

The backbone of the German economy

Family-owned firms in Germany

By Frank Wallau

The vital importance of SMEs and family-owned companies to the German economy is well known. Particularly in the age of the global economy and large multinationals, firm roots can be a distinct advantage. Managers of family-owned companies have the flexibility to respond quickly as the world around them continues to change.

The German term "Mittelstand" is often used as a synonym for SMEs (small and medium-size enterprises). It is true that many SMEs are also family-owned (Mittelstand) companies, but the actual definitions differ. The term SME is based on quantitative criteria. A company is assigned to a particular category based on the number of employees and/or the size of the company's turnover. Other criteria including value-add, total assets or equity capital could also be applied. In contrast to this definition, ownership structure is the differentiating feature of family companies, creating a distinction between SMEs and this type of company.

The IfM institute in Bonn defines SMEs as companies with fewer than 500 employees or 50 million euro turnover. However based on a recommendation issued by the European Commission, the

EU uses different criteria. Since January 1st, 2005 SMEs have been defined as companies which:

- do not have more than 250 employees
- do not have more than 50 million euro annual turnover or which have total assets less than 43 million euro.
- are (largely) independent.

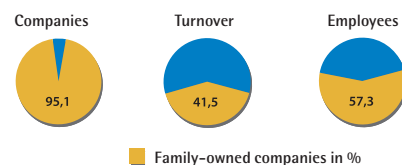
Companies which belong to corporate groups are not SMEs, because they fail to meet the independence test.

In contrast to SMEs, the definition of family-owned companies is based on qualitative criteria without reference to size. The convergence of ownership and management characterizes this group of companies. The owner or a member of the owner's family manages the company. Because the same person is making the management and ownership decisions, the company can respond quickly to the changing business environment.

The economic importance of family-owned companies

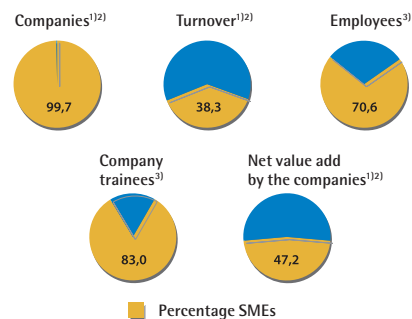
Data which is currently available based on the German Registry of Companies shows that there were about 3.47 million companies in the country in 2005. These companies had a total turnover of 4.4937 trillion euro, and the 3.46 SMEs accounted for 1.8186 trillion euro of that figure. According to IfM estimates, the number of companies has now risen to 3.6 million, primarily because in recent years the number of new company registrations has exceeded the number of companies that have shut their doors. 95 per cent of these firms have the convergence of ownership and management which is characteristic of family-owned companies. Only 0.3 per cent of companies in Germany are large companies. Around 99.7 per cent of all companies in Germany were SMEs. These firms accounted for 38.3 per cent of total turnover, and they employ 70.6 per cent

Proportion of family-owned companies in Germany 2005



Source: German Federal Statistical Office, various statistics, IfM estimates

Proportion of SMEs in Germany 2007



¹⁾ SME definition based on turnover

²⁾ 2006 figures

³⁾ SME definition based on number of employees

Source: German Federal Statistical Office, German Labour Market Authority, IfM figures 08-2008

of all persons who were required to pay social insurance contributions. Family-owned companies are particularly diligent in meeting their responsibility to provide vocational training. 83 per cent of vocational training in Germany is provided by SMEs. These companies also accounted for 47.2 per cent of total net value add.

According to IfM estimates, 95.1 per cent of all companies in 2005

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were family-owned companies. They employed 57.3 per cent of the total workforce nationwide, and they accounted for 41.5 per cent of total turnover.

Internationalisation of German family-owned companies

SMEs tend to have a regional horizon. An analysis of VAT statistics provides detailed information about the export activities of German companies. In 2006, 345,000 SMEs (turnover less than 50 million) were active in export markets. This means that 98 per cent of exporters are SMEs. It is also remarkable that even small companies are very active in international markets. There are around 257,000 exporters which have a turnover of less than two million euro. One out of nine companies in Germany is active in the export market. This figure may at first not seem very high, but it is important to remember that these statistics include all companies in the country including pubs, restaurants, beauty salons, car repair shops, small retailers, etc. which are normally only active in local or regional markets. A ten-year comparison between 1996 and 2006 shows clearly that the number of VAT-registered SMEs which are active in the export market has risen by 21 per cent

whereas the total number of VAT-registered SMEs only increased by twelve per cent during the same period. This means that an increasing number of SMEs have expanded their activities beyond the country's borders during the past ten years. The VAT statistics also provide information about SME export turnover in 2006. Exports by the approximately 353,000 companies amounted to 920.9 billion euros, which is equivalent to about 18.7 per cent of total turnover by all companies. 345,000 SMEs achieved an export turnover of 185.4 billion euro, which was 9.8 per cent of total SME turnover. To put it another way, one sixth of total turnover by all companies and one tenth of total turnover by SMEs is achieved in export markets. Many family-owned companies, especially those in the industrial sector, are export champions meaning that their export quota is greater than 50 per cent.

Unfortunately, government statistics do not provide any information about other forms of internationalisation apart from exports, for example contract manufacturing, international partnerships or company service/production facilities outside the country. According to IfM estimates, more than 100,000 family-owned companies have made direct investment beyond Germa-



One out of nine companies in Germany is active in the export market. Pictured: Feig Electronic Ltd. based in Weilburg.

ny's borders including company sales/service centres, equity holdings, joint ventures or company production facilities. Direct investment is often made to protect existing export markets or to penetrate new markets. This means that exports are an important economic factor for German family-owned companies. Many of these companies have already taken up the challenge of progressive globalisation and are actively exploiting their opportunities in world markets.

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