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The societal value creation of German Mittelstand

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Summary

This study explores the societal impact of Mittelstand companies and how it is achieved in a process of collaborative societal value creation. Regional communities perceive different aspects of societal impact, depending on local problems. Economically poorly positioned regions equate it with the economic contribution; if regions are economically well-positioned, the awareness of the indirect impact on the regions increases. A considerable part of the societal impact of Mittelstand companies arises from the interaction with other regional actors, with changing roles of the actors. Prerequisites for this collaborative societal value creation are regional networking and shared regional identities that are reflected in collective narratives on regional development. The exchange between structurally weak regions, now strong Mittelstand regions, and those undergoing structural change provides new impulses for the diverse roles and contributions of Mittelstand companies.

JEL: L21, L26, M14

Keywords: *German Mittelstand, society, societal value creation, societal contribution*

Table of Content

List of Tables, Figures and Overviews	II
Executive Summary	III
1 Introduction	1
2 The societal value creation of Mittelstand companies: conceptual considerations	2
3 Method	4
4 The societal contribution of German Mittelstand: Two case studies	8
4.1 The region with successful structural change: "The Mittelstand keeps the whole thing going here"	8
4.2 The region in a permanent structural crisis: "Many things have to happen"	12
5 The process of societal value creation	18
6 Measuring of the societal contribution and societal value creation	22
7 Conclusions	23
References	25
Appendix	29

List of Tables, Figures and Overviews

Table 1:	Indicators for the selection of regions	6
Overview 2:	Characteristics of the societal contribution of Mittelstand companies	9
Overview 3:	The "doer region" – overcoming crises with its own efforts	10
Overview 4:	Assessments about structural change	14
Overview 5:	The region in transition – contrasting narratives	16
Figure A1:	Interview guide	29

Executive Summary

This study explores the societal value creation of Mittelstand companies. It aims to concretise the societal contribution of German Mittelstand, to analyse the process of societal value creation and the actors involved therein. It does so conceptually and empirically by using the examples of two regions. One region has already successfully completed an economic structural change. Mittelstand companies are now strong and diversified. The other region faces permanent structural crises and is characterised by a small-scale German Mittelstand.

The societal contribution of the German Mittelstand is manifold

The societal contribution of the German Mittelstand is the added value of economic activity and is provided directly and indirectly by this economic activity. These contributions are manifold and contribute to the sustainability and resilience of regions. Usually, economic value creation is a prerequisite for societal value creation. However, the societal contribution is sometimes only marginally related to the economic activity, e.g., when German Mittelstand brings its competences and experiences into regions.

The societal contribution of German Mittelstand varies by regional problems

In structurally weak regions and regions undergoing structural change, it is the economic contribution of the German Mittelstand that is perceived as a contribution to the society. In economically well-positioned regions, there is a growing awareness of the indirect contribution of German Mittelstand to maintain regional attractiveness and competitiveness.

Societal value creation takes place in collaboration between German Mittelstand and the region

German Mittelstand generates a considerable part of its societal contribution in collaboration with other regional actors. This collaborative societal value creation in itself is a societal contribution of the German Mittelstand. Important prerequisites are intra-regional networking as well as a common regional identity that is reflected in collective narratives on regional development. However, these narratives continue to dominate even if fundamental circumstances have changed in the meantime and then hinder societal value creation.

The roles of German Mittelstand and regional community are changing

The collaborative societal value creation thrives on the intrinsic commitment, enthusiasm, and persuasiveness of regional actors. Their respective roles change over time. In the region, that has successfully undergone structural change, Mittelstand is – in the meantime – the central actor of societal value creation and the regional community is mainly supportive and a passive beneficiary of societal contributions. In the region of permanent structural crises, the regional community – still – has a much more active role, as Mittelstand structures have yet to be further strengthened.

Measuring the societal contribution and societal value creation remains a challenge

At present, collaborative societal value creation is not quantifiable and measurable. Also, the diversity of societal contributions makes measurement more difficult. As an approximation, indicators can be used that depict individual prospects and societal participation in the region.

Increase the visibility of the societal contribution

It is important to communicate the complexity of the German Mittelstand's societal contribution as well as the importance of collaborative societal value creation for the transformation of regions. An exchange between those regions that were structurally weak but are strong now in terms of the German Mittelstand and those currently undergoing structural change can provide new impulses for the diverse roles and contributions of the German Mittelstand.

1 Introduction

In view of the global challenges, there is a growing awareness that socially just change and economic prosperity should go more hand in hand (Die Bundesregierung 2022). In this context, the commitment of every single actor – from policymakers, civil society and business – is important. This brings the importance of Mittelstand companies for society to the fore. Already Ludwig Erhardt regarded German Mittelstand as an important pillar of society because, beyond its economic contribution, it provides, among other things, societal balance and participation.

For this reason, we have conducted a multi-year project to investigate the contribution of Mittelstand companies to mastering the economic and societal challenges of our time. In Welter/Schlepphorst (2020), we present a concept that captures the multi-layered dimensions of the societal contribution of the German Mittelstand and their influencing factors. We define societal contribution as the added value or additional benefit that entrepreneurship generally provides to society. This contribution extends beyond the business and economic effects of economic activity.

Building on this concept, we examine the societal value creation of the German Mittelstand conceptually and empirically. Conceptually, we discuss the premisses and prerequisites of the societal value creation of the Mittelstand in comparison to its economic value creation. From this, we deduct pending questions regarding the concrete societal contribution of the Mittelstand, the participation of other actors and the process of societal value creation, which we then examine by using two regions as examples: One region has already successfully completed an economic structural change and is now characterised by a strong and diversified the Mittelstand, the other one is in a permanent structural crisis and characterised by a small-scale the Mittelstand. The results of the study illustrate the societal relevance of the Mittelstand in its breadth and especially for coping with transformation processes.

2 The societal value creation of Mittelstand companies: conceptual considerations

Economic value creation describes the way in which different resources (human, material and immaterial) are provided to produce, in combination, new goods and services (Mazzucato 2019, p. 25). This value creation takes place in a targeted and planned manner. It is produced by companies, in companies and by the employees of companies. Its result – the value – is determined by calculation at the level of the business or of the national economy as the total output of the business or of the economic sectors minus intermediate inputs. From the perspective of the customers and buyers, however, the value of a product or service is also influenced by personal preferences and personal benefits.

Societal value creation is basically similar to economic value creation. For its creation, it also needs different resources (human, material and immaterial). Its result is the societal contribution of Mittelstand companies that we define as the added value of economic activity and which is provided directly and indirectly by this economic activity (Welter/Schlepphorst 2020). It ranges between the field of tension between voluntariness, legal regulations and societal expectations. These conditions enable the societal contribution and can equally hinder its creation.

The societal and economic value creation of Mittelstand companies is interrelated. If the societal contribution is a direct result of the company's activities (as in the case of social enterprises, for example), the economic and societal value creation correspond to each other. Societal value creation takes place in a targeted manner. In those companies, in which the societal contribution results indirectly from profit-oriented activity, the economic value creation is a necessary condition for the societal value creation, without the latter having to be intended.

The regional embedding of Mittelstand companies plays an important role in the extent of their societal contribution (Lumpkin/Bacq 2021; Welter/Schlepphorst 2020): the longer and more strongly Mittelstand companies are rooted in their region, the larger their societal contributions. This raises the question of the role of other actors in the societal value creation of Mittelstand companies. As with economic value creation, the main actors are the entrepreneurs and their employees. Since Mittelstand companies in principle attach great importance to their external stakeholders, they could be involved in societal value creation. Research on the public value, for example, views public value creation as the co-production of public organisations and their users and points to the important

role of civic participation (Bryson et al. 2017; Strokosch/Osborne 2020). Transferred to the societal value creation of Mittelstand companies, this does not only take place through the company, but also in the interplay of entrepreneurial action, civic and possibly policymaker participation.¹

Depending on the extent of participation, different roles of the regional community (understood as the totality of regional actors external to the company) can be conceptually distinguished (Bacq et al. 2021). In a more passive role, the community is merely a beneficiary of the companies' societal contribution. In an active role, the community supports the societal value creation of Mittelstand companies by, for example, shaping the local framework conditions for them or by influencing the appreciation given to entrepreneurship in the region. It may even make this value creation possible by promoting the development of a Mittelstand economy. Finally, the community can be a partner of the companies in societal value creation or become entrepreneurial itself.

Different actors have different perceptions of what is valuable to the community (Lepak et al. 2007) and so does the perception of the community as to what is understood as the societal contribution of Mittelstand companies. Meynhardt (2008) points out that the common good is also the result of jointly developed valuations, while Boltanski/Esquerre (2019) emphasise the role and importance of narratives in determining value.

In view of the societal value creation and the societal contribution of Mittelstand companies, the question arises as to what extent a regional community needs a shared understanding of societal contribution and how it can come about.

As a starting point for the following empirical investigation, we note that individual and shared expectations influence what is understood as the societal contribution of Mittelstand companies. Besides the entrepreneurs and their employees, the regional community is also involved in creating societal value. These deliberations form a first basis for empirically considering the diversity of the societal contribution, the respective roles of the external actors and the complexity of the societal value creation of the Mittelstand.

¹ In international research, the result of the interaction of civic and political participation as well as entrepreneurial action is also referred to as civic wealth creation (Lumpkin/Bacq 2019).

3 Method

We examine the societal contribution of the Mittelstand, the participation of further actors and the process of societal value creation by using the examples of two regions. The basis for the selection of the regions are those dimensions whose factors we identified in Welter/Schlepphorst (2020) as key influencing variables for the societal contribution of Mittelstand companies: the specific governance structure and objectives, their regional embeddedness as well as their economic and societal functions in times of crises. We aim to identify two regions that differ in these respects and thus possibly reveal differences in the societal contribution of Mittelstand companies.

First, we identify statistical (auxiliary) indicators at the regional level and compile them for each of the 401 German “Landkreise, Kreise und kreisfreie Städte (counties, districts, and independent cities). Since regions, especially those that are geographically close to each other, often hardly differ in these characteristics, we additionally draw on our many years of research expertise and in-depth research on possible regions of interest. This includes information on regional economies and size structures of Mittelstand companies.

To approximate regional governance structures, we use the density of small and medium-sized enterprises (SME) (number of SME per 100,000 inhabitants). Although SME and Mittelstand companies do not coincide, there is a considerable overlap, especially among the smaller ones (Welter et al. 2015). Regions with a high SME density are thus also characterised by a high proportion of Mittelstand companies.

The pursuit of independence – a typical objective of Mittelstand companies – can be approximated by the NUI indicator (“New entrepreneurship in the regions of Germany”).

The NUI indicator shows the number of new commercial enterprises registered per 10,000 working-age inhabitants in a region in the corresponding year (May-Strobl 2011). About one-third of all business notifications arise from start-ups and thus from people for whom independence is among the central motives for entering self-employment (e.g., Block/Koellinger 2009). Regions with a high score in NUI therefore suggest that a high proportion of people are turning their independence aspirations into practice.

The long-term orientation of Mittelstand companies is approximated by their commitment to and intensity in apprenticeships (number of apprentices per 1,000 employees subject to social insurance contributions) in the regions. For companies, investments in vocational training for skilled workers are investments in the long-term development of the company and its competitiveness. The majority of all apprentices (71%) are employed in companies with less than 250 employees subject to social insurance contributions (IfM Bonn 2022). Because companies often take on their apprentices after completing training, they keep their employees with their company in the long term. The region benefits from this, too.

The analyses by Fritsch/Wyrwich (2014) provide information on regional entrepreneurial traditions and thus on the regional embeddedness of Mittelstand companies. Regions with high start-up activity in the past tend to have higher start-up activities in the present. In these regions, entrepreneurial thinking and action as well as societal appreciation of entrepreneurship seem to have become entrenched over generations.

The stabilising function of Mittelstand companies for regions can be approximated by means of data on gross domestic product (GDP) per capita. Regions with a high GDP per capita seem to be – at least currently – economically competitive and able to hold their own in a turbulent, rapidly changing environment. The socio-economic disparity atlas (“Disparitätenatlas”, Fina et al. 2019) provides a more differentiated view. It maps regional disparities in Germany based on five thematic areas (economy, employment and labour market; educational and life opportunities; wealth and health; governance and participation; domestic migration). As a result, five spatial types emerge. They range from better-off regions that have, among other things, sustainable labour markets and an outstanding infrastructure, to disadvantaged regions with structural problems owing to the loss of importance of salient sectors following a structural change and/or system change. The “solid centre” (“solide Mitte”) includes regions that predominantly reflect the national average in the thematic areas.

On this basis, we selected the Kreis Borken and the Landkreis Spree-Neiße. Kreis Borken, in the western Münsterland bordering on the Netherlands, is one of Germany's solid centres (see Table 1). It already successfully coped with a structural change and is now characterised by a large share of Mittelstand companies. In contrast, the NUI indicator and the entrepreneurial tradition are rather low. What Kreis Borken already achieved, the Landkreis Spree-Neiße still has

to master: a structural change. According to the disparity atlas, Spree-Neiße, located in the southeast of the federal state of Brandenburg on the border with Poland, is classified as a rural area in a permanent structural crisis.

Table 1: Indicators for the selection of regions

	Landkreis Spree-Neiße	Kreis Borken
Governance structure and long-term orientation		
SME density	rather low	rather high
NUI	rather low	rather low
Apprenticeship rate	very low	very high
Regional embeddedness		
Entrepreneurial tradition	very low	rather low
Crisis functions of Mittelstand companies		
System change	yes	no
Socio-economic conditions (disparity atlas)	rural area in permanent structural crisis	solid centre
GDP per capita	medium	rather high

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Source: BBSR (2022), IfM Bonn (2022), Fina et al. (2019), Fritsch/Wyrwich (2014), Statistische Ämter des Bundes und der Länder (2020)

In both regions, a total of 37 guideline-based interviews were conducted from June to August 2021 (see Overview A1 in the appendix for the interview guide). Another actor from Landkreis Spree-Neiße participated with a written contribution, which was also included in the analyses. The analyses are based on 23 data protocols from Kreis Borken (interview I1 to I23) and 15 from Landkreis Spree-Neiße (I24 to I38). The subjects of the interviews based on Welter/Schlepphorst (2020) and the deliberations in Chapter 2. Discussions included, among other things, the roles and contributions of Mittelstand companies in the regions, the actors involved in societal value creation and the challenges involved in delivering societal contributions.

In the selection of interview partners, special attention was given to capture different perspectives (so-called “stratified purposeful sampling”, Patton (1990)). Some interviewees were recruited following the advice of interview partners (so-called “snowball sampling”, Patton (1990)). Interviewees come from Mittelstand companies, business-related institutions (including trade unions), municipal policy, financial institutions, media, social and societal initiatives, and employment agencies.

For the analyses, the interviews were coded and analysed with the support of NVivo.² First, the company-related and regional factors influencing the societal contribution of Mittelstand companies were categorised. To capture the emergence of the societal contribution, the various roles that regional actors can assume in interaction with Mittelstand companies, were also coded (see Chapter 2).

Following Eisenhardt (1989), we conduct within-case analyses in a first step and scrutinise the societal contribution in its specific regional context (Hertel et al. 2019). A subsequent cross-case analysis allows us to identify commonalities and differences of the societal contributions and their respective origins. This allows us to draw conclusions that have generalisable validity beyond the individual case (Bansal et al. 2018).

² We would like to thank Maike Gburek for her valuable support in data collection and analyses.

4 The societal contribution of German Mittelstand: Two case studies

4.1 The region with successful structural change: "The Mittelstand keeps the whole thing going here"

Historically, Kreis Borken was characterised by agriculture and, since the late 19th century, by the textile industry, whose international competitiveness declined sharply from the middle of the 20th century. This resulted in company closures and high unemployment. However, the region succeeded in changing from a mono-industrial sector structure to a diversified sector mix, a strategy widely known in the region as "millipedes". This is also reflected in the economic figures: since 1980, the number of employees subject to social insurance contributions has increased by about 75% (Kreis Borken 2022). The unemployment rate of currently 3.3% has regained to its pre-pandemic level and is among the lowest ones in Germany. With the completion of the Single European Market in 1993 and good transport connections, Kreis Borken has shifted from a peripheral location to the centre of strong economic areas, including the Rhine-Ruhr area, the Dutch metropolitan region of Randstadt and the regional centre of Münster.

Fundamental to the millipede strategy is, on the one hand, a strong and differentiated production sector with a focus on mechanical construction, among other things, and, on the other hand, the craft sector. Overall, the regional, economic and sectoral structures are relatively balanced. There are no dominating centres of excellence, single companies or industries, so that the danger of one-sided dependencies, as they existed at the time of the structural crisis, no longer exists. Although policymakers and the promotion of economic development in principle intervened relatively little to steer structural change, they consciously took care to strengthen the production sector with high added value creation and thus to lay the order and customer base for other (service) sectors and companies as well. This includes an unusually high number of IT companies for a more rural region, including some "lighthouses" with a particularly high number of employees, strong growth and international orientation. With their know-how and corresponding services, universities of applied sciences and IT companies support the digitisation and further development of the production sector and other sectors. In addition, they also "supply" these industries with IT personnel so that the companies in Kreis Borken can continuously expand their IT competences (Kleinschneider 2020). The economy in Kreis Borken is now almost entirely characterised by Mittelstand companies. Many companies are highly innovative

and internationally oriented. Among the total of 690 world market leaders in North Rhine-Westphalia, 15 are located in Kreis Borken (Block et al. 2021).

Overview 2: Characteristics of the societal contribution of Mittelstand companies

"You are a role model for your employees. Maybe you are even a bit of a role model for other companies, for larger companies, that you can find other ways." (I1)

"I bring the knowledge I have as an entrepreneur, which has been built up, (...) into voluntary activities for the benefit of the region (...) and try to pass on this knowledge. As I said, beyond my pure entrepreneurial activity" (I7).

"The (people in metropolitan regions) (...) are sometimes disillusioned and would like to return to a region characterised by the Mittelstand, where they can help shape things themselves again. (...) This is largely due to the societal contribution of the Mittelstand. Not selflessly, but wisely in the sense of preserving the quality of life across generations." (I2)

"A social responsibility, i.e., not only to have competition and profit maximisation in mind, but to be aware that there are also target groups and people in society who perhaps need special support and more understanding. I can see this happening here in this region. Not everywhere, not in every company, but a basic tendency to deal with this topic is certainly present here in our region." (I1)

"The Mittelstand has recognised this concept of giving and taking. It makes this societal contribution to strengthen the region and thus to strengthen themselves. This is self-interest is absolutely legitimate. (...) Everyone benefits from it. You can't really have a larger win-win than that." (I19)

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Source: IfM Bonn: survey societal contribution (2021)

The regions understand societal contribution of Mittelstand companies in a very differentiated way (see Overview 2). Taken together, Mittelstand companies are a self-confident, powerful, and appreciated actor and co-creator of the reality of life in the region. They significantly contribute to maintaining the quality of life across generations. By keeping rural areas attractive and liveable, Mittelstand companies indirectly contribute to relieving the burden on the large metropolitan regions and to maintaining societal diversity and rural cultural areas. Conversely, Mittelstand companies benefit from the liveable region, to which many people return after studying or working outside the region for a few years.

Mittelstand companies shape the region so impressively and sustainably that their essential societal contribution is also reflected in the regional narratives of successful restructuring (see Overview 3): The region presents itself as a "doer region" that has mastered structural change with "its own power", with "seedbeds" playing an important role. This term is mentioned independently by many entrepreneurs and stakeholders in Kreis Borken. Seedbeds are obviously of great importance for the economic development (as opposed to large new settlements "transplanted" from the outside).

Overview 3: The "doer region" – overcoming crises with its own efforts

"The remarkable thing is that after the total collapse of the textile industry at the end of the 1970s and beginning of the 1980s, there were hardly any subsidies worth mentioning. (...) Apart from that, industrial sites were subsidised here, also by the state of NRW (note: Federal State North Rhine-Westphalia), but basically this is a development under own efforts. Not a subsidy region, as it is elsewhere." (I5)

"We have experienced how you pull yourself out of the swamp by your own power. We were really in the swamp. (...) And it is meaningful that we (...) have nevertheless managed to become a very dynamic economic region without major noticeable subsidy programmes." (I11)

"Here are many enterprises, where the employee used to work for one of the three, four, five large textile companies and then, at the time when jobs were cut, the foreman simply said: "Listen, you can make something great out of this. I'll do it myself." (I4)

"An important contribution from us and from (other Mittelstand companies during the COVID-19 crisis) was to show cohesion. Yes, it goes on. To give the employees and the people the feeling that things are getting better again and that we are staying together. Certainly, a big contribution – that was there." (I8)

"We learned that (...) nobody else solves our problems. That is really a basic attitude (...). Yes, that is something that is certainly strongly anchored here in the region." (I14)

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Source: IfM Bonn: survey societal contribution (2021)

Seedbeds were some of the large textile companies from which many innovative spin-offs emerged during the structural crisis. Some of them have successfully developed their business model into new markets. The seedbeds for structural change and growth also includes many former suppliers (especially from the mechanical construction sector) who used their know-how to develop new products and services for new customers. The existing IT cluster has developed from the environment of the university of applied sciences, which was founded almost 30 years ago and initially comprised only a few innovative IT companies. The agriculture fulfils the function of a seedbeds, too: in the past, many "second, third, fourth sons" became self-employed with having innovative ideas in mechanical construction, and in recent years many farms have opened up new business opportunities in the field of renewable energy.

An important prerequisite for the societal contribution of Mittelstand companies is its great openness to cooperation for the benefit of the region, as the managing director of a business-related institutions notes: "This is noticeable with all the things that you (...) initiate. You can very quickly get companies excited about it if they see an added value for the region in it." (I4) In consequence thereof, the region is characterised by a large number of innovative cooperations and networking projects. However, the interaction of Mittelstand companies with other regional stakeholders does not happen automatically. In particular, the promotion of economic development but also business associations and

chambers of commerce activate (potential) cooperation partners. In general, the region is characterised by strong informal and formal networking, both internally and externally, for example with federal and state politicians with roots in the region. People meet in business and private life, in clubs and associations. Long-standing personal acquaintances and social proximity generate a high degree of "approachability" and trust. New projects for the well-being of the region can be initiated and implemented quickly and without high transaction costs. These networks can also be activated at short notice so that it is possible to organise help very quickly in times of crises (e.g. Corona crisis, refugee crisis, snow chaos in Münsterland).

The cooperative basic mood is also promoted by the regional mentality: This is, in general, characterised by a low social distance (i.e., thinking in terms of status), down-to-earthness and personal responsibility, as well as by a pronounced doer and cooperation culture ("work, tackle, don't just think about yourself", I8). This can be attributed, among other things, to the historical experience of living on one's own in poor farming conditions far away in a "last corner" and not being able to expect any help from policymakers.

The region perceives the Mittelstand as an important actor without which many things would be inconceivable: "The Mittelstand is the engine that keeps the whole thing going here, especially for our region". (I19) This is mainly due to its explicit socio-economic dual function. The both areas of "economy" and "society" come together in one person, each of which has its own rationality and specific law. In addition, societal aspects flow into the management of the company and justify actions that are also oriented towards the interests and needs of the region and made the successful structural change possible.

In their entrepreneurial function, Mittelstand entrepreneurs are primarily committed to efficient economic rationality. As citizens, they have their centre of life in the region, feel connected to the regional people and are shaped by the local values and social norms. The image of the company affects the family name and thus the social reputation of the individual members of the entrepreneurial family. Mittelstand entrepreneurs therefore have the incentive to run their company in a way that corresponds to the values and social norms of the region, which in many cases is also based on religion. By acting for the sake of the region, Mittelstand entrepreneurs perpetuate these values and thus also shape or solidify societal expectations regarding the Mittelstand.

This societal responsibility of Mittelstand companies is enhanced by the fact that the region is prospering economically and that the Mittelstand is well-positioned after the successful structural change. The enterprises are under no short-term pressure to survive and can base their actions on a longer-term and societal perspective. However, social values and norms are also subject to change over time. For example, some of the innovative IT companies align the culture of their enterprises strongly towards the interests of their young workforces and, in a deviation from regional tradition, tend to favour employment contracts of shorter terms.

Taken together, the Mittelstand, as a central player, helps shaping the reality of life in the region and invests a great deal of expertise, time and financial resources. Since their own competitiveness and attractiveness as employers depend, among other things, on the region's quality of life and location, Mittelstand companies derive their own economic and personal benefits from their involvement (win-win situation). Through their regionally and socially responsible actions, they have an impact on society and shape the way people in the region interact with each other.

4.2 The region in a permanent structural crisis: "Many things have to happen"

The sparsely populated rural Landkreis Spree-Neiße has long been characterised by industrial structures. The beginnings of the lignite industry go back approximately 150 years. In times of the GDR, the entire Lusatian lignite mining region covered most of the GDR's total needs of energy. Even today, the lignite industry still dominates the region: it generates a value added of about 1.4 billion € per year, provides above-average paid jobs and is a client for a large number of specialised suppliers from the region. The textile and glass industries also had long traditions but lost much of their importance in consequence of the system change in the years from 1990 onwards. This period of system transformation was fraught with massive business closures and high unemployment. In many cases, the region experienced the change as a traumatic structural break that it still remembers. Owing to the lack of economic prospects, many young people left the region after the "Wende" (German reunification), so that the population declined by a good quarter to date. Later on, however, the economic situation in Spree-Neiße has improved, so that the unemployment rate – not only due to demographic factors – has decreased to 6.1% at present. Even

today, there are very high shortages in skilled labour, particularly in the craft and service sector, and this shortage will continue to worsen in future.

Although the energy corporation has been downsizing for years, about 3,300 people of Landkreis Spree-Neiße are still directly employed in the lignite industry and another 10,500 indirectly through suppliers (Landkreis Spree-Neiße 2020). Many suppliers from the craft and industrial sectors are (still) relatively dependent on the lignite industry due to their pronounced specialisation. Overall, the regional economy is – apart from the energy corporation – characterised by branches of large national and international companies as well as very small Mittelstand companies.

Resulting from the long-lasting structural crisis and high unemployment, the societal contribution of Mittelstand companies is primarily considered to be related with the provision of jobs and apprenticeships and the consequential effects in terms of young people's chances to stay as well as the revitalisation of the rural region. Further, the Mittelstand companies support societal life in the areas of sports, culture and education. Some Mittelstand entrepreneurs are also active in municipal policy. Many founders who built up their companies with great personal commitment and under adverse conditions in the years after the Wende, have made a fundamental systemic contribution to the establishment of a free economic and social order in their self-perception and (in part) also in external perceptions. In doing so, they "open up the horizon (a little) for others". (I37) Thus, the Mittelstand is – partly by choice, partly by necessity – increasingly growing into a leading economic and societal role in the region.

This development is fostered by the fact that the dominant energy corporation is no longer able to perform tasks it had assumed so far to create societal value in the region, for economic reasons or due to stricter compliance regulations. The board of directors traditionally consisted of people from the region (some of them formerly active in opencast mining), generous donations were made, and the corporation was sponsor of regional clubs. As long as the lignite industry Landkreis Spree-Neiße was doing economically well, the Mittelstand was in the shadows of the energy corporation. The public hardly perceived it in its entirety as a society-shaping subsystem. Moreover, the term "Mittelstand" is not or only vaguely present in the minds of many people in the region. Even in economy and municipal policy, too, many people tend to associate the term Mittelstand with companies of medium size.

With the phaseout of lignite-based power generation, new promising economic structures must be established within a short period of time. However, there is a widespread impression in the region that economic policy does not specifically promote the innovation potential of the Mittelstand and thus does not allow it to fully develop the successful management of structural change (see Overview 4). By developing innovative ideas and business models, Mittelstand companies make substantial contributions to economic and societal value creation and thus secures the future viability of the region. So far, the Mittelstand companies have succeeded to varying degrees in adapting to the changes. Some suppliers have made little progress, while others have already successfully evolved. Together with the mostly rather small companies (with approx. 20-30 employees) that the promotion of economic development newly settled in the industrial and business parks, they can act as region-internal "seedbed" for further economic development and complement the larger new settlements planned by the federal and state governments in the region (e.g., ICE railway maintenance depot, army technology, health campus, public authorities).

Overview 4: Assessments about structural change

"Structural change is an undefined monster that hovers as a cloud over everything. When people here think of structural change, they naturally think of the time after the Wende. There was no structural change, there was structural demolition. Everything was flattened, over 17,000 people lost their jobs within two years and (...) moved away." (I31)

"We also managed to attract completely new industries to this industrial park "Schwarze Pumpe". (I24)

"The Federation and the States are doing a lot for the region, but it does not reach the Mittelstand. (...) The Mittelstand looks with suspicion at all developments and the money that flows into the region, because nothing directly reaches the Mittelstand." (I38)

"Now they are starting to develop infrastructure measures that will perhaps have effects in ten years. And in-between there is a societal break and a loss of value creation that cannot be compensated. (...) The measures that are being taken now are like a plaster, (...) a new break cannot be prevented." (I25)

"Without doubts, there are individuals (entrepreneurs), who are also visionary. But practically speaking, the inner drive is missing. I don't think, the spirit of research and the willingness to take risks are very strong. (...) I don't have the feeling that the next start-up wave in the digital sector is coming here." (I28)

"The signs are very good for our region. The mood is quite excellent and at the moment events actually follow rapidly. (...) Also, we all realise now that right now is the right time to do something... The enthusiasm and the will are there. (...) It is an incredible dynamic. But many are not yet convinced." (I38)

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Source: IfM Bonn: survey societal contribution (2021)

The concurrent challenges of a recurrent structural change and the shortage of skilled labour pose major challenges to the region, which could, in principle, be

solved more effectively and more quickly by means of cooperation between the Mittelstand and the various regional actors. However, the starting point for regional cooperation were not very favourable in times of the Wende. Many companies were focused on themselves and regarded other companies as opponents and competitors: "It was just like that, everyone against everyone, and it was all about survival... And that didn't do us any good." (I24) Many actors, especially from the fields of municipal policy and the promotion of economic development, have learned from these negative experiences that cohesion, joint action, and cooperation are important to achieve progress for the region. However, cooperation does not happen overnight. Developing common goals for the good of the region is a lengthy process. Although progress has been made, a self-sustaining process has not yet been established. When enterprises are compatible e.g., in value chains, they certainly cooperate, otherwise "everyone tends to do his/her own thing and keep his/her hand over it". (I25)

The extent to which structural change succeeds and to what extent Mittelstand can grow into an even more leading role depends not least on regional perceptions. As typical for major economic upheavals, several narratives on regional development exist simultaneously, often in contradiction to each other, which can be assigned to the two poles of "optimism" and "pessimism/scepticism" (see Overview 5). The sceptical narratives are partly fed by past experiences. Many people who experienced the time of the Wende themselves or heard about it have unpleasant memories of the structural break, high unemployment and uncertainty. The many years of perception of the region as a "region without future opportunities" continues to have an effect. Therefore, the people do not expect much good from further structural change, which is again brought to them from the outside. Many see their identity and economic independence called into question by the end of the lignite industry. Even more fundamentally, parts of society are critical of the energy industry transformation process as such and question its necessity and effectiveness (for example, against the background of new, less modern coal-fired power station across the border in Poland and worldwide). At the same time, it is doubted that the high loss of value added caused by the end of the lignite industry can be compensated sufficiently and promptly.

In contrast, the optimistic narratives point to the opportunities that can arise from the transformation process. This includes the development of new promising value chains in close (energy-related) economic sectors. Applying existing technological expertise to new areas of the energy and environmental economy can

open up new national and international markets, as similar "green" transformation processes are also taking place in many other countries around the world. The optimistic narratives also point to the economic improvements achieved in recent years, the increased job opportunities and the very good order situation of many companies in the region. These voices are also often characterised by appreciation for the socially responsible entrepreneurship of Mittelstand companies and their innovative strengths. Related to this, the optimistic narratives often assume a high level of people's self-efficacy in actively shaping their environment.

Overview 5: The region in transition – contrasting narratives

"And (the miners) were no longer the heroes of the region, but they are the idiots of the region, namely those who make everything dirty, who destroy nature, who damage the environment. And they could not cope with this tipping." (I38)

"The people here don't want to live from subsidies, they actually want to live from creating something on their own. Until now, they have been proud of what they have created. (...) And now all that is supposed to be worth nothing? (...) They are robbed of their identity, both sociologically and economically. And it is now associated with uncertainties about what the future will bring and people are not able influence it." (I36)

"Best example, energy transition: (...) the whole concept doesn't work like that. (...) The countries in Southern Europe and so on are all not going along with it. (...) If there is no more electricity, which Mittelstand entrepreneur is going to produce anything?" (I34)

"Honestly, this lack of perspective in Lusatia is a bit outdated. At the moment it's rather the case that every young person who wants to stay in Lusatia can stay here and definitely finds a perspective. But that is something that is currently changing now. So, this is new now. (...) Mum used to tell me that if you wanted to become something, you have to go somewhere else." (I26)

"When you start again with new business fields - at the moment the bioeconomy and resource efficiency is a very big topic - (...) then of course it takes a while until it really becomes established." (I24)

"There is a shift in people's mentality from: "Everything is bad, we are in a terrible way. We're left behind by the Federation and States. Nothing happens here anymore." To: "Oh, after all something is happening here." People are slowly beginning to realise that there are alternatives. (...) No matter which company you ask, the order books are full to bursting. The societal perception is (however) different." (I38)

© IfM Bonn

Source: IfM Bonn: survey societal contribution (2021)

Narratives persist in shaping the region even if fundamental circumstances have changed in the meantime. The idea of a lack of prospects in Lusatia is largely outdated, not least because of the demographic change and the high shortage of skilled labour. Moreover, contrary to public perception, many companies are doing well economically. The pessimistic narratives that have prevailed for a long time seem to be giving way for optimistic assessments to some extent.

They can then have a positive impact on the expectations and the innovative behaviour of Mittelstand companies through a changed basic societal climate.

All in all, the Mittelstand makes important economic and societal contributions to the region that permanently faces structural crises. However, the contributions are not always adequately recognised for various reasons. With the end of the lignite industry, the Mittelstand is now confronted with the expectation – and at the same time with the opportunity – to step out of the shadow of the energy corporation and to take on an even more public, formative role.

5 The process of societal value creation

The case studies in Chapter 4 highlight the variety of societal contributions made by Mittelstand companies. In principle, the Mittelstand indirectly enables societal participation, creates individual prospects for the future, and contributes to strengthening regional competitiveness in the regions. Some societal contributions of the Mittelstand are only marginally related to its economic activity. This is the case, for example, when Mittelstand entrepreneurs contribute their problem-solving skills, competences or experience from entrepreneurial activity to regional development. The added value that Mittelstand companies create for society, in turn generates added value – albeit hardly calculable – for the company itself, e.g., in the recruitment of skilled labour.

The perceptions of the regional community as to what constitutes the societal contribution differ in each case, depending on the local problem situations. Regions undergoing a profound structural change perceive other aspects of the societal contribution than economically well-positioned regions. In structurally weak regions and regions undergoing structural changes, the political focus is generally laid on creating and securing jobs and apprenticeships. Here, the societal contribution of the Mittelstand tends to be equated with its economic contributions. In prospering regions, the regional community centres attention more on the regional attractiveness and competitiveness. Here, the societal contributions of the Mittelstand, which result only indirectly from its economic activity, are more likely to be perceived, such as the use of entrepreneurial competences for regional development mentioned above.

Differences in the perception of the societal contribution of the Mittelstand do not necessarily mean actual differences in the societal contribution of the Mittelstand for a region. In principle, Mittelstand companies make this contribution regardless of the perception of the regional community. At the same time, their perceptions may force them to make certain contributions.

In Chapter 2, we raised the question to what extent a common understanding of the societal contribution of Mittelstand companies is necessary in a regional community. The two case studies indicate that a shared understanding influences the respective roles that the regional community plays in the societal value creation of Mittelstand companies. If the aim of regional policy is to build up economic structures and to strengthening (Mittelstand) companies, as it is the case in structurally weak regions, the commitment initially concentrates in business-related institutions and is often initiated by local policy. Here, – for the

time being – the Mittelstand is not the central actor in societal value creation, but the community that makes it possible in the first place. As structural change progresses successfully and Mittelstand economic structures are strengthened, the respective roles change over time. The Mittelstand becomes the central actor in societal value creation. The regional community remains active, but increasingly shifts to a supporting role and may also become a passive beneficiary of the societal value creation of the Mittelstand. Depending on the severity of problem situations, however, roles may change again, and the regional community may once more take on the role of an initiator.

We refer to this interaction between the Mittelstand and the regional community as *collaborative societal value creation* (see also Mazzucato 2018). It allows to realise common goals that would not be achievable without partners or only at additional cost (Nahapiet/Ghoshal 1998). At the same time, the collaborative societal value creation is in itself a societal contribution of the Mittelstand. Conceptually, we defined the societal contribution of the Mittelstand as the result of societal value creation. However, the case studies illustrate that the process of collaborative societal value creation already has its own value for the regional community. This process empowers and supports the Mittelstand in shaping the regional environment according to its own needs and by doing so to support the transformation of the regions (Baker/Welter 2020; Korsgaard/Anderson 2011). Collaborative societal value creation does not follow a uniform pattern (De Silva/Wright 2019), but some basic patterns can be derived from a comparison of the two case studies.

An important prerequisite for collaborative societal value creation is networking within the regional community. Initially, mobilising the regional community is often arduous, even if urgent problem situations would require rapid action. If networking takes place from within the region, lasting cooperations are more likely to emerge. Networking initiated from the outside, on the other hand, is rather temporary and can be particularly helpful in acute problem situations (see also Stephan et al. 2016). Both case studies reveal this pattern. The societal commitment of the Mittelstand (e.g., memberships to associations) facilitates networking within the region. Once the first challenges are mastered together, cooperations become easier. In the next step, they are often (partially) formalised, and networks become established. Recurrent cooperations lead to increased efficiency and reduced transaction costs (Adler/Kwon 2002). Therefore, established network structures can be activated at short notice with low transaction

costs. However, over time, such network structures can seal themselves off from the outside and lose their dynamism (Welter et al. 2008).

Shared experiences, successes and failures strengthen the relationships between Mittelstand companies and the regional community. They also mould the regional identity. This manifests itself, as the case studies show, with the help of collective narratives about the region and about the respective contributions of the Mittelstand to the region. The messages conveyed by these narratives can unfold a large impact (Michalopoulos/Xue 2021) and promote, but also hinder collaborative societal value creation in the long term.

A number of studies show that and how collective narratives can influence entrepreneurship in the region (Gill/Larson 2014; Ornston 2021; Roundy 2016; Welter/Baker 2021). In this context, Roundy (2016) identifies three typical patterns: success stories, historical accounts and future-oriented narratives, which occur in mixed forms in reality. In economically disadvantaged regions, for example, entrepreneurship is often understood as a "salvationist" and then confronted with high expectations regarding its economic and societal contribution (Gregory 2012). In remote regions, on the other hand, even successful companies like to distance themselves from dominant myths (e.g., that technology-oriented entrepreneurship can only thrive in Silicon Valley). From this, more regionally appropriate narratives develop, often drawing on shared traditions (Gill/Larson 2014).

There is never only one regional narrative, but the dominant one is important for collaborative societal value creation. Particularly in regions that are (still) undergoing a structural change, there is a wider range of different, even contradictory collective narratives due to uncertain future prospects (Roundy 2019). Welter/Baker (2021) illustrate some of these narratives for the Ruhr region: the successfully mastered transformation from a mining region to an entrepreneurial region can be found alongside the collective romantic transfiguration of the mining era, but subliminally also narratives of economic and cultural exclusion, which can be geographically and economically defined by the "poor north" in many Ruhr cities and the more well-off south.

Regions that have been faced multiple, rapidly successive and severe crises often suffer from the traumatic aftermaths of high unemployment, lack of perspectives and emigration. Often, the change is not (or no longer) wanted because of the serious – individual – effects and is perceived as being imposed on the region from the outside. Many see themselves and their region as "victims"

of external circumstances (Seeger/Sellnow 2016). To counter this with something familiar, people then insist on the collective memories of the "good old days" and lament their worthlessness in today's world. This is exemplified in our study in the region' ongoing structural crisis, in which the former mining tradition is perceived as worthless for the region's future (see Overview 5). Thus, collective memories strengthen the feeling of solidarity in a situation that seems increasingly hopeless, but at the same time make it difficult to look forward.

The negative influence that such legacies can have on companies and regional development has been demonstrated by research both for former socialist societies (e.g., Fritsch et al. 2014; Welter/Smallbone 2011) and for old industrial or peripheral regions (e.g., Gherhes et al. 2018; Gregory 2012). Collaborative societal value creation between the Mittelstand and the regional community is therefore stuck in the bud in some regions, takes place more slowly and cannot unfold its full potential.

Regions with established, competitive structures have agreed on a shared collective narrative over time (Ornston 2021). In times of crises, a region often forms a close-knit community of solidarity (Lumpkin et al. 2018). Where crises have been successfully managed, this provides the basis for a collective narrative of renewal. Narratives about renewal are future-oriented and foreground the collective efforts and successes in overcoming crises (Ulmer et al. 2007). In the region that has successfully undergone a structural change, this is reflected in the propagated "doer mentality": it emphasises the individual responsibility and inventiveness of the Mittelstand and the cohesion of the various regional actors as essential success factors for the collaborative societal value creation.

6 Measuring of the societal contribution and societal value creation

Capturing the societal contribution of the Mittelstand and collaborative societal value creation at the regional level is associated with empirical challenges that are discussed in international research. To date, no uniform consensus has been reached on the criteria for recording the societal contribution and on reliable reference values that can be used as benchmarks (Nason et al. 2018; Rawhouser et al. 2019). However, there is agreement that economic indicators alone do not draw a complete picture (Ali/Cottle 2021). This is also reflected in the ongoing debate about the significance of economic variables as indicators of prosperity (Stiglitz et al. 2009).

While economic value added creation is reported in national accounts and can be differentiated according to the actors involved (economic sectors), this is neither possible for the societal contribution nor for the collaborative societal value creation. The diversity of societal contributions is just as much an obstacle to empirical recording as the region-specific structure of societal value creation. Moreover, recording would require that the performance of each actor involved in the process of collaborative societal value creation can be unambiguously determined.

The question remains how the multidimensionality and diversity of the societal contribution of the Mittelstand and the collaborative societal value creation process can be captured in a region-specific way. As an approximation, the societal contribution of the Mittelstand can be determined and quantified using indicators that reflect individual prospects and opportunities for societal participation in regions. From our point of view, however, the collaborative societal value creation is not measurable; at best, one could try to depict the regional identity as an important prerequisite.

7 Conclusions

The present study concretises the multi-layered relevance of the German Mittelstand for society. Our aim was to analyse the societal contribution of the Mittelstand as well as the process of societal added value creation conceptually and empirically by using the examples of two regions. One of the regions has already successfully completed an economic structural change and is now characterised by a strong and diversified Mittelstand; the other one faces permanent structural crises and is characterised by a small-scale Mittelstand. In both regions, the Mittelstand makes a variety of societal contributions. The economic activity of the Mittelstand is not always a prerequisite for societal value creation, or the societal contribution is only marginally related to the economic activity, e.g., when Mittelstand entrepreneurs bring their skills and experience to the region. By shaping the region, the Mittelstand contributes to its future viability and resilience to crises.

Depending on the acute problem situation, the regional community perceives different aspects of the societal contribution. In economically poorly positioned regions the community equates it with the economic contribution of the Mittelstand. However, the Mittelstand generates a considerable part of its societal contribution in collaboration with other regional actors. We refer to this process as "collaborative societal value creation". It is in itself a societal contribution of Mittelstand companies. Important prerequisites are networking within the regional community as well as a common regional identity that develops over time and is reflected in collective narratives on regional development.

Interaction and alignment towards common goals for the good of the region take time. If the basic impetus for interaction comes from within the region, the interaction proves to be more durable and productive than impetus coming from the outside. The role of the Mittelstand in this interaction – like the roles of the other actors – is by no means fixed. Depending on the problem, the Mittelstand takes on passive to active roles, sometimes even several roles. In the region that has successfully undergone a structural change, the Mittelstand is – meanwhile – the central actor in societal value creation and the regional community is mainly the beneficiary of societal contributions. In the region of permanent structural crises, the regional community – still – has a much more active role in societal value creation, as the Mittelstand needs to be built up. If the environmental conditions and the economic situation change, the common goals and the roles can change.

The great importance of cooperative structures for collaborative societal value creation, which has become evident in this study, could suggest that the German Mittelstand policy should specifically promote the development of network structures in structurally weak regions. However, we are critical of such an approach. Collaborative societal value creation thrives to a large extent on the intrinsic commitment, enthusiasm, and persuasiveness of regional actors. If the impulse for networking is brought into a region from the outside and rather "dutifully" worked through, the chances are poor that a self-sustaining process with its own dynamics will develop from this. Targeted support for the development of network structures in (structurally weak) regions therefore seem difficult, if not impossible.

It is rather important to communicate the complexity of the German Mittelstand's contribution to society and the importance of collaborative societal value creation for the transformation of regions. If there is a common understanding in regions about the societal contribution of the Mittelstand, this enables the regional community to take coordinated and targeted measures for the good of the region. Shared successes can then have a self-reinforcing effect and once again promote collaborative societal value creation. However, shared failures can have the opposite effect. Collective regional narratives continue to have an impact even if fundamental circumstances have changed in the meantime. This entails the danger that new ideas for the benefit of the region will not get through. An exchange between those regions that were structurally weak but are strong now in terms of the Mittelstand companies and those currently undergoing a structural change can provide new impetus for the diverse roles and contributions of the Mittelstand.

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Appendix

Figure A1: Interview guide

Guide to the Societal contribution of the German Mittelstand



Interview partner: _____

Date: _____

A. Introduction

1. *Could you explain your professional background in a few words?*
2. *Could you please describe your region? What makes it stand out?*

B. Mittelstand and its contribution

3. *What do you have in mind when you think – in general – of the Mittelstand?*
4. *It is often said that the Mittelstand makes a contribution to society. However, it remains unclear what is meant by this contribution. What do you understand by this?*
5. *In your view, does every Mittelstand company make a positive contribution to society in the same way? Could you elaborate on that, please?*
6. *In your opinion, has this contribution changed over time? If so, to what extent and why do you think it has changed?*
7. *In your view, does the Mittelstand also produce effects that are detrimental to society? What would these be?*

C. Governance, objectives and societal contribution

8. *What do you think, why (for what motivation) does the Mittelstand makes a societal contribution (or none at all)?*
9. *What is the influence of other actors inside and outside the enterprise?*

D. Societal value creation process

10. *To what extent do you believe that society recognises and values the positive contribution of the Mittelstand? How, if at all, does this appreciation manifest itself?*
11. *What do you consider to be the main obstacles that the Mittelstand face in making a societal contribution?*
12. *In your opinion, to what extent can one also speak of a "societal value creation process of the Mittelstand"? What is the outcome of this process?*

E. Regional embeddedness and societal contribution

13. *Is there a special Mittelstand and entrepreneurial tradition in your region? How is it expressed?*
14. *What role does the Mittelstand play for this region today?*
15. *In your opinion, what influences the content and extent of the societal contribution of the Mittelstand in a region?*
16. *How does your region support the Mittelstand in making its societal contribution? In which areas do you still see potential for optimisation?*
17. *Is your region characterised by particular success factors that support the Mittelstand making a particularly high contribution to society?*
18. *Your region is a border region: How does the societal contribution of the Mittelstand in your region differ from that of the neighbouring Dutch/Polish region?*

F. Functions of the Mittelstand in crises

How does the societal contribution change in crises?

19. *From your point of view, what is the importance of the Mittelstand in a crisis or for overcoming a crisis?*
20. *Borken: Your region has successfully undergone a structural change from the textile industry to a multi-layered industry structure in the past. Please describe how this change succeeded!*
21. *Borken: To what extent did the Mittelstand contribute to the successful transformation?*

22. *Borken: What important contributions have institutions, individuals or actors made to the successful transformation? How would you describe the interplay between the Mittelstand and these other institutions, individuals or actors?*
23. *Spree-Neiße: Your region is characterised, among other things, by open-cast lignite mining. Due to the coal phase-out, your region is currently undergoing a structural change. How is this change to be achieved?*
24. *Spree-Neiße: What role, do you think, does the Mittelstand play in the success of the transformation?*
25. *Spree-Neiße: In your opinion, what are the important contributions of other institutions, individuals or actors? What is the importance of the interaction between the Mittelstand and these other institutions, individuals and actors?*
26. *Spree-Neiße: What are the particular challenges or potentials for the current structural change resulting from the system change that took place 30 years ago?*
27. *Do you perceive any changes in the societal contribution of the Mittelstand during the current COVID-19 crisis compared to before? If so, which ones?*
28. *What should economic policy at EU, federal and state level as well as other actors do to maintain the societal contribution even under more difficult conditions?*
29. *The economy and society – but also the world as a whole – are undergoing far-reaching processes of change in many respects. What role has the Mittelstand (actually) played in these processes so far, and what role should it assume more strongly (or for the first time) in the future?*

Thank you very much for your support!