

STUDY OF THE IMPORTANCE OF SMES FOR THE GERMAN MARKET AND THEIR CURRENT CHALLENGES

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Abstract

This paper describes the changes of SMEs in Germany and their importance for the German and European market. The development of SMEs in Europe will be analysed and the current burdens and challenges will be defined. This paper will further describe the support of the German government and European Union for the SMEs. The objective aimed at was to describe the current situation and analyse the importance of SMEs for the German and European market. We analysed the available data of the European Commission and Institut für Mittelstandsforschung to compare the strength and weaknesses of German SMEs with the European average. The research showed, that the German SMEs are a big strength for the Germany economy, but have lost their leading role compared with the European average in supporting entrepreneurship and reducing the administrative burdens for the SMEs. The study highlights the past and current support of the European Union with the Small business act and the national support of the German government. A description of the planned further actions of the European Commission and the German government will be given at the end of this paper.

Keywords

SME, European Union, Small business act, German market

JEL Classification

L 22, L26, L53, M13

Introduction

The importance of small and medium sized enterprises in Germany has increased in the last years. Since the 1870s SMEs are a fixed asset of the German market with some ups and downs. In this article, the importance of SMEs for Europe and especially for Germany will be analyzed and the actions of the European Union and German government to support the SMEs in Europe will be explained.

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1. A Brief History of German SMEs

SMEs have a long tradition in Germany and were, for example, mentioned by Schmoller (1870) as an important factor for the German market and were responsible for innovations. During the industrialization they lost their good reputation and were seen as a burden for the German industry due to their limitation in production quantity and the low possibility of investment in innovations compared to bigger companies. Schumpeter (1942) stated that the bureaucratized industrial mass production companies [...] will consume the small and medium sized companies (Knorr, Lemper, Sell and Wohlmuth, 2006). Compared to large companies the SMEs are self-regulating and stabilizing system. Wilhelm Röpke (1948) saw further the high potential of innovations developed by the SMEs and their big advantage in flexibility compared to big companies.

2. Definition of SMEs

The recommendation of the European Commission of 6 May 2003 defined different types of Groups in the SMEs shown in Table no. 1.

Table no. 1 Definition of SMEs

Type size of company	Number of persons	and	Turnover per year Euros	or	Balance sheet total in Euros
Micro	Less than 10		Up to 2 million		Up to 2 million
Small	Less than 50		Up to 10 million		Up to 10 million
Medium	Less than 250		Up to 50 million		Up to 43 million
Large	More than 250				More than 50 million

Source: European Commission, 2016. Evaluation of the SME Definition, p. 8

Enterprises of the group “micro” have less than 10 employees and a turnover less than 2 million Euro per year. Alternatively they have less than 10 employees and a balance sheet total of maximum 2 million Euros. The second group is named “small” companies, which have less than 50 employees with a maximum turnover of 10 million Euros or a maximum balance sheet value of 10 million. Medium-sized enterprises are defined as less than 250 employees with a maximum turnover of 50 million Euros per year of a total balance sheet value of 43 million Euros.

3. Current Situation of SMEs in Germany

In the following chapter, the importance of the SMEs for the German market will be explained and compared with the importance of SMEs for other European members.

3.1 Importance for the German labor market

In 2012 the German small- and medium-sized enterprises have employed 62.5% of the German labor. The German SMEs have an employment under the average of the EU-28. But it should be taken into account that with ~16,500,600 jobs the German SMEs provided more than 18% of workspace in the EU-28 states. The *Statistisches Bundesamt, in Wiesbaden (2015)* published the labor statistic 2013 for the German market. 60% of the 26.4 million jobs are supplied by the small- and medium-sized companies in Germany. Due

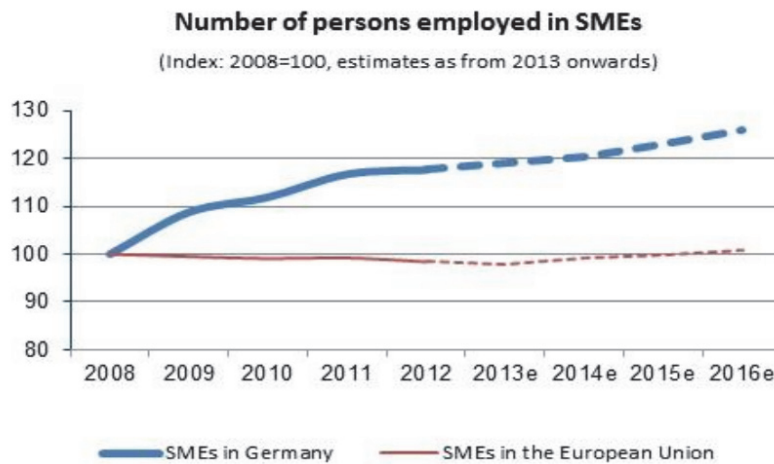
to the fact, that the statistic 2012 and the one from 2013 are made from two different institutions the result has be validated, but the percentage of jobs supplied by large enterprises has increased by 2.5% from 2012 to 2013 (IfM, 2016) - Graph no. 1.

Table no. 2 Employment by enterprises in the EU-28

	Total (thousands)	SMEs	Micro	Small	Medium	Large
EU-28	133,767	67.0	29.2	20.9	17.2	33.0
Germany	26,401	62.5	19.0	23.1	20.5	37.5

Source: Eurostat, 2015. Number of persons employed by enterprise size class, non-financial

In the SBA report of 2015 about Germany the European Union proved, that the employment in small- and medium-sized enterprises are above the average of the European Union. The forecasting is that the percentage of employment in the SMEs will increase in 2016, but in Germany the creating of jobs will continue to reach a level of nearly 130% compared with 2008.



Graph no. 1 Number of persons employed in German SMEs

Source: European Commission, 2016. N2015 SBA Fact Sheet Germany, p. 1

3.2 Value adding of SMEs

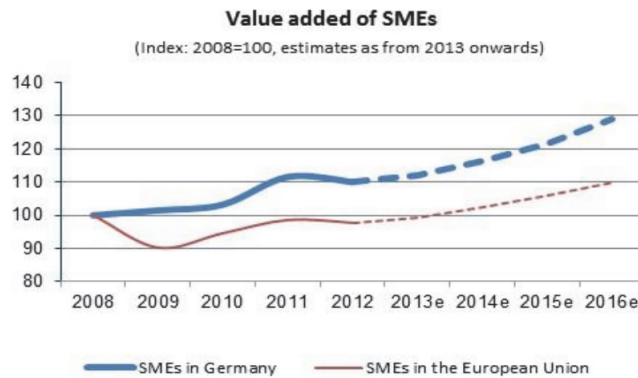
Analyzing the value adding of enterprises in the EU-28 – Table no. 3 - it is visible that German companies were able to add the most value in 2012, but the shares of SMEs were only 53.3%. Compared with the EU-28 this is 4.2% lower than average of 57.5%. Taking into account the total figures, the German small- and medium-sized enterprises have added a value of 738,472 million euro in 2012, which is more than 20% of the value added of all EU-28 SMEs and nearly 12% of the EU-28 total value added by all enterprises.

Table no. 3 Value added by enterprises of the EU-28

	Total (EUR million)	SMEs	Micro	Small	Medium	Large
EU-28	6,184,825	57.5	21.0	17.8	18.3	42.5
Germany	1,385,501	53.3	15.1	18.1	20.2	46.7

Source: Eurostat, 2015. Value added by enterprise size class, non-financial

The long time statistic of the European Union published in the SBA-report 2015 describes the change in value adding of SMEs in the EU compared with the changing of the German SMEs since 2008. The forecasting is that the SMEs in the European Union will show a value adding of nearly 110% in 2016 compared to 2008 - Graph no. 2. The German SMEs will reach a level of nearly 130% in 2016 compared to 2008.



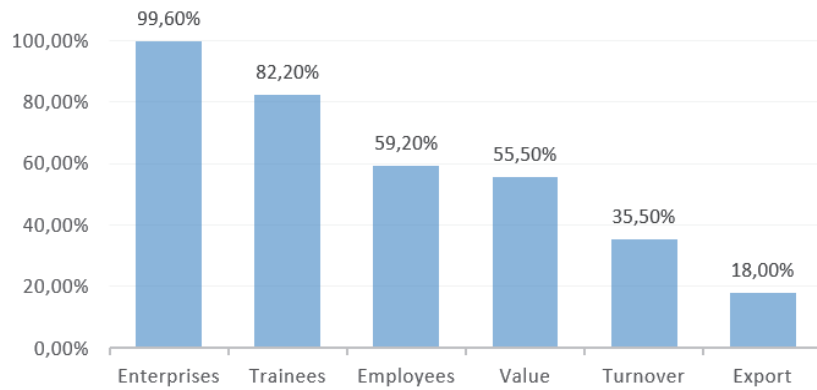
Graph no. 2 Value added of German SMEs

Source: European Commission, 2016. N2015 SBA Fact Sheet Germany, p. 1

In 2012 the small and medium sized enterprises have increased their turnover by 1% nevertheless the large enterprises were able to increase their turnover by 4%. (IfM Bonn: Mittelstand im Einzelnen, 2016).

3.3. Contribution of the German SMEs to the German market

The IfM (2016) in Bonn stated that in 2012 99.6% of German enterprises were categorized as SMEs. They employed nearly 60% of the total German labor and were able to add 56.5% of value - - Graph no. 3. The low percentage of shares of overall turnover shows, that 0.4% of the German companies are able to generate 63.2% of overall turnover. As a big part of the social responsibility the German SMEs are employing 82.2% of all trainees in 2013 (IfM Bonn, Mittelstand im Überblick, 2016). In 2013 the number of employed people by SMEs has increased to more than 60% to 26.5 million employees, but the in the same time the amount of SMEs has reduced by 0.3% to 99.3% of all companies in Germany.

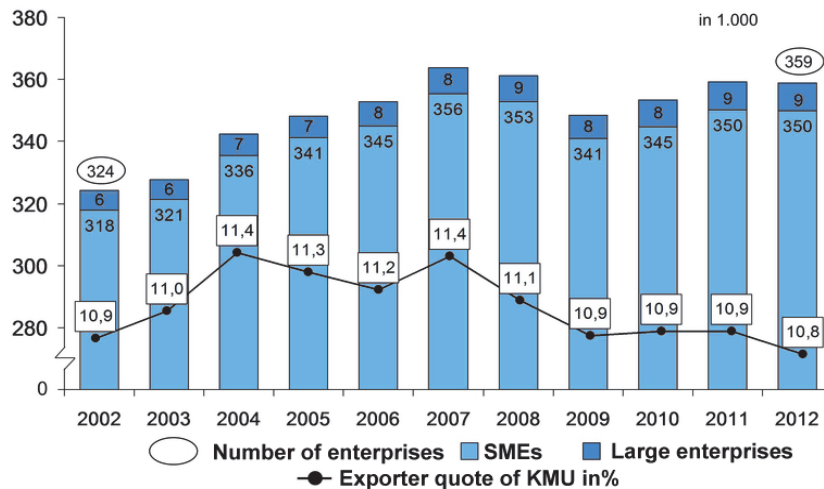


Graph no. 3 Shares of SMES in Germany

Source: IfM Bonn, 2016. *Mittelstand im Überblick*,

3.4 Importance of the SMEs for the German export

From 2002 to 2012 the numbers of companies which are exporting have increased from 324,000 to 359,000 with a small decreasing between 2007 and 2012 - Graph no. 4. The amount of large companies, which are exporting, has increased by 50% from 6,000 to 9,000 but the amount of SMEs which are exporting to other countries has increased from 318,000 to 350,000 which is nearly 10%. The quote of SMEs that are exporting has increased between 2002 and 2007 from 10.9% to 11.4% but during the last years, it continuously decreased to a level lower than 2002, 10.8%.



Graph no. 4 Exporting German companies between 2002 and 2012

Source: IfM Bonn, 2014. *Mittelstand im Einzelnen*, based on *Umsatzsteuerstatistik 2014* of the Statistisches Bundesamt

The IfM (2013) published the results of an empirical survey created with the results from 827 surveys. The interviewed companies stated that one problem is to overcome the bureaucratic burdens for starting to export in the European Union, like taxes and customs. Another big topic for European internal trade is the covering of financial risks for trading with companies and customers abroad and the difficulty to identify opportunities in distance markets. In emerging markets the legal certainty, corruption and unfair competition practices and political instability are higher risks. (Kranzusch and Holz, 2013).

4. The Small Business Act (SBA) for Europe

The European Commission considers SMEs and entrepreneurship as key to ensuring economic growth, innovation, job creation, and social integration in the EU and sees them as the backbone of Europe's economy (European Commission, Growth, 2016). Therefore the European Commission (2008) published the Small Business Act for Europe as a part of the Europe 2020 plan. The main targets of the Small Business Act are (European Commission, 2016):

- **Promoting entrepreneurship**

By educating young people about entrepreneurship for example with the Erasmus for Young Entrepreneurs started in 2009 from which more than 2,500 entrepreneurs have benefitted. The European Commission is increasing the attractiveness of start funding its own company. Further, the European Commission is highlighting the opportunities and reduced the administrative requirements and burdens for small and medium sizes enterprises;

- **Less regulatory burden** - for reaching the target of reducing regulatory burden in the European Union different groups are involved: European Parliament, European Council, European Commission, Member states. With the Regulatory Fitness and Performance Program, the European Commission is taking action to make EU law simpler and reduce regulatory costs. The program reduced complexity and costs in different areas like electronic VAT invoicing which saved business up to 18 billion euro a year or the REACH - Chemical Legislation that reduced registration fees for SMEs by 35% to 95%;

- **Access to finance** – Between 2007 and 2013 the CIP (Competitiveness and Innovation Framework Program) helped with a budget of over 1 billion euro over 340,000 SMEs to get access to loans and equity finance. One target of the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) is to simplify the access to guarantees, loans and equity capital for small and medium-sized enterprises. The program is planned to run between 2014 and 2020 with a total budget of 2.3 billion euro;

- **Access to markets and internationalisation** - the fact that only 25% of the small and medium-sized enterprises in Europe are exporting to other countries and an even lower amount of companies are exporting abroad the European Union's border lead the European Commission to help SMEs to overcome the struggle of exporting. In November 2010 the EU opened the EU SME Centre in China to help European SMEs to access the Chinese market faster, but there is also a big potential in the BRIC countries which is covered by 7% - 10% by the EU SMEs (European Commission, 2011). The review in 2011 developed, that there has been an improvement, but that there is still a big potential;

- **Promotion of innovation and research with the HORIZON 2020 program** - the HORIZON 2020 program combines the FP7, which was the European Union's Research and Innovation funding program for 2007-2013, the Competitiveness and Innovation Framework Program (CIP) and the European Institute on Innovation & Technology (EIT). The program has three pillars and contains a total budget of 69 billion euro of which 20% should be used to stimulate the innovation and research in small- and medium-sized companies (Enterprise Europe Network, 2016).

4.1 SBA Profile of Germany

The SBA profile shows the strength and weaknesses of the German SMEs compared to the EU average. The German SMEs are competitive in nearly all areas except the Entrepreneurship and the responsive administration. The German SMEs politics is complying the EU regulations, but the following actions are currently discussed to improve the situation in the German SME market. As the SBA profile of Germany shows there are some areas in which an improvement is possible for the German small- and medium-sized enterprises. Therefore the German government is taking action to increase the competitiveness of the German SMEs in the global market. The policies and laws in Germany have been improved to also meet the desires of SMEs, but other member states were able to improve quicker and therefore take the lead in this area. The government adopted a list of 21 actions to contribute a better regulation and to simplify administrative procedures for SMEs in Germany. The administrative work for micro and small companies can be improved compared to other EU member states, which can be shown in the 2015 SBA Fact Sheet of the European Commission. The target is to reduce the administrative burdens for SMEs and especially for start-ups so that they are able to focus on their main work. This should be reached by raising thresholds accounting rules and implement online registration for companies. Cutting red tape and easing company interaction with the administration, should further reduce administrative burdens and was adopted in summer 2015 (European Commission, 2016). The performance in the area of entrepreneurship of Germany is in line with the EU average. One reason for a dramatic drop in supported start-ups from 146,500 in 2010 to 31,500 in 2014 was the cut back of the program which supported unemployed during the first month of their new business. To increase the funding of new enterprises the government implemented programs to bring the idea of starting an own business to the schools and bring successful CEOs to hold seminars at schools and universities. The financial background of the EXIT program has been tripled. The idea of this program is to financially support technology- and knowledge-based companies in the pre-start-up and start-up phase.

Conclusions

Due to the big contribution of the small- and medium-sized enterprises the German economy has a high dependency to them. This is based on the more than 59% of employment in Germany, the 35.5% of the total German turnover and the fact that more than 82% of the German trainees are employed by the SMEs. As the German government, the other EU member states are working on their policies, laws and regulations and are able to catch up with the suggestions of the European Commission. If the actions of the German government are enough to protect, support and stimulate the market for SMEs will be seen in the next years. It will be interesting to study the changes and developing of national and

international competition. In 2015 652 companies have been bought partly or completely by foreign investors (Spiegel Online, 2016).

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