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Article

The Regional and Sectoral Importance of the German Mittelstand

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The Regional and Sectoral Importance of the German Mittelstand

The Mittelstand model is often seen as a major success factor, as the backbone, or as the growth engine of the German economy. According to the German Federal Ministry for Economic Affairs and Energy (abbreviated as BMWi in German), 99 percent of all German firms belong to the Mittelstand, accounting for more than half of Germany's economic output and almost 60 percent of jobs.¹ It is also argued that the Mittelstand is one of the main reasons why the German economy proved to be comparatively robust throughout the global economic crisis of 2008/2009 (Audretsch and Lehmann 2016).

Against this background, one would expect a lot of empirical research to have been conducted on Mittelstand firms. Somewhat surprisingly, the empirical evidence on Mittelstand firms is rather scarce; this is primarily due to a lack of appropriate data from official sources, which inhibits researchers in correctly distinguishing between Mittelstand and non-Mittelstand firms. In the absence of adequate data, the common way to identify Mittelstand firms is to use the definition of small and medium-sized enterprises (SMEs). This is, however, problematic, as this definition does not incorporate owner management, which is the most important feature of Mittelstand firms. As a consequence, the size of the German Mittelstand is seriously overestimated, resulting in numbers of more than 99 percent, as mentioned by the BMWi. Moreover, a large share of the empirical research officially devoted to Mittelstand firms is in fact not concerned with the Mittelstand, but with small and medium-sized enterprises instead.

In contrast to most other empirical studies, Berleemann et al. (2018 and 2019) focus explicitly on the German Mittelstand by measuring Mittelstand firms as owner-managed SMEs.² Our data is not

based on official statistics, as this is not possible in Germany, but results from a special questionnaire included in the ifo Business Survey in 2016.³ Overall, Berleemann et al. (2018) find that 70.91 percent of German firms belong to the Mittelstand, which is far less than the numbers reported by the BMWi. Based on this finding, we can conclude that the approximation of the German Mittelstand via the definition of SMEs is inappropriate.

Studying the sectoral dimension, we find some variation in the relative importance of Mittelstand firms across the branches of the German economy for which the ifo Business Survey is conducted (Figure 1). The lowest quota of Mittelstand firms is observed in the trade sector (retail sales and wholesale trade, 66.04 percent), followed by manufacturing (72.22 percent) and the service sector (74.05 percent). For the construction sector, we find the largest Mittelstand quota in the sample (77.18 percent).

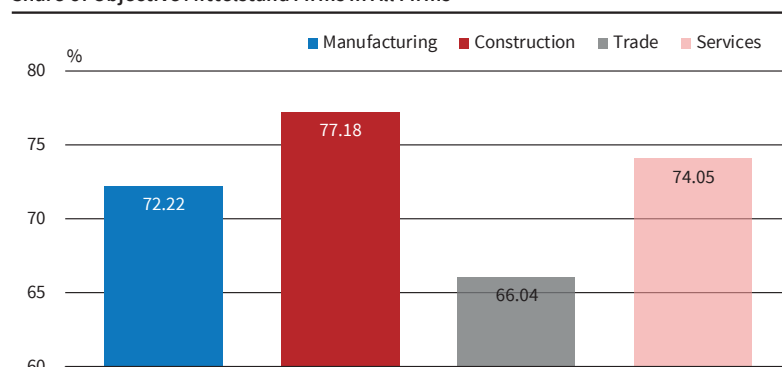
The ifo Business Survey also contains information on the German state in which the surveyed firm operates. This allows us to take a closer look at the spatial distribution of the Mittelstand. Figure 2 shows Mittelstand quotas for all German states except the city states, as the number of surveyed firms here is too small. Compared to the sectoral dimension, the variation across the states is quite large. The difference in Mittelstand quotas between the state with the largest and the state with the smallest quota amounts of almost 28 percentage points. For Schleswig-Holstein (60.97 percent), Saxony (61.61 percent), and Thuringia (62.65 percent), we observe the smallest quotas in the sample of German states. The opposite holds for Baden-Württemberg (76.07 percent), Saxony-Anhalt (82.17 percent), and Mecklenburg-West Pomerania (88.82 percent), which exhibit the largest Mittelstand quotas across the German states.

Two conclusions can be drawn from our investigation. First, it seems unreasonable to approximate

Jahn (2018) measure Mittelstand firms as owner-managed SMEs as well, but use a different dataset than the one we employ in this article.

³ For more details on the methodology and the data – see Berleemann et al. (2018 and 2019).

Figure 1
Share of Objective Mittelstand Firms in All Firms



Source: ifo Business Survey; calculations by the authors.

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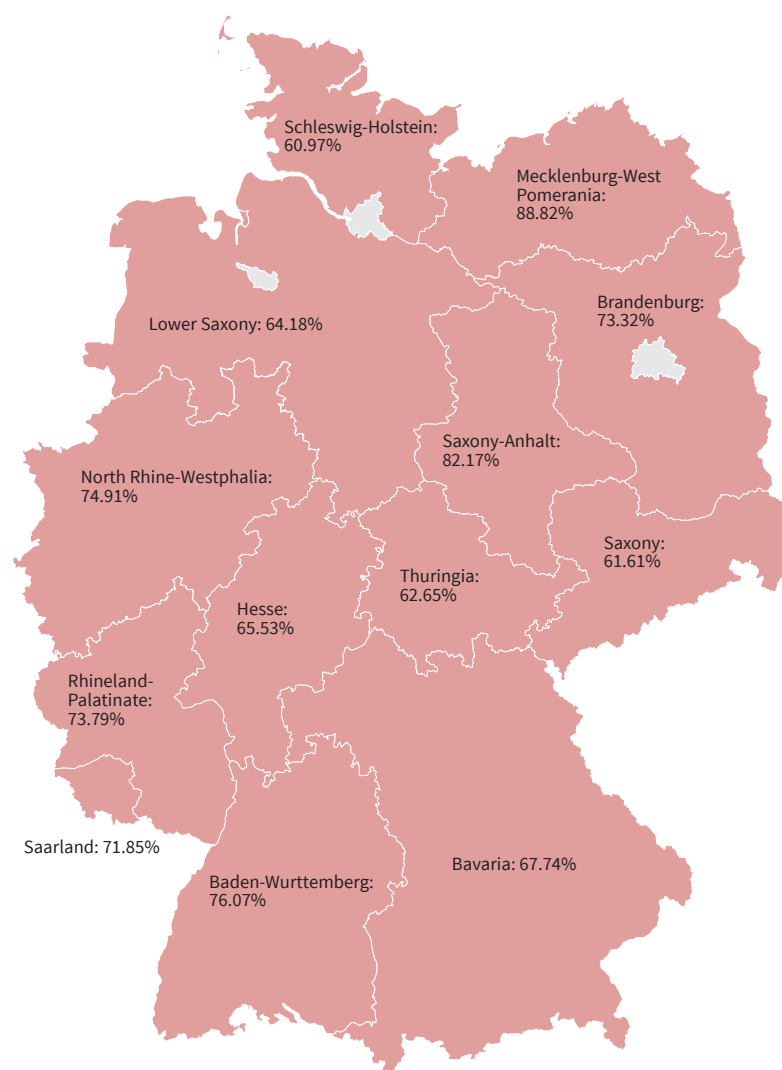
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¹ <https://www.bmw.de/Redaktion/EN/Dossier/sme-policy.html>

² Berleemann and Jahn (2016), and

Figure 2
Mittelstand-Quotas by German States



Source: ifo Business Survey, calculations by the authors.

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Berlemann, M., V. Jahn and R. Lehmann (2019), "Wie ist der Mittelstand in Deutschland verteilt? Eine Analyse mit Befragungsdaten", *ifo Dresden berichtet* 26(1), 23–28.

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the German Mittelstand to small and medium-sized enterprises. While it is currently impossible to construct reasonable Mittelstand measures from official data sources, other data sources such as the ifo Business Survey (based on our set of Mittelstand questions) or the Creditreform Firm Database allow us to identify Mittelstand firms in an adequate manner. Second, there is quite some variation in Mittelstand quotas across sectors and space; this can be exploited to study the relative performance of Mittelstand firms even on the macro level, as it is done in Berlemann and Jahn (2016) and in Jahn (2018).

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