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**ENTERPRISES CREATED IN 2002 BY THIRD-COUNTRY (NON-EU) NATIONALS:  
FINDING IT HARDER TO SURVIVE**

**ENTREPRENEURSHIP AND EMPLOYMENT CREATION OF IMMIGRANTS IN OECD  
COUNTRIES**

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*This document has been drafted by Yves Breem (Ministry of Immigration, Integration, National Identity and Mutually Supportive Development, France). The opinions expressed in it are those of the author and do not commit either the Organisation or the national authorities concerned.*

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**English - Or. French**

## **ENTERPRISES CREATED IN 2002 BY THIRD-COUNTRY (NON-EU) NATIONALS: FINDING IT HARDER TO SURVIVE**

Yves Breem

Ministry of Immigration, Integration, National Identity  
and and Mutually Supportive Development

1. Foreign nationals are more likely than the French to set up their own firms, but those firms are far more vulnerable. Just 40% of them are still operating five years later. The first and third years are particularly difficult hurdles to overcome. The third-country enterprises<sup>1</sup> that are most successful and on a par with French enterprises in that respect are commercial businesses and firms with a large, local client base. Conversely, construction businesses and individual firms are more vulnerable to failure than French firms in the same category.

### **Features of third-country firms set up during the first half of 2002**

2. Some 12% of firms are created by foreigners (6.5% by third-country and 5.5 % by EU-15 nationals), whereas foreigners accounted for only 5.5% of the labour force in 2004. 20% of third-country firms are created by women, compared with 30% of French firms. Third-country entrepreneurs have fewer qualifications and less experienced than French or other EU nationals: 44% of them are unskilled, three times more than French entrepreneurs. While 28.5% of third-country entrepreneurs are former jobseekers (as against 18% of French entrepreneurs), the share of third-country jobseekers who opt for entrepreneurship in order to work is similar to the French figure.

3. The firms set up in 2002 by third-country nationals are concentrated mainly in three sectors: construction (32%), commerce (30%) and personal services (18%). By and large, 39% of the new businesses created by third-country nationals are craft businesses individual units, compared with 32% of new French businesses.

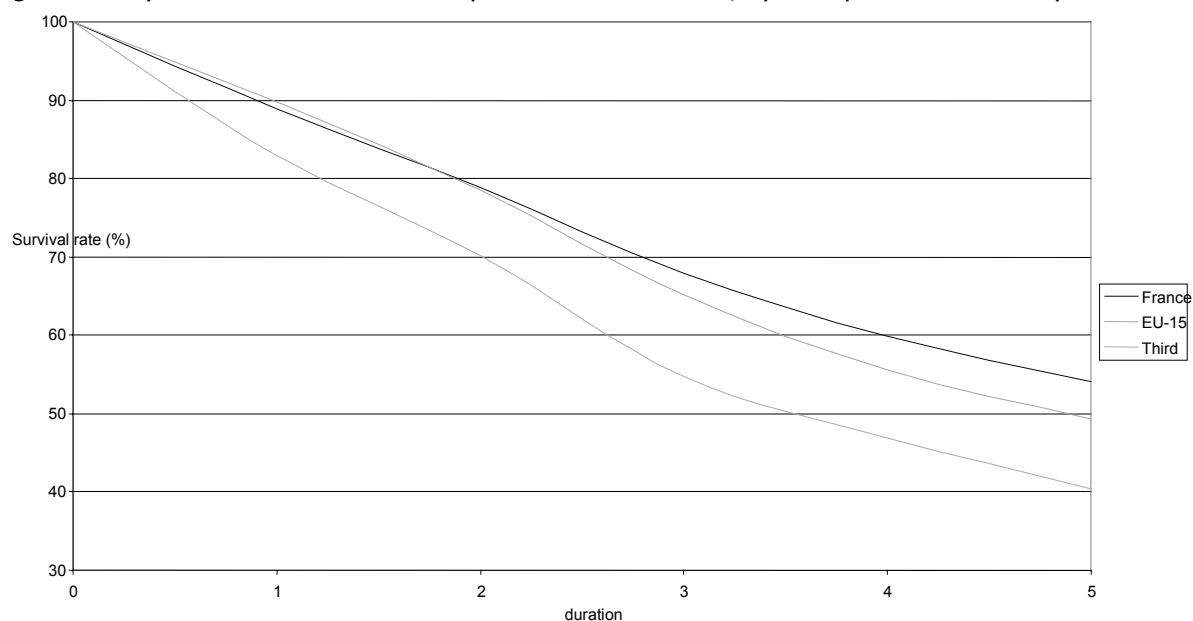
### ***60% of the third-country firms created in 2002 did not survive until Year 5***

4. While the 5-year survival rate for French firms stands at 54%, it falls to around 49 % when the entrepreneur is from an EU-15 Member State and to only 40.5% for third-country (non-EU) nationals.

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<sup>1</sup> For the purposes of this report, third-country enterprises are those created by nationals from outside the fifteen EU Member States (EU-15), while French enterprises are those created by French nationals.

Figure 1 – 5-year survival rates for enterprises created in 2002, by entrepreneur nationality



Source : Insee, Sine survey, 2002

5. Third-country firms begin to experience problems right from Year 1, when the survival rate is 83% compared with the French figure of 89%. But Year 3 remains the greatest hurdle. So the disparities in success rates in terms of the entrepreneur's country of origin widen over time. From 6 percentage points below the French rate after one year, the cumulative survival rate for third-country firms drops to 13 percentage points below it from Year 3 onwards (see Figure 1), and so on up to Year 5.

***No survival-rate disparities in terms of origin when the entrepreneur is a low-skilled former jobseeker***

6. Five-year survival rates are substantially affected by the entrepreneur's socio-demographic profile. Third-country entrepreneurs are more successful when their academic standard is high and they are in the 35-49 age range. The farther away third-country entrepreneurs are from this age group, the harder they find it to remain in business. Just 20% of the businesses set up by individuals younger than 25 manage to overcome the hurdle of Year 5 (see Table 1). Conversely, 50% of the firms set up by graduates (with 3 years' higher education) survive.

7. At first glance the 5-year survival rate of firms run by third-country women entrepreneurs appears similar to that of their male counterparts. But this is due to their specialization in the more successful fields. All other factors being held constant, the evidence shows that women have 26% less chance of succeeding than men (see Table 3).

8. The socio-demographic characteristics of successful third-country entrepreneurs therefore match the profile of French entrepreneurs but with one exception, namely their previous occupational status. This has little impact on third-country enterprise survival rates whereas, among French entrepreneurs, former wage-earners are always more successful than former jobseekers (see Table 1).

Table 1 – 5-year survival rates (%) for enterprises created in 2002 by entrepreneurial characteristics<sup>2</sup>

		France	EU-15	Third countries
Gender	Men	55.4	50.5	40.5
	Women	51.0	44.5	40.0
Age	15-24	39.4	39.8	19.5
	25-34	54.7	48.3	38.4
	35-49	56.5	51.8	46.1
	50 and over	52.1	45.7	35.2
Qualifications	None	49.0	46.6	42.1
	No secondary-school leaving certificate	53.7	53.8	43.0
	Secondary-school leaving certificate	54.6	50.4	47.3
	Higher education degree (3 yrs)	61.0	54.3	50.4
Previous status	Non wage earner	58.5	50.7	46.8
	Wage earner	57.3	52.1	43.6
	Jobseeker	46.9	44.0	44.6

Source : Insee, Sine survey, 2002

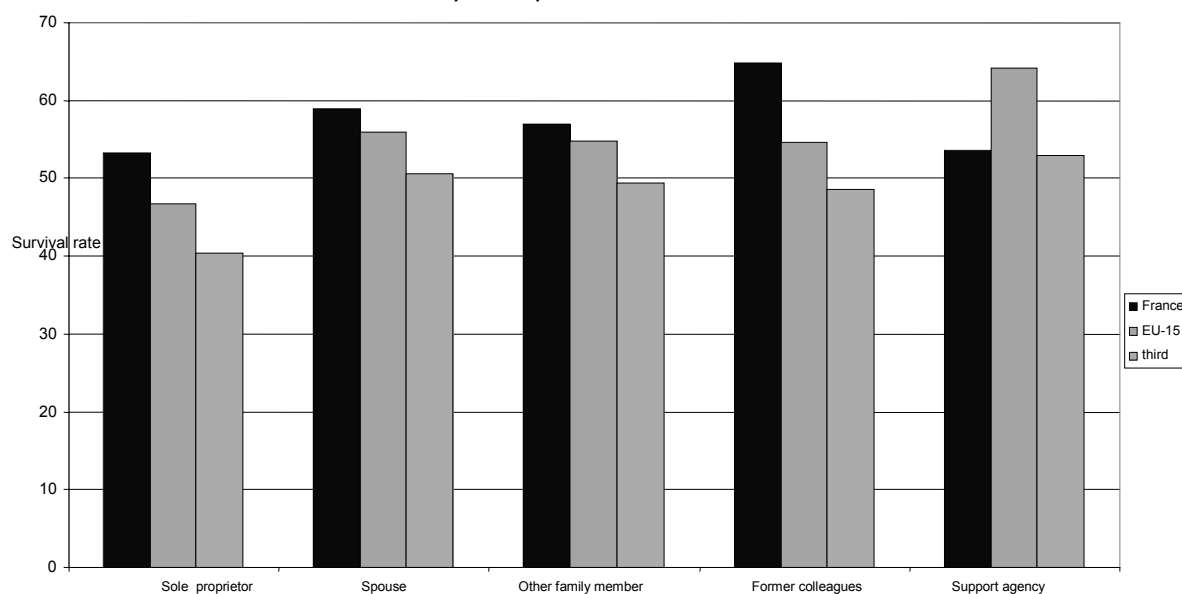
9. Thus the survival rates for firms set up by third-country entrepreneurs are always lower than for French firms, regardless of the entrepreneur's socio-demographic profile. However, the more problematic the entrepreneur's circumstances (e.g. unemployment, poor skills, little experience), the closer the survival rates for French and foreign businesses. The 5-year survival rate for firms set up by former jobseekers with at most a secondary-school leaving certificate is 45.5% among third-country entrepreneurs, compared with 42.5% among French entrepreneurs. But entrepreneurs with a better profile (former wage-earners, highly skilled) are always more successful when they are French. Either third-country entrepreneurs derive less advantage from beneficial personal circumstances, or they are less hampered than the French by a less-skilled profile.

#### ***Entrepreneurial environment: failure more common among third-country self-employed***

10. Regardless of the entrepreneurial environment, whether or not the project was set up with financial resources, alone or with a third party, whether or not it received financial support, the firms set up by third-country nationals have a markedly lower chance of surviving the first 5 years than those set up by French or EU entrepreneurs. For third-country nationals, however, setting up businesses with their spouse or other family members gives them a noticeably better chance of surviving than if they start up alone (see Figure 2). For instance, all other factors held constant, third-country enterprises set up by more than one person have 40% to 50% more chance of surviving for 5 years than those set up by a single person (see Table 3). Of the firms created by third-country or EU-15 entrepreneurs, it is those set up with agency support that have the best survival rate. Among French firms, those set up with the support of former colleagues (65% survival rate) are the most successful, whereas there is no positive effect in that case for third-country enterprises. whereas these are the third-country enterprises most likely to fail (48.5%).

<sup>2</sup> The survival rate by entrepreneurial profile is slightly overestimated compared with the overall survival rate, as a number of firms that had already closed down at the time of survey were unable to provide information on this profile and were not included in the following tables. 9% of these were third-country firms, while 3% were French.

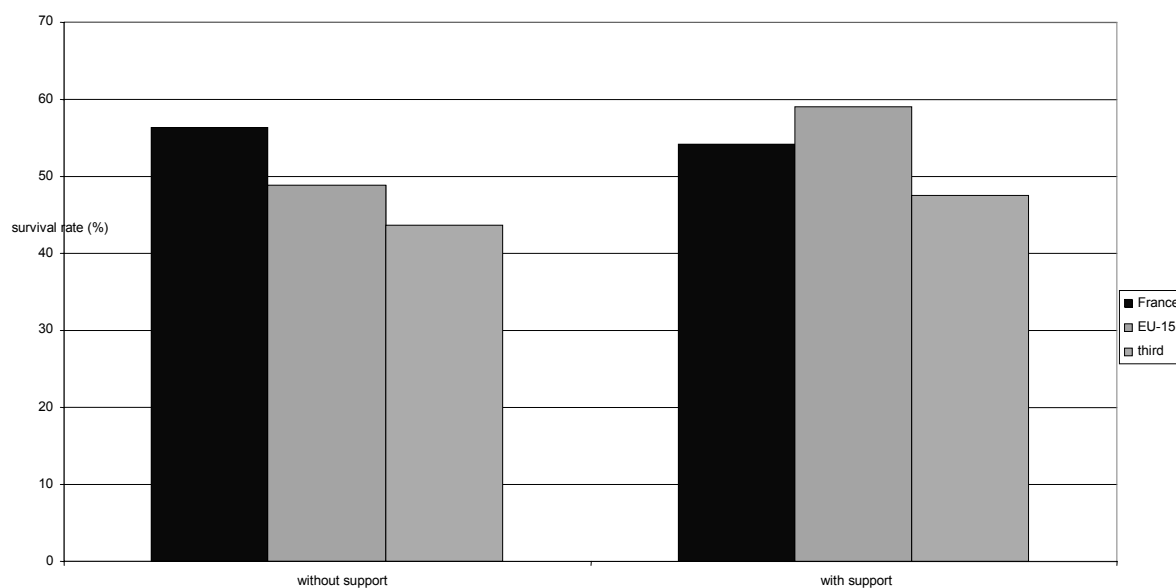
Figure 2 – 5-year survival rates (%) for enterprises created in 2002,  
by entrepreneurial team mix



Source : Insee, Sine survey, 2002

11. Apart from start-up assistance from agencies, entrepreneurs may also receive financial support. This is the case for 28% of the firms set up by French entrepreneurs, 20% of those set up by third-country entrepreneurs and 18% of those set up by EU-15 entrepreneurs. Excluding EU-15 nationals, however, this support does not appear to have a significant impact on 5-year survival rates (see Figure 3). The greatest factor in entrepreneurial success appears to be start-up capital investment. All other factors held constant, a third-country firm starting up with €40 000 will have 77% more chance of surviving than a firm starting up with less than €4 000 (see Table 3). Yet it is when firms have very little start-up capital and focus on similar types of activity that the survival-rate gap between French and third-country firms disappears, thereby confirming that they derive less benefit from better start-up conditions or that they are less hampered by poor start-up conditions.

Figure 3 – 5-year survival rates (%) for enterprises created in 2002, by support received



Source : Insee, Sine survey, 2002

***Third-country enterprises are more successful when operating with a large, local client base***

12. Some operating environments have a beneficial impact on the 5-year success rate of firms when the entrepreneur is a third-country national. Enterprises that have been taken over, for instance, along with subsidiaries and firms with little competition have better chances of survival. Conversely, exclusive subcontracting leads, in two out of three cases, to closure within 5 years. Third-country enterprises are also more successful with a large, local client base. Their survival rate is 48.5% when their clients are private individuals, compared with 38% when their clients are businesses (see Table 2).

Table 2 – 5-year survival rates (%) for enterprises created in 2002,  
by main corporate characteristics

		France	EU-15	Third countries
Enterprise status	Creation	52.3	46.9	39.0
	Take-over	60.0	61.8	46.1
	Exclusive sub-contractor	51.3	44.7	33.6
	Secondary sub-contractor	60.8	49.1	48.2
	Not sub-contractor	55.9	53.2	48.4
	Subsidiary	60.0	54.4	55.7
Number of clients	1 to 2	47.5	43.3	35.2
	3 to 10	54.7	49.9	40.0
	Over 10	58.0	54.2	52.1
Type of client	Local	57.3	54.1	47.7
	National	54.8	48.7	39.1
	International	54.7	47.1	51.9
	Businesses	55.4	48.4	38.1
	Private individuals	56.4	53.1	48.6
Competition	Little	54.1	57.3	49.1
	Medium	58.3	51.9	44.2
	Keen	54.0	47.8	44.1

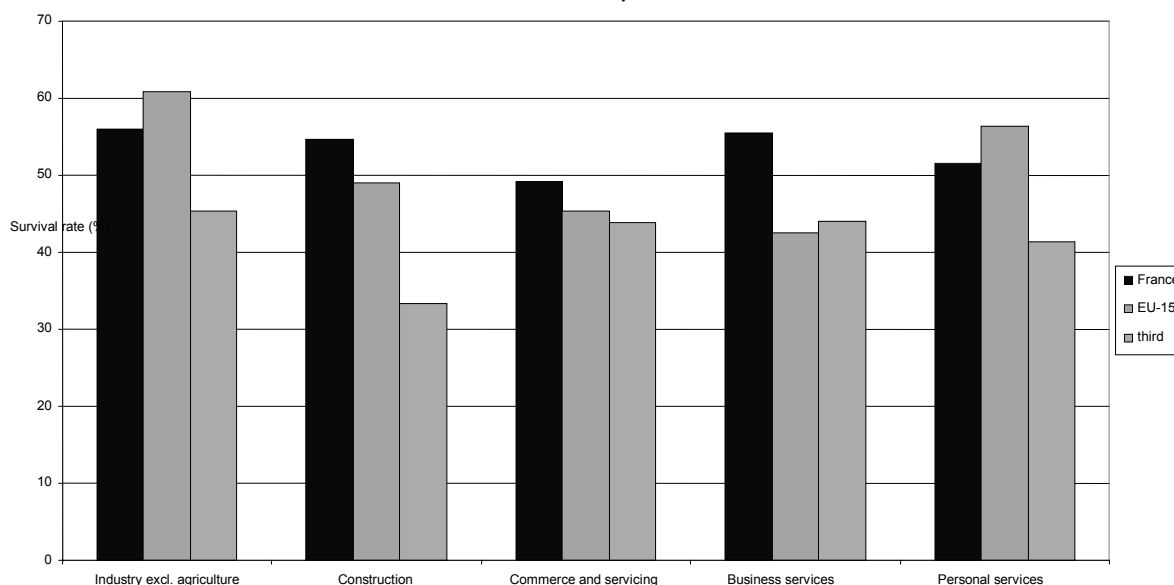
Source : Insee, Sine survey, 2002

13. There is still a very substantial gap in success rates compared with French entrepreneurs, irrespective of the firm's profile. However, the more optimal the profile (varied customer base, group support, little competition), the narrower the gap.

*In terms of survival, far fewer disparities due to nationality in commerce, but far more in construction*

14. Irrespective of the sector, the survival rate for enterprises created in 2002 by third-country nationals is lower than for those created by French entrepreneurs.

Figure 4 – 5-year survival rates (%) for enterprises created in 2002, by type of activity



Source: Insee, Sine survey, 2002

15. The only sector in which the survival rate is far lower for third-country firms is the construction industry, where it does not exceed 33 %. All other factors held constant, a construction firm has 80% less chance of survival than a commercial business (see Table 3).

16. The excessive concentration of business failures in this field can be put down to a specific process. In the building industry, some workers are prompted to become self-employed. They leave the firm that employs them but continue to work for it as an independent sub-contractor. Upon completion of the project, these self-employed builders have no work and seldom manage to find new contracts. This affects third-country nationals in particular and those living in regions with numerous building programmes [Ile de France (Paris) and PACA (south of France)]. For self-employed builders in these areas, the survival rate is hardly any lower among third-country entrepreneurs than it is among the French.

17. After 5 years, the survival rate for construction businesses is therefore 22 points lower for third-country entrepreneurs than for French nationals. In commerce, the survival-rate gap is far less marked (5 points, see Figure 4) and disappears completely when there is a substantial client base.

18. To conclude, all other factors held constant, third-country enterprises have 27% less chance of surviving after 5 years than French enterprises (see Table 3, Model 1), 18% excluding the construction industry and 12 % excluding individual enterprises. Survival rates are heavily impacted by the firm's start-up profile. Factors such as experience, good qualifications and substantial start-up capital improve the overall chances of entrepreneurial success. However, there are few survival-rate disparities between French and third-country nationals when the entrepreneur is poorly skilled and a former jobseeker with little capital, whereas the chances increase with qualifications. Once a business has been launched, the success-rate gap between French and foreign enterprises decreases overall when the number of clients is at an optimal level. But even under the best possible conditions, construction firms run by third-country entrepreneurs, and to a lesser extent all enterprises created by sole proprietors from third countries, experience serious problems in terms of success. It is because of those failures that the average survival rate of firms set up by third-country nationals is so low compared to those created by French entrepreneurs.



19. In spite of the relatively large number of firms that fail, enterprise creation does have a beneficial impact on jobs. For the enterprises created in 2002 that have survived their fifth year, the employment impact is greatest when the entrepreneurs are from EU-15 countries (1.4 jobs created in 5 years), compared with 0.9 when the entrepreneurs are French and 0.6 when they are from third countries.

### **SINE Survey**

20. SINE, the Information System on New Enterprises, is a permanent monitoring system for newly created enterprises that was launched in 1994 by INSEE, the French statistics institute. The SINE Survey is based on a sample of enterprises created or taken over during the first six months of a given year. These enterprises are monitored over a five-year period via three surveys: the first in the early months following start-up, the second after three years and the third after five years. The study presented here is based on the 2002 cohort of firms, monitored until 2007.

21. The firms in the survey operate in manufacturing, construction, commerce and services (a category known as ICS), excluding financial activities and agriculture.

22. The SINE questionnaire does not include any detailed questions on nationality but does identify whether an entrepreneur is French, an EU-15 national (15 Member States in 2002), or a third-country (non-EU) national.

### **Definition**

The survival rate of a cohort of enterprises after  $n$  years is the proportion of enterprises still operating after  $n$  year(s). For instance, the 5-year survival rate of enterprises created or taken over during the first half of 2002 is the ratio of the number of enterprises that have reached or passed their fifth anniversary to all of the enterprises created in the first half of 2002. The enterprise death rate includes firms that have permanently closed down or been taken over. The death of a firm does not necessarily mean that its economic activity has ceased.

### **Further information**

- **Deprez S., Wach N.:** “Créations et créateurs d'entreprises – Enquête de 2007 : la génération 2002 5 ans après”, *INSEE Résultats économie n°39*, January 2009
- **Letowski A.:** “La création d'entreprise par les étrangers en France”, *Notes et Documents n°56*, *Direction de la Population et des Migrations*, September 2006



Interpretation: In Model 1, compared with the reference population (enterprise created by former wage-earners), an enterprise created in 2002 by a former jobseeker (not long-term unemployed) will have 27.3% more chance of surviving (odds ratio = 1.273) whereas one set up by an entrepreneur with long-term unemployed status would have 19.2 % less chance (1/0.839).

In Model 2, an enterprise run by a third-country (non EU) national under 25 years of age will have 4 times less chance of surviving (1/0.25) than an enterprise run by a third-country national aged from 35 to 44 (reference population).

Chi square significance threshold: \*\*\* =< 0.001 ; \*\* =< 0.01 ; \* =< 0.05; ns (not significant) > 0.05