

# Executive Summary

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## Mittelstand Companion and Promotor of Structural Change

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## **Executive Summary**

The German Mittelstand is often considered as being adaptive to change, innovative and acting as a stabilizing factor for the general economy. The Mittelstand is affected by economic structural change and actively participates in shaping this change. As a synonym for "Mittelstand", the term "small and medium-sized enterprises" (SMEs) is often used. The present study analyses the differences between these two terms. For a better understanding of Mittelstand and SMEs, the categories "enterprise", "entrepreneur" and "self-employed" are of fundamental importance. A literature review traces past and present changes of the terms "enterprise" and "entrepreneur" and their effects on the term "Mittelstand". Moreover, the evolution of the German Mittelstand in interaction with structural change is also depicted. Subsequently, the results of the literature survey are empirically tested as far as possible.

### ***Mittelstand does not equal SMEs***

Mittelstand and SMEs are defined differently. The term "Mittelstand" refers to the specific ownership and management structure of a company. It does not include any limits in enterprise size. For the definition of "SMEs", however, enterprise size is decisive. Official statistical data sources include only insufficient information on the Mittelstand's characteristic (qualitative) elements (management, ownership, economic independence). Therefore, economic analyses which are based on the qualitative Mittelstand definition are rarely conducted. Instead, in order to capture the quantitative and macro-economic importance of the Mittelstand, estimations are usually based on the quantitative SME definition.

### ***Mittelstand is more than SMEs***

It can be shown that the large majority of all SMEs belong to the Mittelstand. However, this does not automatically imply that all non-SMEs (i.e. large enterprises) do not classify as Mittelstand. In fact, approx. one third of large enterprises are Mittelstand companies in accordance with the qualitative Mittelstand definition. Therefore, in IfM Bonn's understanding the term "Mittelstand" includes both, SMEs – as far as they are independent – and large family enterprises.

***Mittelstand requires independence***

The academic discussion of the term "entrepreneur" focuses on the behavior, values, tasks and capabilities of the entrepreneurial person. By contrast, ownership of the means of production is not necessarily associated with entrepreneurship. Hence, one has to distinguish between the entrepreneur in general and the Mittelstand entrepreneur. Nevertheless, there are also – and not only in recent times – Mittelstand entrepreneurs who do not require specific means of production. The self-employed, on the other hand, are identified in accordance with their occupational status and can be distinguished clearly from non-self-employed persons, i.e. from dependent employees. Only entrepreneurs in self-employment can be regarded as Mittelstand entrepreneurs. Thereby, it does not make a difference if the self-employed entrepreneur invests capital or employs staff.

***Entrepreneurship becomes more commonplace and more heterogeneous***

Nowadays, professional activities are not limited to one single type of activity: people can engage in self-employment and in dependent employment at the same time or in alternation. Therefore, the sustainability and permanence of entrepreneurial activities is no longer common practice. Or in other words: the borders and delimitations of entrepreneurial activities are dissolving. Such a process of hybridization can be detected also with regard to the means of production: private goods are used for commercial business activities or are made available to third parties in the share economy. Nevertheless, the share economy cannot automatically be considered as being part of the Mittelstand, since it predominantly focuses on collaborative consumption and not on production activities intended to cover the needs of third parties.

***In the course of structural change the Mittelstand diversifies and becomes more heterogeneous in its smaller size segments***

The new types of entrepreneurship (e.g. freelance work, subcontractors, cooperation in project-related networks) are promoted by technological change (ICT) and decreasing market entry barriers. This leads to a further tertiarization of the economy and to the increasing emergence of very small enterprise sizes: non-employing firms gain in importance, often in the form of part-time or secondary employment. The previously dominant objective of steady company growth does not seem to be compulsory for non-employers. Many operate for

more than ten years in this form. As a consequence, they might also be regarded as "entrepreneurs in their own manpower".

***Which consequences derive from the increasing heterogeneity of the Mittelstand?***

It will be increasingly difficult for Mittelstand research and Mittelstand policy to identify the Mittelstand out of the large variety of entrepreneurially acting economic agents. According to our understanding, the Mittelstand only encompasses those entrepreneurial activities which are conducted in self-determination and under one's own responsibility. At the same time, they have to (be able to) secure the living of the individual. Since individual life concepts are in flux, safeguarding of the livelihood cannot be measured (anymore) solely against the individual income of the self-employed but rather against the entire household income. Also small-scale or temporary entrepreneurship can be part of the Mittelstand. The current SME definition which distinguishes only between micro, small and medium-sized enterprises is therefore too broad – a finer differentiation is needed.

This also implies that the actors in charge of Mittelstand policy have to find a new orientation and new perspectives when thinking about how to reach their target groups and how to communicate their policies. Furthermore, the enlarged understanding of (everyday) entrepreneurial activities raises the question, in how far these individuals actually identify themselves with the Mittelstand and feel part of it: Do self-employed "creative people", liberal professions and "entrepreneurs in their own manpower" regard themselves as part of the economic Mittelstand – or do they have a different self-perception? In addition, the question arises of how to design Mittelstand policy: If Mittelstand policy conceives itself as "Ordnungspolitik" (regulatory policy), then the framework conditions also have to pay respect to the heterogeneity of the Mittelstand: If one intends to support the change towards miniaturization and hybridization, then accompanying measures of social policy are needed. On the other hand, one could also argue that Mittelstand policy can concentrate on enterprises with relevant (macro-) economic effects in terms of employment and value creation.