

Challenges and perspectives of the (North Rhine-Westphalian) Mittelstand

Robust Mittelstand despite Corona crisis

In the face of the Corona crisis and sector crises such as in the motor vehicle industry and retail trade, businesses in North Rhine-Westphalia (NRW) and Germany as a whole proved to be unexpectedly robust in 2020. However, the number of business start-ups in trade and the liberal professions declined slightly in 2020, but this cannot be attributed solely to the economic consequences of the pandemic. The construction industry, for example, was little affected by the pandemic but showed declining start-up figures. This is probably also due to the reintroduction of compulsory master craftsman training in some trades. However, the number of business start-ups decreased even more than the number of business closures. In the commercial sector, business start-ups outweighed closures in NRW and Germany for the first time in several years. In other words, the stock of commercial enterprises has grown.

An important reason for the robustness of many Mittelstand enterprises - apart from the support measures during the pandemic - is their flexibility and reserves from the pre-Corona years. Nevertheless, it is to be feared that their equity capital has melted away in the course of the pandemic and that, as a result, necessary investments such as training and further education or innovation projects are being postponed. This could have a critical impact on the companies' competitive strength in the future.

Dealing with future challenges

Digitisation helps through the crisis *

The Corona crisis has led to a further increase in the importance of digitalisation in the manufacturing sector, both among Mittelstand companies in NRW and Germany. Whereas in 2016, only 46% of these companies in NRW attached (very) high importance to digitalisation, this figure has risen to two out of three now.



Even though the increase in importance is particularly noticeable among larger companies (more than 250 employees), an apparent increase can also be seen among small companies (more than ten employees) and medium-sized companies (more than 50 employees). The reason is that a certain degree of digital networking in the company is necessary to be able to use future technologies such as applications based on artificial intelligence (AI). Currently, 40% of large companies in Germany use AI. The figure is 12.4% among medium-sized companies and among small companies just under 8%.

German companies' reluctance to digitise is explained mainly by costs. Hence, every fourth company in Germany and every fifth company in NRW hesitate to network with external partners digitally. For 22.0% of companies in Germany and 12.9% of companies in NRW, concern about data and legal security is a significant reason for not networking across companies. In contrast, broadband speed is now cited much less frequently as a problem for expanding one's digitisation.

The majority of companies are "pro-climate protection "**

According to a survey by IfM Bonn, most managing directors consider climate protection important. The majority (57%) are also convinced they can be a role model for other companies if they reduce their "ecological footprint".

Family businesses show a higher ecological inclination, especially in process innovations. This is probably mainly due to the unity of ownership and management in Mittelstand companies. It is easier for (managing) partners in Mittelstand companies than salaried managers in non-medium-sized companies to translate their ecological concerns into environmentally friendly innovations.

For this reason, it is advisable to offer Mittelstand companies scope for their innovative solutions concerning future legal environmental policy initiatives. In contrast, bans and prohibitions are less helpful, as the IfM Bonn survey shows; the majority of business leaders (63%) welcome economic measures (e.g. emissions trading) or informal instruments (e.g. voluntary commitments). Only a minority of respondents favoured regulatory requirements or information obligations (labels, publication obligations).

Since most business leaders are sensitive to climate change, strengthening resource availability is likely to be the most effective way to encourage Mittelstand companies to engage in even more environmental innovation.

The core statements of the IfM Bonn on the "Challenges and Prospects of the (North Rhine-Westphalian) Mittelstand" were presented to the North Rhine-Westphalian Mittelstand companies advisory board on 20.10.2021.

*For the areas of "digitalisation" and "climate protection", the IfM Bonn will publish the respective studies with more detailed results in the coming weeks