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The societal impact of German Mittelstand: Conceptual considerations

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in collaboration with Stefan Schneck and Michael Holz

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Abstract

This study conceptually explores the societal impact of Mittelstand companies. It aims to analyse the societal role of the German Mittelstand beyond the operational measurable effects (CSR, CC), and to develop a basis for subsequent empirical studies. The societal contribution is understood as the added societal value of economic activity with societal expectations and political objectives forming the framework for the societal added value of enterprises. Due to their specific governance structure, objectives and regional embeddedness as well as their behaviour in times of crises, Mittelstand companies have a special role to play.

JEL: L26, L53, M14

Keywords: *German Mittelstand, SME, society, societal impact, Corona*

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Executive Summary

The study at hand is the beginning of a perennial research. It conceptually analyses the societal impact of German Mittelstand companies. This concept will be empirically tested and refined in subsequent studies.

Societal impact is the additional benefit of economic activity

The societal impact made by Mittelstand companies is larger than can be reflected in the economic results of individual businesses or of all businesses as a whole. It is defined by the societies' normative consensus about what constitutes a good and liveable society. Politics sets the legal framework for the provision of societal impact. Engrained in the German constitution, for example, is the fact that the property use should serve the "common good".

Every economic activity involves societal impact

Every entrepreneurial activity results in an indirect impact to society as a by-product. Its scope however depends on companies' economic results. Companies provide direct societal impact if they are actively involved in a society, irrespective of whether it is because it is laid down in the company's business' objectives or whether it is because the companies are motivated by expected economic gains.

Ownership structures influence the societal impact

The ownership structures of companies do also influence the societal impact. In Mittelstand companies, the personal goals of the entrepreneur play an important role in the orientation of the company. For example, if entrepreneurs attach great importance to striving for independence or for maintaining control over the family business, these objectives may limit the economic success of a company and have a negative impact on its indirect societal contribution. On the other hand, if entrepreneurs focus on social, societal or ecological goals, these goals may result in positive effects on the societal contribution.

Regional anchoring of Mittelstand can be drivers and barriers

Most of the German Mittelstand is closely linked to its location, which can have a positive effect on its societal impact – especially when the companies significantly contribute to the regional development. However, expectations of the regional society can have a negative impact on economic activity if companies place societal engagement above economic activity. This respectively reduces the opportunities to make societal contributions.

Societal impact in times of crises

Crises affect those societal contributions of Mittelstand companies that arise from their economic activities. Sectors that are particularly hard hit by a crisis might restrict their engagement in investments and in vocational trainings. However, at the same time Mittelstand has a stabilising effect on the economy and society during crises: In general, Mittelstand companies keep their employees as long as it is economically viable. Commitment and reliability – values of the Mittelstand – can reduce the uncertainty of market participants. Parts of the population honour this societal impact made by Mittelstand companies by providing support through local initiatives in the current acute crisis.

The societal impact of Mittelstand companies: from concept to measurement

This study develops a concept that captures the multi-layered influences on the contribution of Mittelstand companies in their dealing with societal challenges. In the further course of this project, individual aspects of the impact of Mittelstand companies on society will be empirically investigated, at first, by using prevailing data to offer approximations. Subsequently, the process of societal value creation by Mittelstand companies will be examined in more detail by means of regional case studies. The results are to be incorporated into proposals for the development of new and/or the expansion of existing indicators that record the societal impact, finally leading to recommendations for Mittelstand policy measures.

1 Introduction

More than ever before, the acknowledgement of politics and society towards entrepreneurial activity is becoming visible in Germany. The state and federal governments are supporting Mittelstand companies with a comprehensive package of measures to soften the economic effects of the corona crisis. Likewise, large parts of the population show solidarity with the economy during the crisis. To prevent cultural institutions, local shops, restaurants or fitness studios from closing, members of the public use paid online services, subscribe to the delivery service of caterers, waive legal claims for reimbursement or offer their support as seasonal workers.

All these support measures are important because the Mittelstand makes significant contributions to the economy and society. While some contributions are immediately apparent, such as the supply of goods and services to the population or the provision of jobs and apprenticeships, other contributions only emerge at second glance. Participation in working life facilitates participation in social life and both contribute to the quality of life. This, in turn, has an impact on satisfaction with democracy, which depends to a large extent on the economic situation and the economic well-being of the individual (Decker et al. 2019, pp. 76). In addition, Mittelstand companies can influence societal attitudes. For example, if their workforce is personally, socially and culturally diverse, this fundamental attitude can have a long-term impact on other areas of the employees' lives and can thereby lead to greater acceptance of diversity in society. Undoubtedly, the Mittelstand contributes to mastering societal challenges and to paving the way for grand societal changes (Markman et al. 2019).

Nevertheless, we have only limited knowledge about the contribution of Mittelstand companies to society. This is understandable because, just as a society and Mittelstand are heterogeneous, so numerous and dynamic are the societal challenges and so multi-faceted can be the entrepreneurial impact to societal development.

Oftentimes, the societal contribution is linked to concepts such as Corporate Social Responsibility (CSR), Corporate Citizenship (CC) or more recently, to social entrepreneurship. However, these concepts focus primarily on the measurable effects of societal engagement and thus to the benefits for the individual company. However, the societal contribution of Mittelstand companies goes beyond this.

This is the starting point of our perennial research project. We address the question of what impact Mittelstand companies have when handling the societal challenges of our time. The societal challenges in Germany include the (regional) quality of life, societal participation and cohesion, and ensuring democracy (Decker et al. 2019; Sixtus et al. 2019). This project aims to conceptualise what is meant by the societal impact of Mittelstand companies anew and then examine it empirically. In this study, we present our conceptual considerations as a basis for further progress in this project. We develop a concept that captures the multi-layered influences on the possible contributions of Mittelstand companies in dealing with societal challenges. We first discuss the dimensions of societal impact and determine what societal impact constitutes before outlining the mechanisms through which and under which conditions and circumstances entrepreneurship makes contributions to society. Then, we discuss selected characteristics of Mittelstand companies and their influence on their contribution to society, as well as the question of whether this contribution to society changes in times of crises. Finally, after drawing conclusions we point out starting points for further empirical studies.

2 Dimensions of societal impact

2.1 Societal impact as an added value of the economic activity

Although the impact of companies on the society is often discussed, there is no clear and unambiguous definition. Frank (2012) defines the societal contribution of companies as added value for society. Economics knows three types of value: the exchange value, the value of work and the benefit. While the first two types of value can be determined objectively by price and wage, the benefit is determined on the basis of individual preferences. The societal added value can therefore be understood as the *additional benefit of economic activity*. This benefit is larger for the society than is reflected in the economic result of a single company or the entirety of all companies.

What society perceives as the social added value of economic activity depends on the societal objectives and the basic understanding of what constitutes a good and liveable society. Welfare economics and political economy show that the aggregation of societal goals and societal welfare can hardly be clearly derived from the preferences of individuals. When transferred to societal objectives, this means: Possibly, individual needs will not be considered to the satisfaction of each individual. However, these needs are included into a normative consensus "regarding (1) the rights, benefits and privileges that citizens should (or should not) enjoy; (2) citizens' obligations to society, state and fellow citizens; and (3) the principles on which state and politics should be based" (Mazzucato 2019, p. 340). This normative consensus is not static, but is a result of a continuous negotiation process between the various actors. Happenings such as the nuclear disaster at Fukushima, military conflicts and other various developments such as climate change can trigger societal (and political) change in the short- and medium term, while other changes require more time.

If societal expectations change, (entrepreneurial) behaviour that has been tolerated so far, now becomes uncommon and is sanctioned first by society and later by law. This also changes the contribution of companies to society. For example, child labour was considered "normal" for a long time and was not questioned because it was an economic and existential necessity. For companies, children were cheap labour and reduced labour costs. At the same time, by employing children, they contributed to securing their existence. It was only economic and societal change that contributed to the fact that child labour was

at first restricted and is now banned in many places, in Germany, for example, through the Youth Employment Protection Act (Bönig 2012).

Societal expectations and political objectives are closely intertwined and form the framework for companies' added value to society. Through legislation, politics set the legal framework within which companies generate added value for society. In Germany, Article 14 of the Basic Law stipulates that the use of property shall serve the "public good". The model of the social market economy therefore incorporates both societal and economic objectives (Müller-Armack 1962, p. 11). The right to equivalent living conditions is also laid down in the Basic Law in Article 72, albeit rather indirectly through the federal government's ability to intervene in the legislative powers of the federal states.¹

Public debates and political models reveal further societal expectations. For example, economic and political foundations deal with issues of societal cohesion and participation, satisfaction with democracy and (regional) inequalities (e. g. Arant et al. 2017; Decker et al. 2019; Fina et al. 2019; Pokorny 2020; Sixtus et al. 2019). In politics, these issues are, in turn, addressed by Germany's National Sustainable Development Strategy.² This strategy is based on the 17 global sustainable development goals of the United Nations' Agenda 2030 and makes sustainable development to the official guiding principle of the German government. Guidelines such as intergenerational justice, quality of life, social cohesion and international responsibility explicitly take societal, cultural and ecological aspects into account in addition to economic goals. The German government views the quality of life in particular as an overarching political and societal guiding principle for a policy that "simultaneously pursues economic, societal and ecological aspects". It is, in addition, a task not only for politics and society but also for the business community and all citizens (Die Bundesregierung 2016, pp. 4).

¹ Originally, Article 72 laid down the possibilities for intervention by the state to create "uniform living conditions". This was changed in the course of reunification to "equivalent living conditions" (Sixtus et al. 2019, p. 4).

² See <https://www.bundesregierung.de/breg-en/issues/sustainability/germany-s-national-sustainable-development-strategy-354566>

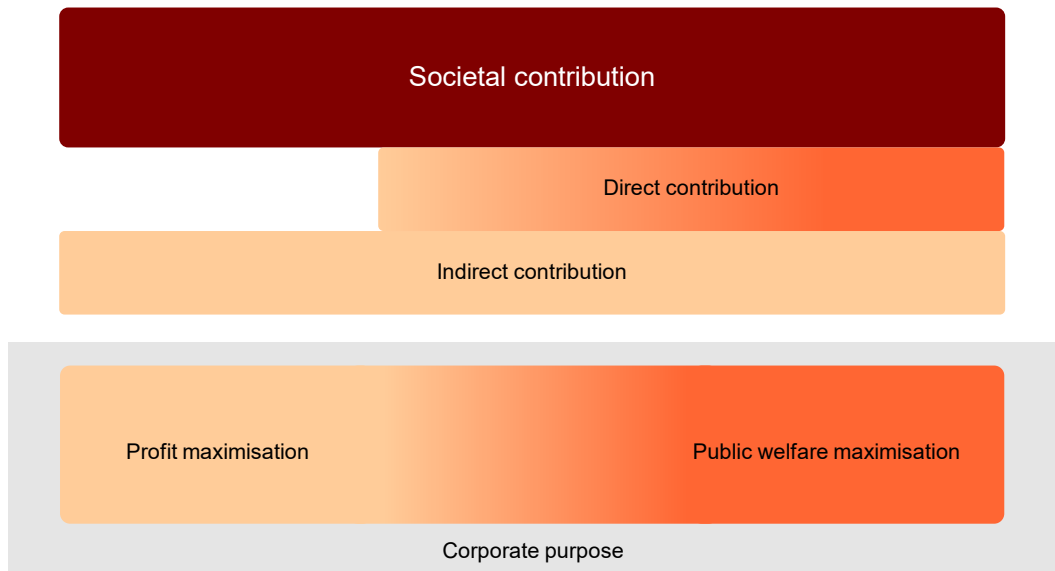
2.2 Societal contribution between the maximisation of profits and public welfare

The implicit demand to the economy to make a societal contribution to the quality of life or equivalent living conditions must, however, be made more concrete. Initially, these guiding principles contain original political objectives. Businesses, on the other hand, must pursue economic objectives. Finally, the survival of businesses is a prerequisite for generating added value to the society. This raises the question of *how* businesses can make a societal contribution in accordance with political and societal objectives. At this point, we base our deliberations on the business level³ and distinguish between two basic mechanisms for contributing to society (directly and indirectly) and as an influencing factor, the corporate purpose with two essential manifestations (profit maximisation and public welfare maximisation) (see Figure 1).

Indirectly, every company generates added value to society. Indirect impacts to society are those derived from the economic activities of businesses. They are, so to speak, by-products and their scope depends on the companies' economic results. This way, companies also contribute to political objectives such as societal participation or equivalent living conditions. If, for example, the distribution of products and services is used by companies to generate profits, it also ensures that individuals are supplied with these products and services. Employees receive an income for their work, which is the basis for consumption and participation in societal life. Qualified vocational training also has both an entrepreneurial and a societal component. Companies cover their need for skilled workers by providing vocational training. At the same time, they lay the foundation for the future career path and thus for the personal life plan of each apprentice. It also reduces their risk of future unemployment and/or low paid employment – and thereby reduces the associated social consequences for the individual and society. Moreover, the corporate culture of companies influences more than just the performance of employees. It can also have an impact on employees' way of thinking and on behaviour in their private lives. This, in turn, affects society and shapes societal norms and values in the long term.

³ Other levels are, for example, the internal and external stakeholders of a company as well as higher-level political and societal authorities.

Figure 1: Corporate purpose and societal contribution



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Source: Own illustration.

Companies whose purpose is to maximise profits make their contribution to society only in an indirect manner. This contribution increases as profits rise. According to Friedman (1970) increasing profits is the sole societal responsibility of those managing directors who are responsible to shareholders. As a contrast to this, Friedman (1970) sees owner-managed companies that can assume social responsibility without major economic losses, since they are only responsible for themselves (and possibly their employees). However, if companies continuously place economic goals above societal goals, this can lead to displeasure and dissatisfaction among consumers and impair profit maximisation. For example, parts of the population disapprove some business practices if they contradict their own values (e. g. factory farming).

We now turn to the second mechanism, the *direct* contribution to society. Depending on whether the contribution to society is defined as the company's purpose or if it is the result of the company's additional societal commitment, direct contributions can occur in gradations.

Companies that are specifically committed to solving social, cultural and/or ecological challenges aim to maximise public welfare as the business purpose, under the ancillary condition that this is done under competitive conditions and

in a market-oriented manner⁴. By making contributions to the society, they generate their economic results, which is, in turn, the basis for further indirect contributions. However, since profit orientation is less pronounced in companies that aim to maximise welfare than in companies that aim to maximise profits, the indirect societal contribution made by the former types of companies could be less than that made by the latter.

Profit-maximising and welfare-maximising companies each represent one pole of an ideal-typical continuum between economic and societal orientation (Shepherd et al. 2019). The majority of companies are clustered between these two poles. Usually, businesses neither fulfil an exclusively societal nor an exclusively economic function. On the contrary, most businesses attach importance to both purposes and are both societally and economically-oriented (Battilana/Lee 2014), albeit to different degrees. These companies also make *direct* contributions to society and do so through additional societal activities. For example, they assume responsibility for their social environment through Corporate Citizenship or Corporate Sponsoring (Icks et al. 2015).

In contrast to welfare-oriented companies, where the societal contribution is a direct result of the economic activity, hybrid enterprises face a dilemma. They have to use additional resources to make a direct contribution to society (Dohrmann et al. 2015). However, the benefits of these welfare-oriented activities may be less than the benefits that would have been achieved if the resources had been allocated to the company's actual purpose. This, in turn, reduces their indirect contribution to society.

The degree of hybridity companies choose and the mix of economic and societal orientation they prefer, depends on, among other things, the motivation of the entrepreneurs or on the interests of the managers and shareholders. If economic self-interest prevails, the company only implements additional welfare-oriented activities that have a beneficial effect on the company's economic results – or those that are required by law, as we discuss in the next section. If philanthropic motivation prevails, any effects of societal engagement on the company are pushed to the back. Entrepreneurs provide a benefit to society without expecting anything in return (Acs/Phillips 2002, p. 190) and, generally, use private resources for this purpose (Harvey et al. 2019). Despite its volun-

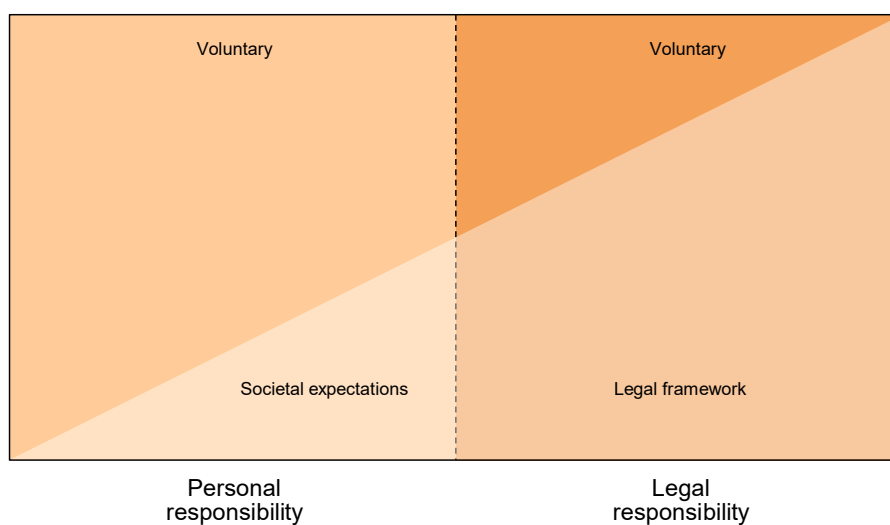
⁴ Thereby, we exclude non-profit organisations and the third sector from our analysis (Maaß/Schneck 2017).

tary and private nature, philanthropic engagement can also be used instrumentally, for example to enhance the legitimacy and reputation of the company (Mickiewicz et al. 2016).

2.3 Societal contribution between voluntary nature, societal expectations and legislation

In this section, we address the *reasons* why companies and the people involved contribute to society. In principle, the reasons for companies to assume responsibility range from the economic responsibility already discussed to the obligation to comply with the legal framework and a personal responsibility of the persons acting (see Figure 2 and Carroll 1979). The enforcement mechanisms behind this are political regulation, societal regulation and self-regulation (McMullen/Warnick 2016), each with different degrees of freedom. For example, societal contribution is made voluntarily by those companies whose management has determined this to be a goal for the company. It is also voluntary in hybrid companies, in which CSR measures are implemented without any obligation, or in the case of philanthropic motivation of entrepreneurs – i.e., whenever a contribution is explicitly demanded neither by law, society nor by the company's shareholders or stakeholders.

Figure 2: Reasons for contributing to society



But even a legal obligation to assume responsibility does not exclude the possibility that entrepreneurs do not assume societal responsibility voluntarily or at least in a benevolent manner, especially if the sense and objectives of the laws and regulations are comprehensible (Holz et al. 2019). Therefore, these motives do not necessarily contradict. For example, compliance with occupational safety and health measures is required by law, while at the same time working in a health-conscious manner is also in the interest of the company and contributes to the quality of life.

Society also expects companies not only to pursue economic goals, but also, to assume societal responsibility (Carroll 1979; Emerson 2003). Accordingly, the society sanctions non-compliance. This thus restricts the voluntary nature of personal assumption of responsibility. It depends on the extent to which companies or the acting individuals (owners, managers) feel morally obliged to make such a contribution. One example is voluntary self-commitment. By refraining from state regulation, companies or their interest groups agree with politicians on concrete goals that are often beneficial to society, such as an agreement to reduce the consumption of plastic bags. This type of cooperation between politics and industry does not rule out the possibility that the voluntary self-commitment will result in a law at a later date. In 2015, for example, the “Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector” came into effect. It aimed to increase the percentage of women on management and supervisory boards. This had been preceded by years of voluntary self-commitments by the business community to the government of the then Chancellor Schröder, but had shown little effect.

Legal requirements and societal expectations, which implicitly presuppose the voluntary commitment of the business community, can also have a negative influence on the provision of contributions to the society. When individuals perceive an external intervention or expectation as control and restriction of their freedom of action and decision-making, their intrinsic motivation declines – especially when such interventions are accompanied by a lack of appreciation for existing engagement (Frey 1999, pp. 443). Conversely, the voluntary engagement of individuals or enterprises in society (Corporate Citizenship, Corporate Sponsoring) can bring back society's lack or declining trust in entrepreneurship (Goldschmidt/Homann 2011). However, it is also possible that societal activities lead to opposite effects. For example, if it is perceived by the public as political influence or if CSR activities are suspected of being "greenwashing"

(Icks et al. 2015): In this case, companies merely convey to their stakeholders that they are acting in a societally responsible manner.

2.4 Positive and negative effects of economic activity

So far, we have assumed that the company's activities have a positive impact on society. However, the effects of business activities are not always positive. Negative effects can occur – sometimes with a time lag – (Baumol 1990; Mokyr 2014), for example, when production-related emissions accompany the production of goods and services. Another example is based on the fact that business growth creates new employment opportunities and in effect contributes to societal participation and quality of life. However, it can also reduce this contribution to society by attracting more employees to the company location and, for example, increasing housing costs.

When considering the contribution to society however, the possible negative effects of economic activity are often disregarded, not only because they may not (or no longer) be attributed to the perpetrator. For a long time, the focus had been on the negative effects of entrepreneurial activity like the exploitation of employees or poor working conditions in newly established companies, while economic and societal effects such as the overexploitation of natural resources or environmental pollution had been neglected, thus overestimating the positive societal contribution of entrepreneurship (Zahra/Wright 2016).

Davidsson/Wiklund (2001) distinguish between positive and negative effects at both the venture and the societal level, thus enabling a differentiated view of the effects of business activity (see Figure 3). Depending on the direction of impact and level of impact, four types of enterprises can be characterised. *Hero* and *catalyst enterprises* positively contribute to society, both directly and indirectly. The former brings new products, services and processes to the market and generates both positive enterprise-related and societal contributions. Even enterprises that fail to stay in the market for a longer period of time add value to the society as catalyst enterprises. This applies when competitors carry on with viable product or service ideas.

Robber enterprises usually act outside the law and enrich only themselves. They harm society, for example, through tax evasion and criminal behaviour. Finally, *failing enterprises* make neither an economic nor a societal contribution. In addition to the (individual) loss of capital, they can also cause further company failures. However, as an adjustment to the originally developed ty-

pology, there is a longer-term added value for society that is certainly possible. This is the case when focus is laid on the failed entrepreneurs. They can, for example, gain experiential knowledge despite of or perhaps even because of the company's bankruptcy and apply it in future (successful) business ventures (Sauka/Welter 2007).

Figure 3: Positive and negative effects of economic activity

		Individual (venture) level outcome	
		⊕ positive	⊖ negative
Societal level outcome	⊕ positive	Hero enterprises <hr/> high economic performance high individual profit	Catalyst enterprises <hr/> fail fast, but competitors carry on with ideas
	⊖ negative	Robber enterprises <hr/> high individual profit negative contribution to economic performance: tax evasion, criminal entrepreneurship	Failed enterprises <hr/> loss of capital possibly resulting in further corporate insolvencies

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Source: Own illustration based on Davidsson/Wiklund (2001, p. 91) and Sauka/Welter (2007, p. 95).

Therefore, the full contribution to society can only be determined when the costs and benefits of economic activity become known and can be weighed against each other. This is particularly important for any subsequent empirical studies we shall carry out since there is often a time lag before negative externalities occur or get noticed.

3 Mittelstand companies, Mittelstand entrepreneurs and societal contribution

So far, we have focused on the societal contribution of enterprises in general. In this chapter, we now turn our attention to Mittelstand companies and their owners. We discuss the extent to which the governance structure of Mittelstand companies, the objectives of their owners, their regional embedding and

the way they deal with crises can affect their contribution to society. In a short excursus, we conclude with a few examples of the contribution of Mittelstand companies in the current corona pandemic.

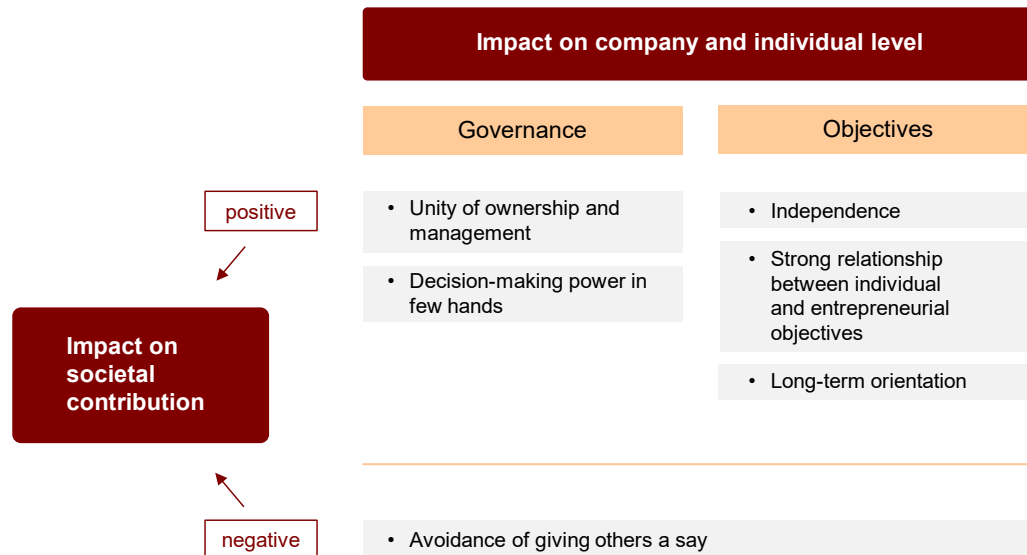
3.1 Governance and objectives

The extent to which relevant societal objectives influence the economic activity of enterprises depends on their ownership structure. In this respect, Mittelstand companies differ from companies that are held in free float and committed to shareholder value (e. g. listed companies). In the latter case, it is primarily business management considerations that determine the implementation of welfare-oriented activities. In owner-managed enterprises, on the other hand, personal objectives have a major influence on the company's goals (Pahnke et al. 2019) and thus also on making a contribution to the society (see Figure 4).

Due to the fact that ownership and management in Mittelstand companies are one and the same, there is no legal and economic dependence on other companies (Wolter/Hauser 2001). Other actors inevitably exert influence on Mittelstand companies, e. g. the family/families of the shareholders as well as stakeholders from the company (e. g. the works council or executive employees) and from the economy and society (e. g. customers, cooperation partners or local politic). Nevertheless, principal-agent conflicts do not or hardly ever occur in Mittelstand companies (e. g. Chrisman et al. 2004; Fama/Jensen 1983). The owner-managers make the decisions. Therefore, it can be assumed that personal and entrepreneurial interests are (largely) compatible. Consequently, entrepreneurial success is also measured by the achievement of personal goals (Wach et al. 2015).

Entrepreneurs of Mittelstand companies regularly refer to "independence" as an important motivation for entrepreneurship (e. g. Brink et al. 2018; Pahnke et al. 2019). Beyond that, the succeeding generation of family businesses aims to secure control in the hands of the family (Hauck/Prügl 2015). As a result, entrepreneurs of Mittelstand companies are eager to retain their decision-making power and avoid giving external groups a say, such as, for example, those associated with certain forms of financing (De Massis et al. 2018). This could have an unfavourable effect on their contribution to society if the preference for independence were to prevent investments, for example, and thus reduce the economic outcome. This would not only reduce the indirect contribution to society but also the resources available for direct social engagement.

Figure 4 Governance, objectives and societal contribution



Source: Own illustration.

The long-term orientation of Mittelstand companies (Lumpkin et al. 2010) could potentially outweigh the presumed negative effects of their quest for independence on the contribution to society. It might have a rather positive impact on the contribution to the society. Long-term-oriented enterprises usually pursue hybrid objectives because they do not focus exclusively on profit maximisation but on sustainable corporate development. De Massis et al. (2018) argue that a long-term orientation is well compatible with ethical and sustainability goals. Our study on the target systems of Mittelstand companies confirms this relationship (Pahnke et al. 2019). If the assumption of social responsibility is a personal concern, managers tend to attach (very) high importance to social, societal and ecological goals at the company level as well. Moreover, if Mittelstand companies do not only count as Mittelstand because of their ownership structure, but also if the entrepreneurs consider themselves as Mittelstand (sense of belonging to the Mittelstand) (Welter et al. 2015), this further strengthens their sense of responsibility (Pahnke et al. 2019). It is to be assumed that this can also have a positive influence on the degree and scope of public welfare orientation in Mittelstand companies.

3.2 The regional embedding of the Mittelstand companies

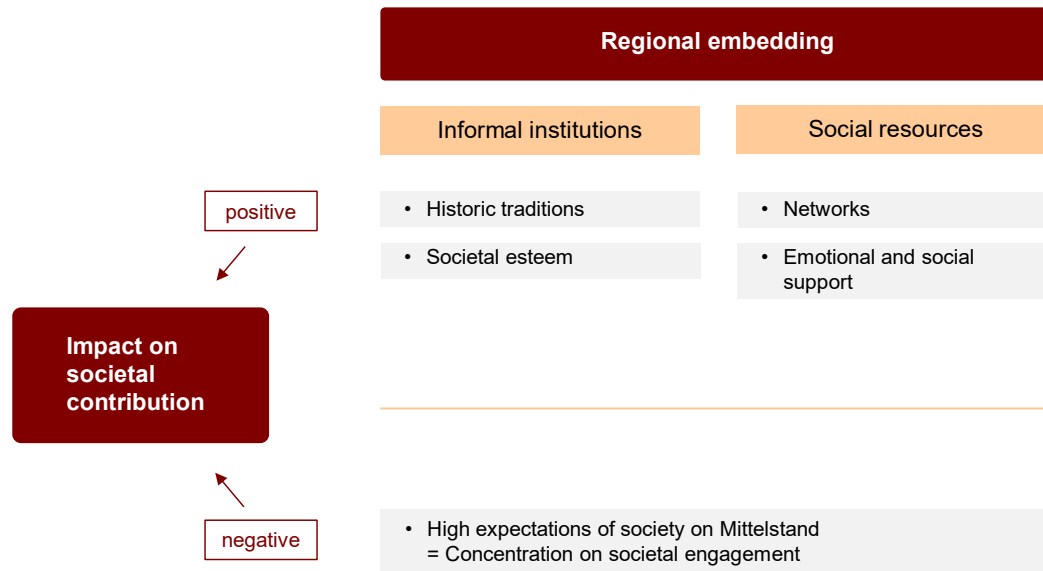
Many Mittelstand companies are particularly attached to their local environment (Astrachan 1988; Pahnke/Welter 2019). The "hidden champions", global market leaders, have often been based in rural or peripheral regions for decades and offer employment opportunities in these areas, sometimes over generations (Simon 2009). In Germany, the majority of entrepreneurs characterises Mittelstand companies by, among other things, their strong commitment to the region (Welter et al. 2015). Business relationships are often based on trust, long-term and partnership-oriented regional cooperation (Holz et al. 2016).

This regional anchoring also affects the societal contribution of Mittelstand companies. Both tangible and intangible factors influence the regional economic activity of Mittelstand companies and their business development and, through this, their direct and indirect contribution to society (see Figure 5). In doing so, we concentrate on the intangible influencing factors and, by following Bijedić et al. (2020) distinguish between informal institutions and social resources.

The informal institutions of a region include societal attitudes and traditions. Fritsch/Wyrwich (2018) differences in regional innovation to, among other things, the respective entrepreneurial traditions. In this respect, studies show that regions with a larger share or higher density of owner-managed companies are fundamentally more innovative than those regions with a lower number (Berlemann/Jahn 2016; Block/Spiegel 2013).

For Mittelstand companies, societal esteem on site is just as important. In combination with social resources such as networks and emotional support, it influences their choice of location (Bird/Wennberg 2014). In consequence of their social embedding, family businesses in rural Sweden, for example, have competitive advantages and generally grow faster (Backman/Palmberg 2015). Social networks support access to personnel and to financial capital and partially compensate for the disadvantages of a peripheral business location (Jack/Anderson 2002).

Figure 5: Regional embedding and societal contribution



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Source: Own illustration.

So far, we have outlined the positive effects of the regional embedding of Mittelstand companies on their contribution to society. However, negative effects which may diminish contribution to society are also conceivable. They are the downside of social proximity (Welter 2011). Social proximity also means social control and could lead entrepreneurs to feel compelled to engage societally. Consequently, they may focus less on the actual purpose of their entrepreneurial activities (Ahlstrom 2010). If this leads to lower income and profits, fewer financial resources are available for societal involvement and at the same time, the indirect contribution to society could decrease (see Figure 5).

This raises the question of the extent to which Mittelstand companies feel compelled to take societal expectations into account, specifically because they are strongly embedded in the region. As a result, they may even suffer economic losses, which, in turn, could have a negative impact on their indirect contribution to society. Preliminary evidence for our thesis is provided by Bluhm/Geicke (2008), who show that philanthropic motives are more likely to play a role in family businesses than in non-family businesses. In this context, family firms more often give reasons for their societal involvement that indicate that they stem from societal expectations. In our empirical studies, we will ana-

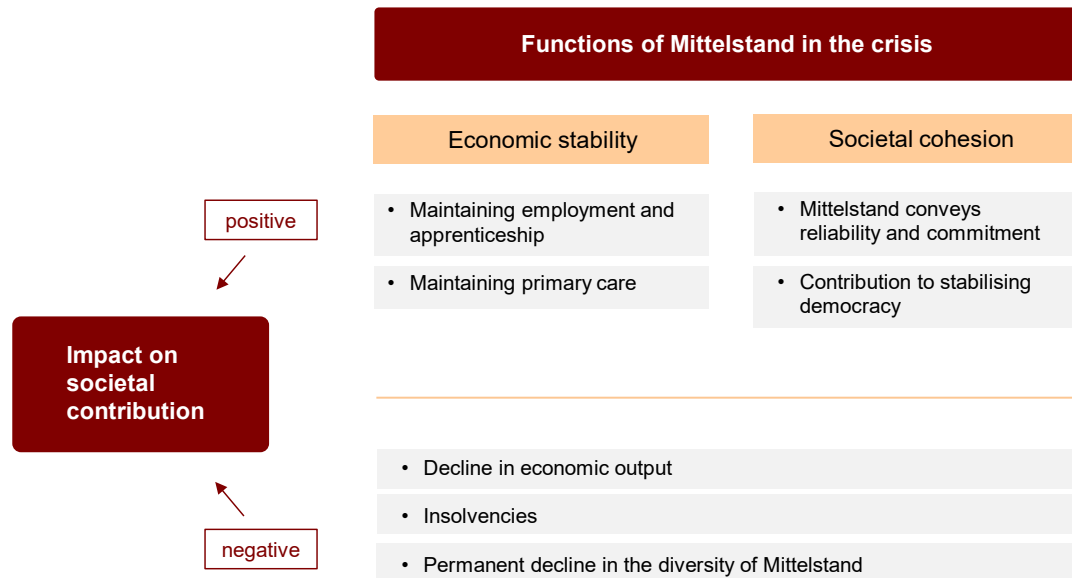
lyse in more detail these possibly counteracting effects of the regional embedding of Mittelstand companies on their contribution to society.

3.3 The functions of Mittelstand companies in times of crises

In times of crises, Mittelstand companies can have a stabilising effect and their contribution to society is more important than ever. At present, the measures necessary to contain the corona pandemic are casting doubt on the promise of prosperity of the social market economy, although both the economy and civil society are accepting (prosperity) losses in order to protect others. On the other hand, it is the idea of the social market economy that has helped make the extensive support programmes possible. At the same time, the societal contribution of Mittelstand companies is under pressure due to economic development. We briefly discuss this tension below (see Figure 6).

Economic stabilisation: During the financial crisis of 2008/09, Mittelstand companies kept their employees for as long as possible (and longer than non-Mittelstand companies) – even at the expense of economic disadvantages (Schlömer-Laufen et al. 2014). This was done both out of a sense of social responsibility and in an effort to retain skilled workers who are crucial to company's competitiveness. Maintaining and/or creating jobs as well as employee satisfaction are, in fact, important concerns for the majority of Mittelstand companies (Pahnke et al. 2019). It remains to be seen to what extent this stabilising function can also be maintained in the corona pandemic (in the longer term). It is possible that the diversity of the German Mittelstand is currently being tested if certain forms of Mittelstand do not survive (see Welter et al. 2014, p. 31) – and, in turn, important parts of their societal contribution.

Figure 6: The functions of the German Mittelstand in the crisis and their contribution to society



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Source: Own illustration.

The consequences of the corona pandemic cannot yet be fully assessed. Undoubtedly, however, they will affect the societal contributions resulting from Mittelstand companies' economic activity. Some self-employed individuals have to cope with income restrictions due to business shutdowns or the loss of side-line activities. Similarly, given the uncertain medium to long-term economic prospects, it is reasonable to assume that the branches that are severely affected will reduce their investment efforts and available apprenticeship positions, as well as challenge some voluntary societal engagements. The economic cut would then be inextricably linked with a loss to society.

Societal cohesion: Insecurity and renunciation (both in consumption and in social behaviour) can cause social tensions. Concern about the personal situation is accompanied by fears for the future. Since one's own life situation affects personal attitudes, the expectation of social decline also influences societal attitudes (Hilmer et al. 2017). Subjective threat situations, such as the threat of loss of wealth and social status as a result of unemployment, can induce people to turn away from established parties (Kneip/Merkel 2020) and turn to populist parties (Hilmer et al. 2017). Particularly in times of crises, values such as commitment and reliability are therefore important – values that Mittelstand

can convey credibly (Welter et al. 2015) because they can reduce the uncertainty of all markets and mitigate negative expectations. In addition, Mittelstand contributes to stabilising democratic structures (Bousbah/Kübler 2016). This way, it also strengthens societal cohesion.

Society's attitude towards companies is also changing. Society is showing solidarity with Mittelstand companies, at least in the acute times of crises. It provides support, particularly in the local environment and generally without expecting any directly payable consideration. Similar acts of solidarity have been described in psychological research as the direct effects of terrorist attacks and disasters (e. g. Drury et al. 2009). In our opinion, this effect can also be transferred to a systemic and global crisis such as the corona pandemic: The common sense gains in importance compared to political incentives; the voluntary societal engagement of Mittelstand companies outside times of crises is rewarded by society in times of crises. It remains to be seen, however, whether these changes in societal cohesion will last and whether economic policy incentives for societally relevant economic activities will thus become unnecessary.

3.4 Examples of the societal contribution of Mittelstand companies in the corona pandemic

In the context of natural disasters, war or terrorist incidents, the many ways in which entrepreneurship can contribute to crisis management have already been examined (e. g. Bullough et al. 2014; Doern et al. 2019; Muñoz et al. 2019). The ability of companies to change, i. e. the ability to react quickly and efficiently to changing conditions, is essential for the successful management of a crisis. This is also evident in the corona pandemic. Mittelstand adapts to the changing market conditions, for example by repurposing production capacities that have become free, by reducing ongoing costs or by adapting the product and service portfolio. According to a recent KfW study, one third of Mittelstand companies have switched most or all of their sales activities to telephone or Internet. In addition, 17 % have adapted their range of services, 9 % have developed a new product range and 7 % have changed their business model (Zimmermann 2020).

Anecdotal evidence – based on media coverage and the experience of the authors – point to the diversity of entrepreneurial initiatives. Even if many measures primarily serve to secure the existence of the company, they also reveal the solidarity of Mittelstand companies with their employees or the (lo-

cal) population. For example, companies in the retail and catering sector are developing new delivery concepts to counteract the decline in turnover due to access restrictions or closures and to secure jobs and income. Other companies have partially restructured their production to meet urgent needs, such as disinfectants, protective masks or components for medical equipment (see Overview 1).

At the same time, society shows solidarity with the companies. This is demonstrated, for example, by the numerous on-site purchasing initiatives. The local population can access the products and services of local companies, freelancers and self-employed persons via newly created online platforms. The crisis also underlines the solidarity within the German Mittelstand, among other things, to reduce costs or to stimulate business. For example, online platforms establish contacts between enterprises in different sectors in order to compensate for staff shortages or to jointly develop required products (see Overview 2).

In particular, the management of complex problems, such as the current corona pandemic, requires the involvement of various actors with their respective resources and expertise (Zaefarian et al. 2015). In doing so, Mittelstand companies themselves provide solutions. Although not all Mittelstand companies will survive the corona crisis well, others are likely to emerge stronger from it. If some measures and cooperations are continued after the crisis and this willingness to experiment is maintained, this can lead to a boost in innovation for the economy and society, with positive consequences for employment, prosperity and living standards.

Overview 1: Crisis-related business adjustments in Mittelstand companies

Bookstores are using the crisis as an opportunity to strengthen their advisory services and sales via telephone and the Internet (e.g. www.parkbuchhandlung.de).

Retail outlets that rely on personal customer contact have also switched to telephone consultation, possibly with video transmission (www.dr-gruber-schuhe.de). Parents can send the outlines of children's feet drawn on paper to Schuhhaus 20. They can also send the current photos of their children's shoes by email or Whatsapp. The retailer sends photos of fitting sizes back to the parents and delivers free of charge (www.schuhhaus20.de).

With the beginning of the lockdown, the catering company Gourmet-Handwerk in Bonn has launched the "rolling lunch table". Instead of supplying events with food, the offer is now mainly directed at private individuals. Ready-to-eat meals are delivered to the home or workplace by parents with care obligations, home office employees or people who do not want to or cannot leave their homes (www.gourmet-handwerk.de).

The increased demand for disinfectants caused the craft brewery Grönwohlder to produce mash, which serves pharmacies as a basis for the production of disinfectants (www.groenwohlder.de).

The company zdrei is involved in a volunteer computing project "Folding@home" at Stanford University and provides unused computing power ("distributed computing") for folding@home. The worldwide networking of free computing capacities supports the collective search for vaccines against Covid-19 and the combating of other serious diseases.

(https://www.ihk-koeln.de/Unternehmen_helfen_Unternehmen.AxCMS#Soft;
<https://zdrei.com>)

The increased demand for protective clothing prompted a number of companies to convert their production to the urgently needed goods. For example, the family business Trigema produces reusable makeshift mouth and nose masks (www.trigema.de).

The mechanical engineering company Lemo from Niederkassel has added special machines for the production of multi-layered plastic masks to its product range, which are in demand internationally. The masks produced for demonstration purposes are given free of charge to charitable institutions, schools and kindergardens.

(www.lemo-maschinenbau.com;
https://ga.de/news/wirtschaft/regional/lemo-entwickelt-maschinen-zur-herstellung-von-masken_aid-52138763)

Overview 2: Enterprises' solidarity

Operators of newly created online platforms encourage the population to support locally based small businesses, freelancers and self-employed (e.g. <https://zusammenhalt.gl/> or www.gemeinsamgegencorona.info).

With the aim of maintaining supply chains for the production of protective equipment, disinfectants and other urgently needed agents, corona cooperation forums bring the offers and requests of companies together.

(For example <https://corona.kex.net/web/rescuesupply>; <https://corona-kooperationsboerse-mv.de/>;

<https://www.plattform-corona-schutzprodukte.de/>;

<https://corona-kooperationsboerse.blogspot.com/>)

At www.teamtausch.de, companies that have a surplus of staff due to low workloads can loan employees to companies with acute staff shortages.

4 Conclusions

Having presented the concept of the societal contribution of Mittelstand companies in this study, we are creating the basis for empirical investigations planned in the future course of the project. We understand societal contribution as the added value or additional benefit that entrepreneurship can generally provide to society. This contribution extends beyond the business and economic effects of economic activity. Even if companies devote to their actual entrepreneurial activities, they indirectly contribute to the material and immaterial satisfaction of the needs of individuals and, to societal welfare. Any entrepreneurial activity can have positive or negative effects on society. From an individual and business perspective, adverse effects of, for example, market exit can be beneficial to both the economy and society in the long term. Other negative externalities of entrepreneurial activity may also only arise with a time lag. As a result, the full contribution of Mittelstand to society can only be determined when the costs and benefits of entrepreneurial activity are weighed up.

This understanding of the contribution to society is more comprehensive than is reflected in concepts such as CSR or social entrepreneurship. It focuses on the multifaceted role of Mittelstand companies in meeting societal challenges. We conceptually show that Mittelstand can play a special role with regard to societally desirable goals due to their specific governance structure, the associated influence of personal objectives on the company, their societal and regional embedding and their behaviour in times of crises. We intentionally leave the size of companies out of our conceptual considerations. Naturally, smaller companies have fewer resources and therefore fewer opportunities to contribute to society. However, it is possible that the qualitative characteristics of Mittelstand outweigh their size-specific disadvantages in contributing to society – this will be a question we tackle in our empirical studies.

Societal contribution is caught between a conflict of voluntariness, societal expectations and legal requirements. The extent to which a Mittelstand company voluntarily commits itself or feels obliged to contribute to society depends not only on its social and regional embedding, it also strongly depends on personal and company-related objectives. The corona crisis in particular has clearly raised awareness both of the importance of Mittelstand in the economy and society and of the importance of society for Mittelstand. Each person, each company and each institution is expected to make "its own" contribution – be it

in the form of temporary company closures, acceptance of short-time work, adherence to social distancing rules or adjustment of social and economic conditions. At the same time, society and enterprises alike are searching for solidarity in finding solutions to the new challenges. The extent to which solidarity and closer societal cohesion, currently discernible, will last, and how this will influence the societal contribution of Mittelstand in future, is also of interest to us in upcoming empirical studies.

This empirical work will be challenging. The societal contribution of Mittelstand, as we understand it, can currently only be statistically recorded and measured in single aspects and in gross simplification. Existing data sources provide us with a basis to empirically investigate single aspects of the societal contribution of Mittelstand companies as approximations. Using regional case studies, we will also investigate in detail the process of societal value creation by Mittelstand. Our interest lies in the assessments of various societal actors on the societal contribution of Mittelstand, possible conflicts that Mittelstand have to deal with in making a contribution to society, and the impact of the corona pandemic on their contribution. The results shall be incorporated into proposals for the development of new and/or the expansion of existing indicators that record the societal contribution of Mittelstand. They shall also be incorporated into recommendations for Mittelstand policy measures.

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