

# **ANNEX**



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## **SUPPORTING ENTREPRENEURSHIP IN THE RUHR DISTRICT. THE APPROACH OF START2GROW IN DORTMUND**

### **Abstract**

The paper aims on a brief introduction on the case start2grow in Dortmund, Germany, which is a particular approach of supporting entrepreneurship. In many respects the initiative start2grow can be seen as an innovative way in the promotion of start up companies. It can be characterized as a combination of both regional and supra-regional promotion of entrepreneurship, it is also a combination of network building and founder's contests, and lastly it is embedded in a specific programme of local business development, the dortmund-project.

The present study will be examined in depth as part of the project „Monitoring Innovative Restructuring in Europe – MIRE“. The aim of the MIRE Project is to identify innovative examples of restructuring in Europe and further to organise an international exchange and knowledge transfer. It is funded by the European Social Fund, Article 6. It commenced in January 2005 and comes to an end in November 2006.

To achieve the above mentioned goals,

- each of the participating countries (Belgium, France, Germany, Sweden, United Kingdom) will set up national expert networks which will meet and connect more closely during the lifespan of the project
- Each country will conduct eight case studies which will document present national „good practice“ examples of innovative restructuring.

**Keywords:** Regional Development Policy, Urban and Regional Economics, Ruhr District, Local Business Development

### **Introduction**

The economic background of Dortmund and the dortmund-project can be described as a radical decrease of employment in the traditional sectors of the city. The decline in the lines beer brewing, steel, and coal mining has begun in the 1960ies and implicates about 80.000 job losses. A significant company restructuring in the end of the 90ies, the closure of the traditional steel works “Westfalenhütte”, was connected with approximately 5,000 layoffs. This restructuring was the beginning of a deeper cooperation between the owner, ThyssenKrupp and the local authority concerning local business development. ThyssenKrupp funded an expertise worked out by McKinsey & Company in 1999 and 2000, which was the core instrument for the implementation and enforcement of the dortmund-project.

The official project launch has been in June 2000, and the project is provided with a running time of ten years. Its objective is the creation of 70,000 new jobs until 2010; the main instruments are both building new industries in sectors of the high-tech industry and new economy and supporting established (thus old economy) companies. Another objective is allowing local entrepreneurs a „fast start in the market“ by developing local competitive ad-

vantages for start-ups and the new arrival of companies. Belonging to the latter objective, the initiative start2grow has become one of the most successful instruments within the dortmund-project.

**Dortmund and the Ruhr District – some main characteristics**

Fig. 1: Germany, North Rhine-Westphalia, Ruhr District and Dortmund

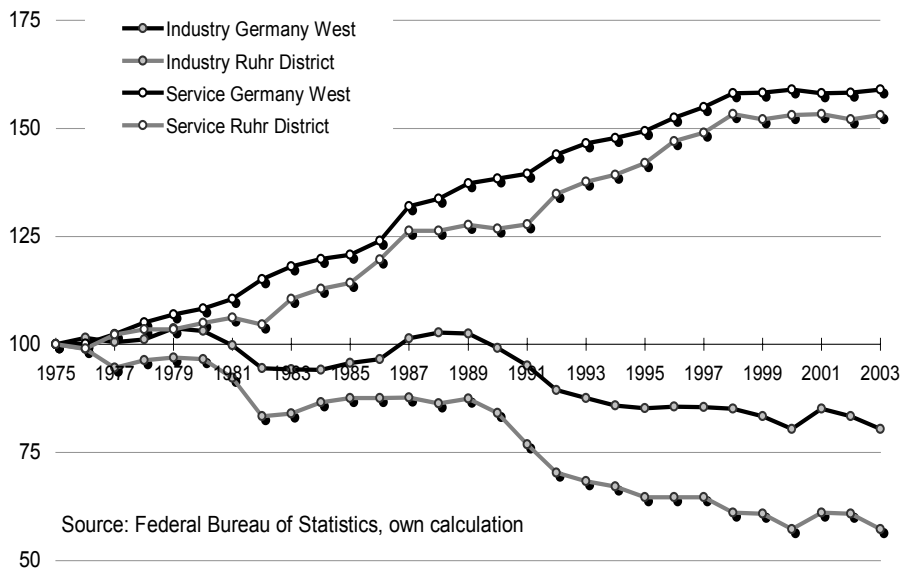


Source: <http://www.wikipedia.de>

The economy of Dortmund is closely connected with the regional structural change of the Ruhr District. The Ruhr District, situated in the state North-Rhine Westphalia in the western part of Germany (fig. 1), can be characterized as an old-industrial region on a (former) coal and steel basis. With its approximately 5.3 million inhabitants and 1.5 million employees the Ruhr District is still the biggest economic area in Europe; the regional gross domestic product is round about 120.000 Mill. EUR (2002, Sources: Städte und Kreisstatistik des RVR 2004). In administrative terms, the Ruhr District is a very complex unit: It consists of 15 local authorities, eleven cities and four districts in a length from east to west of 116 km and round about 67 km from north to south.

The high degree of industrialisation in previous times would later prove to be a bad starting point for initiating sectoral and structural change, particularly facing an increasing weight of the tertiary sector. The gradual decline of the industrial

Fig. 2: Employment by sector, Germany (West) and Ruhr District



core areas was not compensated for, the service sector being developed very slowly. At present, the Ruhr District has one of the worst labour markets in the West of Germany – as shown in Figure 2 and 3. The first indicator for describing the regional labour market is the development of employment by sector (fig.2).

Compared to the average development of employment, Figure 2 shows the rapid industrial decline in the Ruhr District and a decelerated development in the service sector. Nowadays (2003), the level of employment in the Ruhr District has decreased of 13,8% since 1980. The particular structural change of the Ruhr District can also be seen in a high level of unemployment: With 13,7% in a 10 years average (1994 to 2003) the unemployment rate is approximately 4 points higher than in the West of Germany (9,3%, see figure 3).

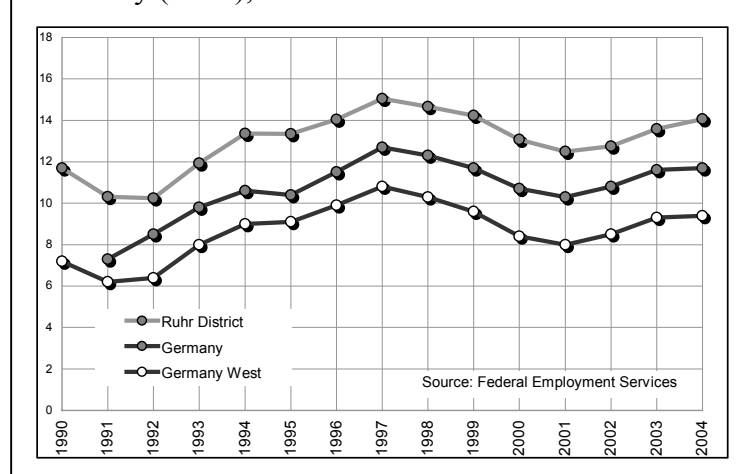
### Dortmund

With approximately 600,000 inhabitants Dortmund is one of the ten biggest cities in Germany and currently the biggest one of the Ruhr District. Similar to the development in the Ruhr District as a whole, Dortmund has faced a radical industrial decline in its core sectors, which are in Dortmund coal, steel, and, additionally, beer brewing. From 1960 to 1997, employment in mining decreases about 13,6% per year, steel 7,0% and brewery 6,0% per year (see figure 4)

### dortmund-project – a brief description

The implementation of the dortmund-project is closely connected with the merger of the big steel groups Thyssen AG and Friedrich Krupp AG in 1997, which leads to the relocation of steel works capacities from Dortmund in the eastern Ruhr District to the Rhine Area in the West. This strategic restructuring was referred as the beginning of the “last period of pervasive structural change” in Dortmund (Küpper 2005: 1). One of consequences was the closure of the most traditional steel works in Dortmund, the Westfalenhütte, by its new owner, the ThyssenKrupp AG.

Fig. 3: Unemployment Rates, Ruhr District, Germany, Germany (West), 1990 - 2004



After negotiations between ThyssenKrupp and the local department for business and employment development (Wirtschaftsförderung Dortmund – WF) the management of ThyssenKrupp agreed to finance a cooperation project between the consultant company McKinsey & Company, WF, and ThyssenKrupp to develop a new regional strategy in terms of business development in Dortmund. The result was an over-all concept with the title “Strengthen the economic capacity of Dortmund by selective

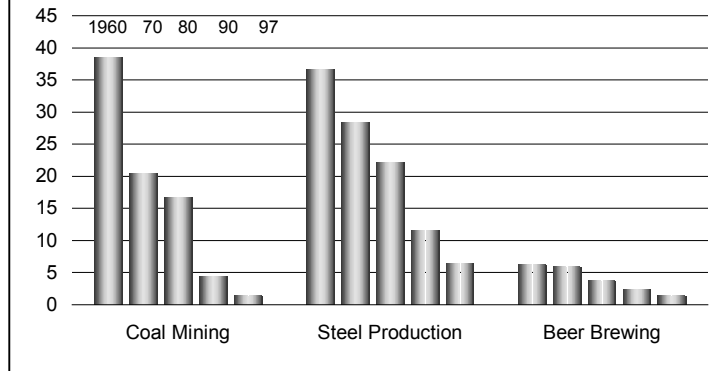
development of economic clusters” – the starting point of the Dortmund-project.

The paper proposed the implementation of a stable project organization to allow a running period about 10 years, from 2000 to 2010. The concept follows the strategy “to strengthen the strength”, hence the paper identifies three sectors with a existing basis in the local economy and a high potential of economic growth in Dortmund. These sectors are software and IT, microsystem technology, and E-logistics. The development of these three “leading sectors” was the basis of most of the activities within the dortmund-project.

The general objective of the project was the creation of 70.000 jobs in Dortmund till the end of the project. In April 2000 the city council of Dortmund decided to implement the project, it started with 18 employees and an annual budget of 5.0 million Euro.

What are the main instruments of the project? An important role plays the implementation of sector-specific technologies and start-up centers, measures of improving a sector-specific occupational training. Another objective is the promotion of the incorporation of companies, among others by the founder’s contest start2grow. The whole concept of economic development was embedded in a general framework of urban development under the name “E-City Dortmund”. From a 2006 point of view it is easy to see that the hype of new economy and e-business round about 2000 effected the selection of sectors and the overall concept of the dortmund-project – the crisis of the new economy afterwards counts as one of the reasons for the disappointments of the dortmund-project.

Fig. 4: Employment by Sector in Dortmund



### The start2grow approach

The creation of new companies and the promotion of start-up activities are one of the

Screenshot of the start2grow business plan tool. Source: <http://www.start2grow.de>

	1st year		2nd year		3rd year		4th year		5th year	
	No. of Personnel	costs	No. of Personnel	costs	No. of Personnel	costs	No. of Personnel	costs	No. of Personnel	costs
1 Planning period										
2										
3										
4 Management										
5 Executive (CEO)										
6 Finances (CFO)										
7 Technology (CTO)										
8 Operations (COO)										
9 Research and development										
10 Engineers										
11 Technicians										
12 Assistants										
13 Production and manufacturing										
14 Purchasing										
15 Manufacturing										
16 Shipping										
17 Marketing and distribution										
18 Marketing										
19 Sales										
20 Service										
21 Administration										
22 Bookkeeping										
23 Personnel										
24 Secretarial										
25 Miscellaneous										
26 Total										
27										
28										
29 Notes on preparation										
30										

main objectives of the dortmund-project. Due two the core objectives of the overall project, most of the activities concerning founding activities aim on the development of the central sectors IT, micro system technologies and e-logistics. In 2001 the start-up initiative within the dortmund-project was launched: With the name “start2grow” it begun under an own label. The start2grow initiative consists of two main instruments, one the one hand a coaching concept for foun-

ders and a founder's contest on the other hand.

- The *coaching concept* is the first column of the start2grow approach; it aims on network building in Dortmund, to achieve a consultancy system which is free for local entrepreneurs. The main idea was to implement a network of unsalaried coaches who have got the task to support local start-up companies. The basis of this approach is the acquisition of local professionals who are willing to support new or young companies in a voluntary way – so-called business angels. The approach succeeded – in-between (2006) the start2grow network contains more than 600 voluntary business angels with a high variety of experience, i.e. marketing, sales, taxes, human resources, IT, etc. Another part of the coaching concept is a mentor system for entrepreneurs. This system shall assure a long-term cooperation between (experienced) business professionals and (young) entrepreneurs.

The coaching concept also includes a system of broad and professional information for start-up companies, like brochures or training programmes. Additionally there are particular software and business tools available for download from the start2grow website as well as an online coaching area.

- The second column of start2grow is the *founder's contest*, an incentive for professionalizing business plans of start up companies. In difference to the coaching and consultancy concept, the founder's contest works on a supra regional level. As most activities within the dortmund-project, the contest considers the strategic sectors of Dortmund, and hence it is divided into three parts: two sector specific contests – IT and micro technologies – and an additional sector-free one. All contests take place annually in two phases: Phase one is an award for elementary business plans with a maximum prize of EUR 2.500; phase two is an award for in-depth business plans, in the latter phase the prize is up to EUR 30.000.

What is the outcome of start2grow so far? All start2grow founders' contests from 2001 until 2004 could mobilize 3.385 participants in 1.390 teams, who submitted 652 elementary and 438 in-depth business plans. The total economic outcome of the contests is impressive: All in all 194 companies have been founded due to start2grow, most of them within the sector-open contest (96), 85 companies according to the IT contest and 13 start-ups of the micro system sector (dortmund-project 2004). The total number of employees of the 194 start-up companies is 751.

Despite the fact the contest follows a supra regional approach, the biggest effect takes place on the local level. Totally 98 companies have been founded in Dortmund, which means a job creation of 363 jobs. The result is that nearly 50% of the economic effects of the contest take place in Dortmund itself. Only 27 foundations or 13.9% are outside of North-Rhine Westphalia, thus the start2grow approach has a clear regional impact.



Part of the publicity campaign of start2grow.  
Source: <http://www.start2grow.de>

## Conclusions

In terms of entrepreneurship promotion, the case of the dortmund-project can be presented as good practice. An important part of the supporting of start up companies in Dortmund takes place by means of start2grow activities. As being part of the dortmund-project, start2grow is not an isolated approach of supporting entrepreneurs – this is a key success factor of this activities. The initiative is embedded in broad and long term strategy of local business development; e.g. one of the advantages of the dortmund-project is the trial of balancing and defining

a sector-specific strategy.

- The dortmund-project counts as a lighthouse project of business development within the Ruhr District. One advantage is the “atmosphere of departure” caused by the project, which is a unique atmosphere compared to all other cities of Ruhr District – even if it takes place despite worse structural economic problems in Dortmund. An important character of the Dortmund approach is the well-defined and professional strategy of communication and advertising dortmund-project activities and additionally the definition of a clear urban vision: “E-City 2010”. On the opposite side pundits complain the “festivalization” of business development which takes place in Dortmund. From their point of view the project aims too much on communication and advertising, thus the approach in practice is too narrow. Actually the economic effects in Dortmund are rather weak. Furthermore it seems problematically that former successful approaches of employment promotion in Dortmund have been abandoned due to the implementation of the dortmund-project.
- In fact the objectives of the dortmund-project seem to be overambitious. Five years after the project launch the local labour market shows that the creation of 70,000 jobs until 2010 is not realistic. Contrariwise the number of employees subject to social security in Dortmund decreased from 2000 (197.214) to 191.801 in 2004 (Source: City of Dortmund). One factor of this development is crisis of the IT sector in the beginning of the 2000 decade, which is the basis line of business in the local strategy.
- In face of problems of the project as a whole, start2grow activities are successful. As we have shown, the outcome is rather impressive. According to the sector specific strategy of the framework, the possibility of being “sector open” becomes a key factor for start2grow: Most of activities in the founder’s contests take place in the sector free part of the award, followed by founders of the IT segment. Another aspect is the combination of regional and supra regional activities – promotion of local networking combined with a supra regional contest. It seems to be a particular result that inspite being regional open, the start2grow activities have a definite regional impact.

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