Executive Summary

Investment behavior of small and medium-sized enterprises

Chrstian Dienes, André Pahnke and Hans-Jürgen Wolter

IfM-Materialien Nr. 268

Executive Summary

Using balance sheet data from 2005 to 2014, the paper empirically investigates the investment behavior of German small and medium-sized enterprises (SMEs). One thematic priority is the question whether SMEs invest relatively less than larger companies and - if so - whether such a situation is problematic from the firms' perspective.

SME invest comparatively less and more irregularly

The net investment ratio is higher in large enterprises than in SMEs. A large number of SMEs show negative net investment ratios; i.e. their investments do not compensate the depreciation of their assets. In general, this result holds for all industries. Moreover, the ratio of net investments to depreciations yields similar findings. This implies that many SMEs have reduced their capital stock during the observation period. This is especially the case in micro enterprises in the years after the financial crisis. This can be partly explained by relatively irregular investment patterns which are typical for SMEs and, taken by themselves, cannot be interpreted as a lack of investments.

Due to their economic success, they have been able to increase their economic independence

In general, the relatively low investment activity of SMEs does not translate into a poor economic performance of SMEs. Their return on equity is much higher than in large enterprises. Especially, micro and small enterprises generate very high cash flows relative to their equity capital which substantially improved their equity ratios. Therefore, they are likely to be better prepared to finance future investments with their own equity capital. Consequently, their economic independence has also increased.

The impact of economic policies is limited in the short run

The investment behavior of companies does not significantly differ with respect to the economic situation at the regional level. Assuming that prosperous regions provide better economic and legal framework conditions (lower local taxes, better infrastructure etc.), the results suggest that the leverage of economic policy to foster companies' investment activities tends to be small in the short run. Instead policy makers should rather follow a long-term and growth oriented economic policy.