b). Sometimes, we could also observe a mix of personal and business relations. While some networks are focused on certain sectors, such as the health sector, others are locally or neighbourhood-based. Therefore, the above-mentioned importance of being embedded in a local sphere of contacts or “social environment” (Rath, 2000) seems to be a relevant factor for many local entrepreneurs in our sample.

Concerning the future of their businesses, the expectations and plans of our interviewees vary. While some are planning to expand the business or at least to have a stable performance, others plan to downsize the business, change the line of business or even to terminate, due to a variety of reasons. The prospects for the development of the neighbourhood definitely play a role here,

especially in Leipzig-Grünau; there, some entrepreneurs related their bad expectations for the future with the demographic and social development of the neighbourhood.

## 5. Institutional support and government policies

### 5.1. Introduction

With the exception of the literature on ethnic entrepreneurship, few studies have been undertaken that tackle the interrelation between diversity and the economic performance of small entrepreneurs. Also, little is known about how policies can stimulate economic performance in diverse neighbourhoods. Syrett and Sepulveda (2011) point out that, with the shift towards encouraging creative economies (following Florida 2002), urban economic policy thinking emphasises more highly skilled and higher income populations and their support. Welfare state support for small entrepreneurs is less in the focus of this debate. In the German debate, a shift towards support of small entrepreneurs through neighbourhood-based institutions is described under the catchword “local economy” (see Chapter 1). In contrast to traditional municipal promotion of economic development providing attractive conditions for industrial and commercial settling or branding of the location, these neighbourhood-based initiatives are developed within the framework of support for disadvantaged neighbourhoods and, thus, support a different target group (Läpple, 2003, 2004; Lempp and Korn, 2015).

Kemeny (2012) pointed out the importance of informal institutions such as trust and social capital for the economic performance of settings with culturally diverse populations. Even though his work applied a statistical approach on the correlation of such informal institutions and economic wellbeing in diverse cities, we will show, using a completely different methodological approach, that formality and informality are, in fact, a decisive aspect when thinking about policy support. We will show that, in particular, the group of entrepreneurs at the focus of this report exhibits a rather distanced attitude to governmental and legal institutions. Furthermore, we have identified a mismatch between the requirements for gaining support and the resources available to make use of them.

The Leipzig case study demonstrates the perspectives on existing policies with a social, ethnic, and demographic variety of small entrepreneurs that also includes a number of one-person businesses. The setting is a comparatively strong welfare state with support schemes for local economic activities on a variety of levels (from national to neighbourhood levels) provided by various actors ranging from state institutions, public-private cooperations, to civic groups. Large lobby associations such as the Chambers of Commerce or professional agencies and associations exist. Besides support for larger economic players, quite a lot of regulations, funding schemes, and assistance programmes also exist; these target small and smallest entrepreneurs, support start-ups and help specific target groups such as women or entrepreneurs with a migration background.

The landscape of support structures in Germany is manifold and can be confusing; institutional support, public and private support, as well as civic initiatives are intricately interlinked and several entry points can be used to find information about support schemes. Especially for laypersons, it is not only difficult to distinguish between them but also to distinguish between different roles of institutions. The “Jobcenter”<sup>6</sup>, for instance, assists in seeking jobs, handles welfare support, and has control functions, but it also provides financial support and training

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<sup>6</sup> Jobcenters are the local offices of the national public employment service and welfare agency.

programmes for start-ups, in cooperation with other public or private agencies or professional training companies.

Professional chambers and sector-specific professional associations are the most frequently named providers of support within our sample. The “Jobcenters” were also mentioned relatively often since they are the main provider of start-up support. Some of the interviewees stated that they had received help at the neighbourhood level. About one fifth of interview partners stated that they had not received any support. With respect to business segments, there is no predominant group or sector privileged by support schemes within the sample.

In this chapter, we analyse the perception of support schemes provided by the local and central government and beyond<sup>7</sup>. In the following, aspects of support will be elaborated step-by-step, according to the different types of support schemes (5.2 and 5.3). Additionally, we place emphasis on memberships of our interview partners in local associations, in order to elaborate whether or not this contributes to economic performance.

## 5.2 Views on the effectiveness of business support provided by local and central governments

In this section, the focus is on governmental support schemes for entrepreneurs and their effectiveness, from the perspective of the interviewees. Governmental support schemes comprise legal regulations and programmes and include public banks (KfWw, SAB), the “Jobcenters” and initiatives located in the neighbourhood. In general, and quite surprisingly, interview partners did not provide detailed information about the support landscape. Rather, they elaborated on their personal story and to what extent they experienced support. Often, this was accompanied by an evaluation of institutions, their logics and how these met or did not meet their demands.

### *Legal regulations and taxes*

Legal regulations concerning taxes are perceived as supportive for very small enterprises in specific segments, e.g., commerce and services. Entrepreneurs with low turnovers are entitled to tax (VAT) reductions.

Nevertheless, interviewees frequently mentioned being burdened by taxes. When businesses are improving, paying full taxes the first time is perceived as a problem, for instance, by Helena, who is running a purchase and sales business:

*“Tax authority wants more and more. When we had nothing, nobody claimed something from us. The first time paying full taxes hit us hard. We just managed to reach the lowest level of subsistence. But, then it was ok.”*

Domian, a self-employed model builder, described how these taxes limit his business opportunities and hinder him from investing: *“As an entrepreneur, you have to invest into the further development of your business. But it is hard to build up reserves under the current tax conditions.”* Additionally, he expresses a distanced attitude towards the tax authority:

*“I’m anxious to attract the least attention I can from the tax authority ... I don’t want any stress with them. ... They don’t care how you manage to survive as long as you meet their deadlines.”*

Specific legal regulations are a liability for health care sector enterprises. Medical treatments, supplementary financing for certain medicinal products and treatments by various therapists are paid by German health insurance funds. Therefore, national law regulates health services and the execution of transactions. Within the case study, health care providers are a dominant sector in

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<sup>7</sup> Chapter 3.5 places special emphasis on support schemes provided for starting an enterprise. Chapter 5 will therefore focus on support provided for entrepreneurs following the phase of business establishment.

Leipzig-Grünau. All interviewees working in health care complained about increasing bureaucratic obligations (*“bureaucratic effort consumes 50% of our working time”* – Gerhard, dentist), a negative impact of reforms concerning budget cutbacks (*“I don’t want to moan, but, it is a disadvantage. Before the reform, spectacles were financed in shorter periods and they paid higher shares”* – Gustav, optician) and growing work-loads required to cope with inter-institutional communication (*“one and a half persons of our staff deal only with complaints from the health insurance funds. We need more and more legal assistance”* – Gisela, provider of acoustic hearing systems). Neoliberal austerity policy within the health care sector was mentioned as the core problem: *“They want maximum profits and, at the same time they want us to save money everywhere”* (Gerhard, dentist). Additionally, regulations become increasingly detailed and complicated. Georg, a pharmacist, illustrated exorbitant requirements:

*“Since first of July 2015, doctors have to put their first names on prescriptions. But they do not buy new stamps including their first names. That’s why they write prescriptions without their first name. But, health insurance funds do not pay if there is no first name on the prescription. So the pharmacy has to run after the doctor.”*

The only help for entrepreneurs working in health care system in this respect are sector-specific professional associations (cf. next sub-section) who, e.g., provide support regarding negotiations with health insurance funds. However, some interviewees even stated that they feel demotivated to continue their business and are willing to search for alternatives.

#### *Jobcenters*

In Germany, Jobcenters are municipal institutions delivering a variety of governmental responsibilities concerning (un-)employment, such as registration of the unemployed and payment of unemployment benefits. In this function, they operate as an authority with control and regulative functions. Furthermore, Jobcenters seek to integrate the unemployed into the labour market by consultation and assistance with finding a new occupation. This also includes support offers with respect to self-employment. Additionally, Jobcenters also provide services for entrepreneurs who search for potential employees and apprentices.

In general, Jobcenters serve as an interface to gather information about other governmental and non-governmental support schemes. They can be considered as an entry point to information and support, especially with respect to business creation. Therefore, Jobcentres provide consultation and information about governmental support, including coaching programmes and financing. A precondition for receiving such support is being registered as unemployed.

In our sample, about one fourth of the interviewees developed a business out of being unemployed. Additionally, a smaller number of interview partners stated that they had been in contact with the Jobcenter when searching for new employees or apprentices. The Jobcenter functions as a contracting authority and counsellor at the same time. On the one hand, services from the Jobcenter provide financial protection for formerly unemployed entrepreneurs. On the other hand, entrepreneurs are dependent on this governmental body and have to follow the protocol of the institution: *“I had to attend a workshop about the formation of an enterprise that is obligatory. ... not all the information was interesting – a necessary evil, you know”* (Florian, café and ice-cream parlour). Once the business is established, advice and further support comes to an end. However, financial dependence on the institution remains until the point in time at which entrepreneurs are able to run their business independently. In this respect, Fayola, owner of an African food business, stated:

*“I need better advice and better financial support. The Jobcenter says: ‘We don’t give you anything, but we want you to do well.’”*

Therefore, professional advice or support concerning the further development of businesses is perceived as limited. Additionally, the dual role of the Jobcenter leads to confusions about its role:

*“Something is wrong with the Jobcenter. They urge you to search for a new job, although one seeks to open one’s own business.”* (Daniel, owner of a video library)

#### *Public banks*

Other providers of entrepreneurial support in Germany are public banks, which provide funding for start-ups and financial aid for existing businesses. Additionally, information about consultation offers and specific programmes, e.g., coaching, are part of their services. The two relevant public banks mentioned in the interviews are SAB, *‘the central development agency of the Free State of Saxony’* (SAB, 2016), operating at federal state level, and the KfW group, *‘important promotional bank – for private individuals as well as for enterprises, cities, municipalities, and non-profit and social organisations’* (KfW, 2016), operating at the national level.

Only one fourth of the interview partners mentioned services provided from public banks. Statements were made in a twofold manner. On the one hand, the majority of interviewees in this group had positive reports about the support received, including loans (*“I received ... beneficial credits from SAB“* (Hasim, owner of a purchase and retail shop), and participation in specific support programmes for company founders (*“We received help from a coach for company development from the KfW”* – David, real estate manager). However, interviewees also mentioned that support provided by public banks does not fit their circumstances of work. Gesa, a start-up physiotherapist stated that support schemes of public banks do not match her needs:

*“There is support; the question is - is it useful? For example, SAB is offering support for in-service training. But, it will not be disbursed until the training is completed, that is in five years. I need the money now and not later. .... Who knows what will be in five years.”*

Also, bureaucratic obligations hinder utilisation: *“Support from KfW is too much paperwork. Therefore, I only borrow money privately, because I only need mini sums.”* (Dagmar, fashion designer)

In general, interviewees stated that they knew about the possibility of attracting funding from public banks. However, often they stated that gathering information about support opportunities was time-consuming.

#### *City and neighbourhood level*

At the neighbourhood level, new support schemes have been introduced in the last 15 years. As part of the federal programme “Die soziale Stadt” (the social city), a number of funding schemes were initiated to help small entrepreneurs in deprived neighbourhoods. EU funding is partly used to finance such programmes.

Fatih, owner of a restaurant in Leipzig-Grünau, participated in such a project, which puts apprentices in contact with entrepreneurs with a migration background. He appreciated the help of the project very much:

*“In Grünau we have a lack of employees. The project was better than support from the Jobcenter. They made a lot of effort to find a person who fits and is reliable.”* (Fatih, owner of a restaurant)

In this respect, the project approach met the need of local businesses, because it was dedicated to one specific problem. However, no other interview partner mentioned this EU-funded project.

“Arbeitsladen Plus” is a local project that concentrates on support for local unemployed people and local economies in both of our case study neighbourhoods.<sup>8</sup> The aim is to create synergy effects and to foster the economic performance in the neighbourhood through low threshold advice and networking. This approach provides several services for local entrepreneurs, including process assessment, consultation and low-threshold entry to other support opportunities. About one fifth of interview partners knew the project or a previous version of it.

The feedback is ambivalent. Some local entrepreneurs received good and sustainable support. Hubert, owner of a repair and sales shop, benefited from advice regarding business development and advertisement: *“The Arbeitsladen helped me a lot: Together we developed the concept for the shop and we designed the flyer for advertisement.”* The same applies for mediation of support available for certain sectors: *“There was an initiative for creative entrepreneurs and they asked me if I’m still interested.”* (Dagmar, fashion designer) In two cases within our sample, the Labour Shop additionally has been a client in their businesses, i.e., it ordered catering, and required the service of a courier.

In general, the Arbeitsladen is considered as a pool of information and contacts. Yet, entrepreneurs are uncertain about the real benefit of the arrangement: *“The Labour Shop only brings a little. You can get contacts or information concerning side-jobs.”* (Leopold, bike courier) The project-character, with its limited duration and discontinuity, was seen as hindering the long-term effects of the support scheme:

*“Unfortunately, the city does not care about it. It is established and then broken up again. Any stop is bad. It’s the same with my shop. I would need to start from scratch if I close for a while.”* (Hubert, owner of a repair and sales store for television)

Fabian, the owner of a fast food restaurant, additionally spoke about a lack of trust and how he missed the confident make-up of the former project after the projected ended in 2014 and was relaunched in 2015:

*“I cannot trust the new people. The old labour shop had a closed area. In that big room of the district management you feel like in a fishbowl.”*

Change in established structures leads to irritation and lack of trust. Entrepreneurs running larger and well-established enterprises reported that the help provided did not fit their needs. On the one hand, interviewees stated that they were urged by support offers: *“The Labour Shop pushes us to hire apprentices. That’s why we avoid them.”* (Doris, operating in funeral services) On the other hand, the professionalism of the staff is questioned:

*“Like small, nervous pupils in school. Mr. X asked me: ‘So, what do we do now?’ – I think: ‘That is your job; I don’t have to tell him what he has to do now.’”* (Detlef, insurance broker)

### 5.3. Wider awareness of organisations, programmes, and initiatives of support

#### *Professional chambers*

In Germany, specific professional chambers are intermediary actors between governmental bodies and entrepreneurs, acting independently and lobbying for specific interest groups and business types. Their competence ranges from local level to federal and national levels and they are legitimised by law. They are independent association equipped with specific rights to list and register every entrepreneur within their spatial jurisdiction and their profession. A mandatory membership fee must be paid, to fund the activities of the chamber. The tasks of professional chambers are two-fold: a) to be the contact institution for governmental bodies. In this respect, professional chambers aim to influence negotiations and regulations for entrepreneurship in

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<sup>8</sup> Arbeitsladen can be translated as Labour Shop. This was one of the governance arrangements analysed in our previous report for WP5 (Grossmann et al., 2014).

Germany, and b) to be the contact institution and intermediary agent for companies and entrepreneurs. In this respect, professional chambers provide consultation and services to support entrepreneurs. Professional chambers secure the implementation of new legal regulations, collect and provide statistical data and their evaluation with respect to economic development in Germany.

The Chamber of Industry and Commerce (IHK) is responsible for entrepreneurs working in commercial and retail sectors. With respect to support for entrepreneurs, IHK defines its main fields of activity: *‘Commercial policy, business start-up and business promotion, apprenticeship and in-service training, innovation and environment, international affairs and law and taxes’* (IHK, 2016). Nearly every entrepreneur within the sample is registered in this professional business agency (if not, they are assigned to another chamber). Remarkably, the assessment of IHK services differs according to size and how established businesses are. One-person entrepreneurs, in particular, stated that the service of the IHK does not fit their interests, or need of support, independent of the product or business sector. On the one hand, one third of our interview partners stated that they perceived participation in the IHK as *“compulsory membership”* (Holly, owner of a hostel). Entrepreneurs stated that the membership fee is an obligation without any gain:

*‘I’m member of the IHK. But it’s just a paper to fill out. Not helpful. Support from IHK? No, not really.’* (Feng-Yi, owner of a Chinese tea house)

On the other hand, interviewees stated that support provided by the IHK does not match up with problems arising at the local level. For instance Leopold, a local bike courier, described:

*“Oh, yes, the IHK, [I’m a member] you have to be. But, that’s no big help. Even with respect to questions concerning the law, they cannot help properly. They provide help with reconciliation in case someone doesn’t want to pay. But, in general, they cannot help in this respect. In the end, you are stuck with the costs. They offer support when a dispute goes to court. But, the risk is too high, in case you lose. In the end you have even higher costs.”*

The same applies to training offers. It was the most precarious entrepreneurs who stated that, due to the costs, participation is not possible: *“Once in a while I get invitations to attend seminars; but costs are about 80 Euro a day for members.”* (Fabian, owner of a fast food restaurant) Furthermore, one-person entrepreneurs are not able to attend these seminars since that would mean that they have to close their business during this time. Therefore, support from institutions like the IHK is too far away from the everyday life of small-scale entrepreneurs. Domian, a self-employed model builder, summarised his assessment of IHK support like this:

*“It is too much bureaucracy. You get a membership number, but they don’t have any real contact with you.”*

However, within the sample, some entrepreneurs said that they appreciated the offers of the IHK. This applies for larger companies, companies that tackle international markets and those that have to deal with special apprenticeship regulations. Gisela, owner of a large company producing acoustic hearing systems, stated: *“It’s a durable network and, for sure, a guarantor of success.”* Clara, who builds music instruments, stated that she was *“not dissatisfied. You have to get in touch actively.”* She needed help for enquiring about companies from abroad and whether prospective cooperation partners were reliable; *“I attended the German Christmas market in Shanghai ... I needed to know whether this is a serious company or not.”* Finally, services concerning apprenticeship regulations that were provided by the IHK were praised by interview partners. Independent of business sector, entrepreneurs stated that they were well satisfied with help and support regarding finding, registering or exchanging an apprentice.

In Germany, nearly every professional sector has its own sector-specific professional association (guild). The aim of these institutions is to advocate for the interest of individual business sectors. Additionally, professional associations provide insurance and take care of contracting and sub-contracting with providers and governmental bodies. Examples are the Pharmacists Association, Associations of German Funeral Homes, the Professional Association for Transport and Traffic, and many more. In contrast to the chambers, membership is voluntary, but fees apply.

Many of our interviewees are organised within sector-specific professional associations. They stated that they benefitted from certain services provided by the association of their sector, including insurance coverage for illness, provision of business contacts, quality control, joint advertisement offers, answers on specialist issues, contracting and sub-contracting. Nevertheless, interview partners also expressed criticism about these associations. Some entrepreneurs reported that services are too expensive and that they do not have enough time to use training offers (Gustav, an optician: *"If you are the owner of business, you are likely to attend a training course on the weekend, but for my employees, that is not attractive"*). Additionally, some entrepreneurs stated that offers do not fit emerging problems:

*"It is not useful to me. I needed them once, I had a legal dispute, but there was no support."*  
(Carl, retailer and grinder business)

In health care businesses, sector-specific professional associations have a stronger impact, compared to other segments. Georg, a pharmacist, described his dependency like this:

*"Self-employed pharmacists participate in the Society of Pharmacists. They have an umbrella organisation - the German Pharmacy Associations. The Society of Pharmacists negotiates supply arrangements with health insurance funds. [...] Theoretically, I could make contracts with all of the 400 health insurance funds. That's possible, but I would get inferior conditions. It's about medical aid, bandaging material, etc. A lot of things are regulated by law."*

In sum, interviewees did not receive much support from professional associations. They are most helpful for entrepreneurs when these approach the associations with very concrete problems. Rarely do they offer support in order to optimize or expand the business. Often this is a matter of resources and time available. Those who could profit most – small and one-person entrepreneurs – often cannot provide the capacities to make use of support programmes. On the contrary, well-established businesses with several employees appear to be well integrated in networks and less dependent on external support.

#### *Contribution of NGOs*

Additionally, entrepreneurs are members of non-governmental associations, sometimes for private reasons, e.g., sports organisations. Some local businesses could profit from such memberships, others not. About half of our interview partners do not participate in any association; most of them think it would not help them in any respect or they do not have the capacities to get involved:

*"I work [...] six days a week. I don't know any associations, because I have no time."*  
(Hennadij, owner of a Russian grocery store)

Around one third of interviewees stated that they actively participate in associations related to, e.g., sports, culture, residents, voters' associations, etc. Within this group, entrepreneurs were identified who benefit from being member of an association with regard to their economic performance. On the one hand, entrepreneurs gather new customers by coincidence:

*"My daughter plays volleyball in a club. One day, I heard that they have problems with catering. ... So I offered them to do the catering."* (Hugo, owner of a fast food restaurant)

On the other hand, entrepreneurs have focused cooperations with associations to promote the activities of the association but also to acquire new customers:

*“I am member of the Nigerian Society and the Congo Society. This helps me to win new customers. And I participate in their events ... to introduce my culture to the Germans.”*  
(Fayola, owner of an African bistro)

Two younger entrepreneurs stated that they participate in informal and commercial networks. These networks provide exchange about business failures and provide opportunities to meet others, in order to foster synergy effects. Holly, a start-up entrepreneur running a hostel in Leipzig Inner East, said that she preferred this kind of exchange, compared to more established offers from professional business organisations or sector-specific associations: *“There you can meet other entrepreneurs. There, people helped me.”* This raises the question about the extent to which consultation offers and support schemes match the needs of young entrepreneurs with respect to style and degree of formalisation of support.

#### 5.4. Policy priorities for entrepreneurship

When asked about how to improve policies, interviewees raised fewer issues than expected. For some interviewees, this can be interpreted as a consequence of being in a precarious situation, of being overburdened, of being resigned and therefore out of energy and ideas. Other interviewees had very particular concerns such as unclear responsibilities of governmental bodies or a lack of communication between specific actors. Again, others made very general statements about, e.g., bureaucrats unwilling to engage with smaller enterprises or non-transparent assignments of public institutions. Nevertheless, some common needs were expressed that will be elaborated on in the following:

##### *Reduction of bureaucratic burdens*

Exaggerated bureaucracy is the main concern raised. It is reported to be time-consuming, to influence entrepreneurial performance, and even to hinder the establishment of businesses. In this respect, governmental reforms in certain administrative units influence the performance of entrepreneurs; e.g., health care reforms and downsizing of financing, tax reforms, obligations for cash registers (*Registrierkassenpflicht*), tenancy law, and commercial law. Overall, the impression is that, with new reforms, burdens increase instead of being reduced. Bureaucratic obligations rise, especially in the health sector. Gisela, a provider of acoustic hearing systems resumes:

*“The biggest burden simply is bureaucracy. It is always getting more complicated; you need ever more warrants, certificates, too many rules and regulations. The rules and standards are getting more and more difficult. ... Therefore, you need more personnel. Here, one and a half persons of our staff deal only with complaints from the health insurance funds. ... A third of the manpower here goes into bureaucracy.”*

Also, other business branches complain about bureaucratic overburdening, for instance, craftsmen. Carsten, a master painter, says:

*“Whatever they did, they spoke about making things easier. But it becomes more difficult. Nothing becomes easier.”*

With this perception of constantly increasing regulations, the impression of a growing gap between administrative and practical logics is also described and the system of economic support is disdained. Gisela (provider of acoustic hearing systems) reports further:

*“The craftsmen are really pissed by the funding proposals; without these, there would be more initiative. The regulatory framework is far too mighty and designed by academic administrators and theorists. This is not applicable to practice.”*

Gregor, a physiotherapist highlights the increasing risk for his enterprise due to simultaneous budget cuts, efforts to reduce health care costs, and increasing bureaucracy: *“The air is getting thinner and the slipknot pulls tight.”*

#### *Support for orientation in the regulatory jungle*

A claim that differs from reducing bureaucracy is to provide help in coping with the complexity of regulations, demands, and potential support schemes. To avoid stumbling into traps of, e.g., the tax system, to find one’s way through the possibilities and potential support systems right at the beginning, are some of the concerns of interview partners. One interviewee demanded:

*“They should provide you with a tax consultant from the beginning, so you do not make mistakes. If you put the cross in the wrong place, suddenly you have to pay 20,000 Euro ... also for legal issues, maybe a lawyer’s hotline for start-ups. There are many traps.”* (Fabian, owner of a fast food restaurant)

Especially if entrepreneurs work under very precarious conditions, the capacities to receive orientation and an overview are very limited so that entrepreneurs in the most precarious situations seem to work under the greatest lack of information. Clara, manufacturing music instruments in a one-person business, says: *“I got support from SAB. I had no time or power to gather all/more reasonable information”*. Also, she has no time to participate in further training. Dagmar, a fashion designer, also emphasises that she does not have the time needed to apply for support: *“I have no time to write a business plan.”* Others do not even find the time to discover the funding schemes, especially those who are already running businesses. The effort to get to know support opportunities is in conflict with the schedule, especially for one-person entrepreneurs.

#### *Lack of support and recognition, absence of a lobby for small entrepreneurs*

What we also found in a few interviews is a distanced attitude towards governmental bodies and institutions. This is accompanied by a feeling of lacking recognition, distrust in institutions, and a lack of transparency in the decisions of institutions, a feeling of “they” and “we”. A one-person entrepreneur in Leipzig-Grünau, engaged in – among others – event organisation, complains that other (larger) event managers have fewer problems with permissions and access to support. *“The newspaper does not write about us. I think they push themselves. The largest event gets all the recognition.”* (Daniel, owner of a video library and event manager) A further point for distrust is how public orders and contracts are placed. Alliances and routines, and the laziness of public servants, are blamed for difficulties in securing public orders.

#### *Upgrading of the public spaces in the neighbourhoods*

Finally, some interviewees made a link between their entrepreneurial performance and the neighbourhood, the space and surroundings of their business. Gerhard, a dentist, stressed:

*“The surroundings are not good. It is okay. The buildings are not so nice; also the footpaths could be maintained better.”*

On the one hand, interviewees complained about insufficient neighbourhood development (restructuring of schools, facilities for local associations) and the behaviour of city authorities (enforcement of commercial law). On the other hand, they appreciated renovation projects in the neighbourhood: *“The renovations are good, because they attract influx and mean upgrading of the area”* (Daniel, video library).

## 5.5 Conclusions

Generally, we see a mismatch between the potentially available support and the capacities of entrepreneurs to make use of it. Most of the smaller enterprises, and especially one-person enterprises, find themselves in a complicated system of regulations, institutions, and necessities to run a business and deal with taxes and obligatory memberships, in the first place. In this respect,

well-established entrepreneurs have better chances to make use of support schemes and to expand their businesses. However, this group of local entrepreneurs also reported exaggerated bureaucracy for funding proposals, increased expenses to cope with legal regulations and administrative accounting, and a lack of recognition for their specific situations as entrepreneurs. Therefore, existing support structures are often perceived as being part of a system of self-referential bureaucracy, a system that works at the expense of their labour, taxes, time, and effort, without providing effective support, from the outset.

Paradoxically, the landscape of entrepreneurial support in Germany is elaborated and well positioned. Governmental support provides (tax) reliefs for small entrepreneurs, various incentives to start a business, and funding opportunities for further investment. Additionally, large interest groups try to mediate concerns, requests, and suggestions directed at governmental authorities and vice versa. Support is anchored at various levels; a multitude of entry points exists. Even at the neighbourhood level, specific projects try to foster the economic performance of small enterprises as a link between neighbourhood development and promotion of the economy.

Nevertheless, the interlinkages between dominance, control, and support (e.g., in the Jobcentres or professional chambers) seem to lead to a perception of being left alone/being helpless when confronted with regulations, large and powerful institutions, and distanced procedures. The bureaucratic hurdles to make use of existing structures are often perceived as too much of an obstacle to try to make use of them. Therefore, capacities (i.e., time, manpower) turn out to be the precondition for benefitting from support schemes. As we could demonstrate, the smaller the business, the fewer these capacities are, since entrepreneurs have to cope with the everyday workload first (e.g., being in the shop, working on customers' requests, ordering products and dealing with legal regulations and administrative accounting).

Entrepreneurs are profoundly influenced by neoliberal shifts in the organisation of support for the working conditions of small enterprises, budget cuts (especially in the health sector), and a decentralisation of support schemes, together with increasing competition for funding. Confronted with a saturated support landscape, responsibility to make use of it is in hands of entrepreneurs, irrespective of whether schemes match needs and demands at the local level. Therefore, entrepreneurs demand, most of all, recognition of their circumstances of work, a simplification of procedures, and less conditional support. A gap between big governmental or other legal institutions exists; more informal, specific support is needed to improve business performance and to develop innovative approaches of future development.

## 6 Conclusion

### 6.1 Summary of the key findings

A central goal of this report was to describe and analyse the relationships between entrepreneurship, neighbourhood, and diversity. In the individual chapters we pointed out that, in our case study, clear relationships between these three aspects were difficult to detect. We found only weak influences that were themselves shaped by a series of other factors. The existing literature demonstrates links between diversity and entrepreneurship predominantly on macro levels, employing quantitative methods, whereas qualitative, place-based research on the neighbourhood level is rare. Moreover, a strong focus on ethnic entrepreneurs hinders a focus on the economic performance of smaller enterprises, on neighbourhoods, and diversity in a wider sense. Reuschke et al. (2015b, 284) – in a recent contribution that aims at such an explicit focus on neighbourhood context and (any) small entrepreneurs – conclude that “[t]here is a need to understand the positive and negative effects of neighbourhoods on entrepreneurial behaviour and how entrepreneurship can impact on neighbourhood change and local economic

development.” Our research results are largely in line with this statement, although we showed that the importance of the neighbourhood context also varies according to lines of businesses. In the following, we will summarize our key findings with respect to these relationships.

*Entrepreneurship, neighbourhood (change) and diversity*

As we pointed out in our previous report (Kullmann et al. 2015), and also in this report, Leipzig Inner East and Leipzig-Grünau are both neighbourhoods that have experienced dynamic change, especially with respect to increasing diversification of residents, as a result of restructuring processes in the post-socialist era as well as of new in-migration, due to the growth of the city. These changes also influence entrepreneurship in the case study areas, although in different ways. The diversity of the neighbourhood had a relatively limited impact in motivating interviewees in our sample to establish their business in their specific location or in the decision for the line of business. More pragmatic reasoning, such as prioritising low rent levels and the availability of property, prevail. However, while running their business, the fact that the neighbourhoods are changing and diversifying is perceived as being much more influential, especially for businesses with higher degrees of embeddedness in the neighbourhood. This finding, especially when we look at the area of Leipzig Inner East, is partly in line with Bailey (2015), who points to the potential of neighbourhoods with a certain reputation and status for entrepreneurship.

Neighbourhood change is frequently experienced through fluctuations of customers. Increasing diversification is a challenge for those enterprises that specialize on the predominating local population groups (such as more affluent pensioners in Grünau) and that now need to face shrinking customer numbers. This is less of a challenge for the health sector businesses, but more difficult for entrepreneurs in service, hospitality, and retail sectors. There are two possibilities to deal with neighbourhood change: adaptation and/or specialisation. For businesses to succeed, entrepreneurs need to adapt and adjust their product range or service offer to new groups coming to the neighbourhood or those stemming from beyond the neighbourhood. Those who are not able to adapt, remain in or move into precarious situations. Businesses that are specialised in product range or service are more resilient towards neighbourhood change because they are not exclusively dependent on local customers. For the latter, centrality makes a difference. Inner-city neighbourhoods, such as Leipzig Inner East, are much more suitable for businesses with a customer base beyond the local than neighbourhoods on the fringes of the city, such as Grünau. Or, vice versa, residential areas on the fringes are much more dependent on a local customer base than centrally located inner city areas.

The case of Leipzig has shown that the economic performance and entrepreneurship in diversifying neighbourhoods also very much depends on the type of neighbourhood; there is no single “typical” relationship between local entrepreneurship and the neighbourhood context (see also Bailey 2015). This distinction has, so far, not been taken into account in researching diverse neighbourhoods and, therefore, also marks a gap in the literature. Former inner-city workers’ districts that are centrally located (such as Leipzig Inner East) offer significantly different opportunities to entrepreneurs than large modernist housing estates that were initially planned as monofunctional residential areas with only a minimum of local supply and services. A diverse range of opportunities in building structures in the former, with shops lining streets and workshops in courtyards are much more apt to host a diverse local economy than the repetitive and relatively inflexible structures in the latter.

*De-mystifying ethnic entrepreneurship*

Diversity plays out not only in terms of composition of residents and built infrastructure but also in terms of diversity of businesses and entrepreneurs. As we have pointed out, the classic differentiation between migrant and non-migrant entrepreneurs, which is frequently found in the literature on local economies, is fairly insignificant within our sample. However, some of the

patterns described for the group of ethnic entrepreneurs were also found in our sample for the wider range of entrepreneurs; for example, self-employment in niches as a strategy to find a base for living after experiencing few chances on the labour market. Thus, our analysis can contribute to a demystification of migrant entrepreneurs who significantly support the local economies of our cities and who can draw on migrant networks. Many aspects ascribed to migrant entrepreneurs also apply to other small entrepreneurs. Characteristics other than only being a migrant are more important for evaluating the motivation and the economic performance of entrepreneurs. Our analysis identified a range of factors driving or drawing people into self-employment. The dissatisfaction with living conditions, such as discrimination in the labour market related to age, migration background, as well as to unemployment, is the most prevalent motivation for our interviewees to become entrepreneurs. Particular to Leipzig, a post-socialist city, the transition phase after reunification in 1990 meant a break in professional careers for many former GDR residents. What is described as typical for ethnic entrepreneurs might be typical for any entrepreneur facing uncertainty and fear of unemployment while seeing new opportunities. Furthermore, the promise of a better and self-determined life is the most commonly identified factor.

#### *Influence of diversity or damning gentrification?*

Cross-referencing our findings, the promise of Florida's (2002) conclusion that diverse neighbourhoods represent significant opportunity structures for local economies needs to be considered with caution. We could not identify much evidence for the assumption that diversity and diverse environments play a direct or major role in better economic performance of local entrepreneurs. Apart from health sector businesses, entrepreneurs within our sample are all in relatively precarious situation. Businesses that can be classified as creative industries (in the sense of Florida) are, typically, newly established businesses especially in the neighbourhood of Leipzig Inner East. Similar to most of the other businesses, their choice of location is less influenced by the magnet of diversity and more by pragmatic reasoning such as low rent levels, proximity to one's own place of residence, and the availability of suitable premises. This has also been described by Flöger and Gärtner (2015), who pointed to low rents as a factor that draws entrepreneurs to deprived areas. Accordingly, an increase in creative entrepreneurship can be explained better by economic than by social motivations. Thus, for future research, a distinction between business oriented and social entrepreneurship (Martin and Osberg 2007) might be informative when it comes to the role of the neighbourhood, but our data are not sufficient to draw conclusions here. However, it can be expected that, in the future, this new form of local creative entrepreneurship for Leipzig Inner East will expand and develop further. Such processes are linked and run in parallel to the changing composition of residents in the neighbourhood, especially through the influx of students, early-stage professionals, and young families. These particular processes of changing local economies are probably more aptly explained by reference to different strands in the gentrification literature. A recent study along this line of argument – on the ties between diversity and local shopping contexts in different cities across the globe – was conducted by Zukin et al., who developed an integrative heuristic on the “structural ecosystem of a local shopping street” (2016, especially p. 16). Another option for the conceptual framing of such processes would be to combine neighbourhood change perspectives, in general, with local economy and entrepreneurialism, thus applying a neighbourhood-sensitive perspective (e.g., the volume by Mason et al. 2015).

#### *Trapped in precarity*

Our analysis points to the fact that limited resources and precarity in various forms prove to be crucial conditions of local economies in the two neighbourhoods in Leipzig. Precarity marks the thin line not only between economic failure and success, but also between entrepreneurs able to improve, to make use of support, to take breaks and to even consider changes in conducting their

business or not. Entrepreneurs in precarious situations appear to be stuck in their precarious situation and lacking the resources to escape. A significant number of entrepreneurs in our sample need to deal with a number of constraints, including limited financial resources, limited time outside their business activity, danger of unemployment, contingent retirement arrangements, and limited entrepreneurial and economic knowledge, all of which represent challenges to the viability of their businesses. People appear to be caught in a treadmill. Thus, precarity seriously limits capacities for change and achieving greater success. Due to an identified lack of institutional support – or at least a lack of knowledge thereof – entrepreneurs in precarious situations rely on support from family and friends and self-established networks that help to stabilise their situation. Furthermore, time resources, like leisure time, time for recovery, and vacations are frequently mentioned as being scarce, especially for entrepreneurs in precarious situations.

Precarity with respect to the budget of customers also constitutes an important factor. Both, Leipzig Inner East and Grünau are relatively poor neighbourhoods with comparably low socio-economic levels (Kullmann et al. 2015). When addressing a local clientele, businesses in these neighbourhoods need to offer services and provide products that are in synchrony with the limited income of residents and need to compete with (inter)national chains that are typically better equipped to offer low prices. Additionally, entrepreneurs have to struggle with the bad reputation and stigmatization of both neighbourhoods. Furthermore, the on-going neighbourhood change generates uncertainties about how entrepreneurs see their future.

In our analysis, we identified a number of thresholds that a business needs to cross in order to be successful. One of the most important factors that distinguish successful from precarious businesses is the threshold of being able to afford employees, which is related to broader structural influences such as high labour costs in Germany. Another threshold is having some free time, a day off, having time to sleep and recover, let alone being able to go on holidays. In general, stability is something that entrepreneurs strive for but which is difficult to achieve in reality. Therefore, the results of our report suggest scrutinizing, in particular, the connection between the local economy and precarity, which is hitherto underrepresented in the literature.

In summary, entrepreneurs operating at the local level are confronted with specific circumstances influencing their economic performance. Apart from the effects, described above, of the neighbourhood context, the overall economic environment and institutional landscape also have an impact. As previously described, our research unveiled certain challenges here: lack of time and knowledge about how to gain the best support, obstacles for hiring employees, and a lack of stability and security with respect to the future.

Having identified the main findings, we need to keep in mind their limited generalizability, which is inherent to qualitative methodologies. Furthermore, due to the explained difficulties of reaching out to certain types of entrepreneurs who could not be included (see Chapter 2) and the focus on small and more locally embedded businesses, our sample is biased and not representative for the local economic structure of the neighbourhoods as a whole.

Generally, the intricate interfaces between local economy and the neighbourhood context are fields that are underexplored, especially in terms of qualitative research. Consequently and even more so is the connection between neighbourhood change and economic performance.

## **6.2 Policy recommendations**

Before summarizing recommendations, we feel the need to place some limits to this section. Our analysis is based on a selective sample and an explorative study. We only investigated the perspective of entrepreneurs (and among them only the small and smallest entrepreneurs), which is, in any case, a one-sided approach. We will, therefore, keep to those issues that are directly

linked to the statements of our interviewees and avoid any over-generalization of our empirical material. Thus, what we can offer is less policy recommendations in the “classical understanding”, but rather issues that should be considered when discussing improvement of conditions for small and neighbourhood-based/centered entrepreneurs.

Research on the awareness of local entrepreneurs of current support schemes shows that several entry points to governmental institutions exist and that they operate at different scales. Generally speaking, this landscape of support in Germany is a highly interwoven and self-referential landscape of actors and schemes, comprising several governmental and societal institutions. Entrepreneurs are faced with, at first and second glances, a barely manageable multitude of schemes, roles of institutions and private actors, as well as mixes of compulsory and optional steps in business establishment. Additionally, a bundle of legal regulations, administrative requirements and bureaucratic procedures shapes the day-to-day work of entrepreneurs operating in the neighbourhood. In general, the institutional framework appears to operate from a distance, with only little attention to as well as recognition of problems and demands arising at the local and everyday level. Therefore, improvement should address a simplification of administrative accounting and the enhancement of the measures of support provided.

First, increasing bureaucratic obligations and new standards of steering are challenging. In particular, the expanding demand for control in administrative accounting overtaxes the resources of local entrepreneurs. In this respect, the top-down mentality of institutions is problematic and should be adjusted towards a better recognition of local level needs and a more comprehensive streamlining of bureaucratic and administrative processes.

Second, the promotion of the Germany economy in general provides numerous support schemes; also for small entrepreneurs. What is lacking, however, is adequate provision of information about support opportunities and suitable entry points to support that fits the needs and resources of local entrepreneurs. Therefore, simplified and more tailored procedures and low thresholds for obtaining support should be developed, in order to meet local entrepreneurs' needs.

What we found striking is the interrelation between the circumstances of work of local entrepreneurs and local governance arrangements. As we pointed out in previous research within the Divercities project (Grossman et al., 2014), neoliberal trends affect the local level with respect to increasing bureaucratic requirements and responsibilities imposed on entrepreneurs working on a small scale and an often limited capital base at the neighbourhood level.

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## Appendix

List of Interviewees	Age	Gender	Type of enterprise	Sector	Size	Established in	Economic performance
Fabian	40+	male	sole proprietorship	gastronomy	2	2012	precarious
Fatih	35	male	sole proprietorship	gastronomy	5	2008	medium
Gerda	45	female	sole proprietorship	health	7	2002	successful
Gustav	48	male	sole proprietorship	health	2	1984	successful
Leopold	63	male	sole proprietorship	service	1	2001	precarious
Daniel	33	male	sole proprietorship	service	1	2011	successful
Dominik	27	male	sole proprietorship	service	1	2015	precarious
Dieter	52	male	sole proprietorship	service	3	2009	successful
Carsten	50+	male	family business	craft	12	-	successful
Gabriel	37	male	sole proprietorship	health	3	2012	successful
Hanni	50+	female	sole proprietorship	commerce	1	-	precarious
Dirk und Daniela	39	female	limited companies (2), family business	service	12	ca. 1990	successful
Georg	50	male	sole proprietorship	health	10	1987	successful
Danilo	44	male	sole proprietorship	gastronomy	6	2015	medium
Doris	46/ 52	female/ male	sole proprietorship	service	19	2002	medium
Hubert	54	male	sole proprietorship	commerce service	1	2007	precarious
Gregor	32	male	sole proprietorship	health	3	2012	successful
Gerhard	50+	male	sole proprietorship/ joint practice	health	16	1993	successful
Guido	66	male	sole proprietorship	health	11	1992	successful
Denis	37	male	sole proprietorship	service	2	2007	medium
Domian	42	male	sole proprietorship	service	1	1996	medium
Gesa	29	female	sole proprietorship	health	4	2013	precarious
Feng-Yi	46	female	sole proprietorship/ family business	gastronomy commerce	3	2012	medium
Clara	49	female	sole proprietorship	commerce and craft	1	1990	successful
Clemens	ca. 45	male	sole proprietorship	craft	6	2008	successful
Florian	34	male	sole proprietorship	gastronomy	1	2014	precarious
Hennadij	45	male	sole proprietorship	commerce	1	2011	precarious
Fayola	45	female	sole proprietorship with husband	gastronomy commerce	2	2013	precarious
Holly	30	female	limited company	hotel industry	3-4	2014	precarious
Dagmar	35	female	sole proprietorship	service, craft	1	2013	precarious
Carl	72	male	family business	commerce craft	2	1955	precarious
Domna	32	female	sole proprietorship	service	1	2015	precarious
Detlef	47	male	sole proprietorship	service	1	1991	successful
Helena	33	female	sole proprietorship	commerce	2	2008	precarious
David	30	male	limited company	service	9	2013	successful
Hasim	50+	male	sole proprietorship with partner	commerce	2	2007	precarious
Bob	42	male	freelancer	education	1	2004	precarious
Gisela	50+	female	sole proprietorship	health	44	1991	successful
Doreen	ca. 45	female	-	service	4-6	2010	-