

Executive Summary

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German Mittelstand - Between Facts and Perceptions

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Executive Summary

The present study provides answers to the question "Mittelstand – what actually is it?" On the basis of a specific survey among enterprises the validity of the qualitative definition of Mittelstand is reviewed. Combined with this is – in a macro-economic perspective – is the question in how far SMEs and Mittelstand correspond and overlap. From a micro-economic perspective, the question arises whether the Mittelstand is characterised by a particular way of decision making and management. The academic definition of Mittelstand is contrasted with the enterprises' own understanding of the main characteristics of Mittelstand companies. Through the combination of academically defined and self-defined Mittelstand we derive the construct of a Mittelstand universe which serves to illustrate the heterogeneity of the Mittelstand.

SMEs do not equal Mittelstand

Mittelstand according to the definition of IfM Bonn is wide spread among micro and small enterprises. With increasing enterprise size, the share of Mittelstand companies in the enterprise population decreases: in the size segment of micro enterprises it amounts to 88 %, among large enterprises to 40 %. Thus, all size segments contain enterprises which classify as "non-Mittelstand" according to IfM Bonn's Mittelstand definition. These companies are seldom organized as Mittelstand in a broader sense, i.e. as independent owner- or family-controlled enterprises with (majority) external management or as independent enterprises which are majority-owned by more than two family lines. Rather, we frequently find in all size segments dependent enterprises which are majority-controlled by another company. In general, Mittelstand is more wide spread in the producing and distributive sector than in service sectors. Thus, in accordance with the empirical results, one can assume that even in the smaller size segments of the enterprise population, SMEs and Mittelstand are not congruent.

Mittelstand in the perception of enterprises

From the academic point of view, Mittelstand is newly created mainly through "de novo" enterprise start-ups, while spin-offs mostly qualify as non-Mittelstand. From a practical perspective, however, enterprises assess this issue differently: spin-offs consider themselves Mittelstand more often than start-ups. Furthermore, with increasing enterprise size and enterprise age, the share of self-defined Mittelstand increases in the enterprise population.

Maintaining independence and autonomy

Companies that consider themselves Mittelstand are in most cases "master in their own home": equity participations by other companies are a very rare phenomenon. External managers are also employed only by every seventh Mittelstand company. However, with increasing age and in the course of generational change, key Mittelstand characteristics are given up. Thereby, the Mittelstand company evolves into a family-controlled enterprise: Here, every fifth company has external managers. In most cases, however, minority owners are in charge of managing the company. Four out of ten family-controlled enterprises have conducted a change of owners or shareholding partners in the last years. In a market economy, ownership and rights of disposal are closely linked with risk bearing and liability. Being liable with one's own private assets remains more wide spread in Mittelstand companies than in their non-Mittelstand counterparts. Despite far reaching freedom of decision making and independence, the Mittelstand nevertheless faces market constraints. However, also in this respect, the Mittelstand proves to be less dependent on specific market partners and thus asserts its independence more strongly than non-Mittelstand companies.

Unity of ownership and management shapes strategic decision-making processes

The Mittelstand's strategic decision-making processes still reflect the unity of ownership and management: Mittelstand entrepreneurs discuss important business decisions with close family relatives – in non-Mittelstand companies strategic decisions are mostly taken after consultations with contractually bound persons. By contrast, Mittelstand and non-Mittelstand hardly differ with regard to strategic behavior and strategic positioning. The minor differences result less from typical Mittelstand ways of behavior but rather from structural features such as enterprise size. As a consequence, characteristics often regarded as typically Mittelstand such as a more intuitive strategic behavior and less strategic orientation in general can be revealed as a myth.

Definition versus self-defined

Academia and business community have strongly diverging views on the Mittelstand. With the construct of a Mittelstand universe, we unite both perspectives and distinguish different sub-populations which result from congruent (intersection) and diverging delimitations (difference quantities). These subgroups include the "consistent Mittelstand" (where defined and self-defined Mittelstand overlap); the non-Mittelstand which considers itself Mittelstand –

although based on the qualitative Mittelstand definition it does not belong to it ("perceived Mittelstand") and the Mittelstand which does not feel as Mittelstand but by definition is part of it ("perceived non-Mittelstand"). Those companies which are neither by definition nor by self-perception Mittelstand are called "enterprises outside the Mittelstand universe". Strikingly, the perceived non-Mittelstand can be characterized as small, young and operating in rather "modern" economic sectors. The perceived Mittelstand consists of large, older enterprises which work in more traditional sectors of the economy.

Defined delimitation, values and organizational form as particular features of the Mittelstand

All groups with the exception of the perceived Mittelstand highlight independence as a key qualitative Mittelstand feature. In addition, consistent Mittelstand and perceived non-Mittelstand also consider the unity of ownership and management as a decisive characteristic. All sub-groups agree that the Mittelstand is characterized by a specific set of values. Furthermore, the earnings from the entrepreneurial activities should be sufficient to secure the livelihood of the owners. This item is regarded as an important Mittelstand feature by all sub-groups with the exception of the perceived Mittelstand. Thus, the empirical results confirm the characteristics applied by IfM Bonn to define the Mittelstand – independence, unity of ownership and management and no quantitative size limit with regard to annual turnover or employment. However, in contrast to IfM Bonn, the surveyed enterprises set a minimum size threshold at one employee.

Challenge: communication better targeted to the various subgroups of the Mittelstand

The biggest challenge for the Mittelstand policy is the targeted communication with the different subgroups of the Mittelstand. For example, the self-employed who was regarded as a classic example of the Mittelstand by traditional Mittelstand policy makers, nowadays does not consider himself Mittelstand anymore. As a consequence, he does not perceive Mittelstand policy as relevant for himself, nor can Mittelstand policy measures achieve an impact here. A possible starting point for modern communication policies can be seen in highlighting the contribution of the Mittelstand to society.

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