

# Executive Summary

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## Sales growth and growth thresholds in German firms

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## **Executive Summary**

This paper utilizes German sales tax data to examine the growth rates of all firms in the German economy. In total, we analyze more than 24 million observations within the decade from 2001 to 2010. We confirm the results of other studies and show that smaller firms grow at a faster rate than larger ones. Another finding is that most of firms with sales between 40,000 and 1.5 million € decline or stagnate, while the majority of smaller firms as well as larger firms grow between two consecutive years.

### **Only few firms grow substantially**

Within the observed decade, firms grew by an average of 19.4 %. This is contrasted by the finding, that less than one half of the firms achieved real sales growth. In other words, these firms suffered from stagnation or sales decreases. This reveals that only few firms grow substantially, which results in a highly skewed growth distribution.

The majority of firms with sales within 40,000 and 1.5 million € stagnate or decrease. Very small firms with sales of less than 40,000 € are rarely subject to barriers of growth or the need for reorganization. With increasing size, the need for reorganization increases, which might prevent firms with higher sales from further growth. Firms with minimum sales of 1.5 million €, in turn, are suggested to have implemented all the necessary organizational measures to grow the firm further. For this reason, they are found to be less affected by stagnation or decreases in sales.

### **With increasing size – organizational form have to be adjusted**

Possible reasons for barriers to growth might, for example, be of financial or organizational nature. The complexity of organizational effort might be a prominent explanation approach for the existence of barriers to growth. Management or firm owners have to create or adjust their organizational form with increasing size. Implementation, however, is highly individual. The implementation of new departments might, for example, lead to conflicts among the workforce that might prevent from growth because of overlapping competences. Also the (perceived) job insecurity of a merging process might freeze productivity and firm growth. We expect the highest need for organizational change in firms that need to hire their first employees or have to establish their organizational form. This seems to be evident in firms with sales between 40,000 and

1.5 million €. In larger companies, the structures are more likely to be established and responsibilities are clearly defined.

### **Self-reflexion ist regularly necessary**

What might prevent from declines in sales? Firm owners and management might evaluate their situation continuously over time. As the process of self-reflexion is time consuming, associations and policy makers might prepare a questionnaire that helps to self-evaluate the situation. In case that the questionnaire indicates possible (future) challenges, the firm owners and managers might contact the corresponding association and request some informal help. The questionnaire as well as the service offer of associations might reduce the time-consuming process of self-reflexion.

Schneck, S.; Werner, A.; Wolter, H.-J (2015): [Umsatzwachstum und Wachstumsschwellen deutscher Unternehmen](#), IfM Bonn, IfM-Materialien Nr. 240, Bonn.