



Medium-sized enterprises and demographics

Increasing pressure to take action

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When drivers are sought for employment, innovation and economic growth, all eyes turn to medium-sized enterprises. Medium-sized enterprises and large family businesses are the trump cards for the German economy. A good 20% of all those employed in SMEs work in small and medium-sized industrial enterprises. This puts Germany out in front of many EU countries (FR 17%, GB 15%). Industry is even more heavily represented among large family businesses.

In recent years, medium-sized enterprises have become more involved in the export business. While the foreign activities of large family businesses tend to focus on the dynamic emerging markets, the export map for SMEs does not yet fully reflect the new growth areas in the global economy.

There are also plenty of opportunities for medium-sized enterprises in the home market. This is indicated by trends such as the digitisation of business, the change-over to alternative energy sources and climate change, as well as demographic changes. In view of our ageing society, the question naturally arises whether medium-sized enterprises in Germany will be able to find sufficient numbers of qualified personnel into the future.

However, a shortage of suitable staff is not an inevitability if countermeasures are taken by increasing the number of women and older people in the workforce and by encouraging immigration and further training. The workforce is set to become older, more international and more female and the competition for young talent is going to get tougher. Businesses will have to adjust to this new situation.

As society ages, so sustainable, corporate personnel policies will require a wide range of investments: in the recruitment of talent, in the reputation of the business as an employer of well-trained female staff in particular, in the further training of staff members and in jobs.

Large family businesses have already taken up the challenge, while SMEs still have a lot of work to do to adapt. Significantly more than 90% of large family businesses offer an occupational old-age pension, compared with only around 40% of SMEs. While 28% of employees in SMEs participate in professional further training, this compares with around 50% in large enterprises. Almost 80% of large family businesses regard investment in further training among their most important long-term personnel policy strategies.

There is no threat of a shortage of entrepreneurs or successors in Germany for the foreseeable future. Women and people with a migration background are blazing new trails as entrepreneurs. At the same time, there is room for improvement in relation to the general conditions for start-ups, particularly in relation to education in schools and the image of business founders among the population at large.

Transfers and take-overs are a major challenge for businesses and the people involved. Half of all transfers take place within families. In the case of large family businesses, this figure rises to three-quarters. The proportion of external take-overs may also rise.



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Introduction

Medium-sized enterprises are rightly regarded as the trump card of the German economy. Many of the successes achieved in recent years provide impressive evidence of this. So far, medium-sized enterprises have coped well with the crisis in the euro area. Companies continue to generate significant revenue and enjoy healthy balance sheets. Smart, far-sighted decisions, for example in the difficult year of 2009, the global alignment of many medium-sized enterprises, and traditional strengths such as flexibility and customer orientation are once again paying off. This is paying dividends for the entire economy. Medium-sized enterprises have played a very significant role in the strong rise in employment figures in Germany.

However, requirements remain high. The crisis is not over yet. The stress tests continue, particularly for businesses that focus more on European markets. Even though the economic climate in Germany and other countries less affected by the crisis is likely to improve after a dry period in the winter months, it may still be some time before the economy of the euro area is buoyant again.

In addition, the two-fold structural change caused by globalisation and demographics continues to challenge medium-sized businesses. Globalisation has now become a natural element of decision-making processes and activities for many businesses. This is evident in their varied involvement in the international division of labour, both in terms of sales and procurement. This leads to positive prospects for sustainable business successes in globalised markets. Accordingly, the main focus of concern is the fact that the international division of labour could be undermined as a result of the crisis.

People have largely lost sight of demographic changes. However, the fundamental demographic trends continue to apply. The population of European countries is ageing, and also shrinking in numeric terms. These trends have existed for years and are increasingly evident in the labour market. As a result of demographics, the number of younger workers available is declining. There are signs of a serious shortage of qualified workers. Well-qualified staff is already lacking in some key areas. At the same time, the labour force is ageing. The average age of staff is constantly rising.

While these elementary trends are pre-programmed and therefore independent of current economic activity, this also has a knock-on effect on demographics. The crisis gives rise to new patterns of employee migration in the euro area. Unlike in the two previous decades, since 2010 more and more people are migrating from Southern Europe to Germany, while fewer are moving from here to the south. This migratory pattern may continue for the next few years.

The consequences of demographic change for medium-sized enterprises are far-reaching. On the employment side, businesses are confronted with increasingly intensive competition for skilled employees. Businesses that are particularly committed in terms of personnel policy may enjoy advantages when it comes to acquiring and retaining talent. Similarly, the stabilisation of productivity and innovation in ageing societies requires greater effort, for example in terms of staff training. In addition, changes in population structure can also mean changes in customer needs for many companies. Last but not least, demographic change accentuates the problem of succession within businesses.

Business needs to come to terms with this structural change. Admittedly this is not exactly a new idea. For some companies, preparation for demographic change has been on the strategic agenda for some time. Others are only beginning to recognise the challenges.



Medium-sized enterprises and demographics

SMEs: Definition of official statistics 1

Category	Em- ployees	Revenue	or	Balance sheet total
Medium-sized enterprise	< 250	≤ EUR 50 m		≤ EUR 43 m
Small enterprise	< 50	≤ EUR 10 m		≤ EUR 10 m
Micro enterprise	< 10	≤ EUR 2 m		≤ EUR 2 m

This provides the context for examining demographic change and its implications for medium-sized enterprises once again below. Above all, the aim is to document the level of preparation among companies. The information is obtained from publicly accessible company surveys. As a starting point, it seems to make sense first to remind ourselves of the enormous economic significance of medium-sized enterprises and to map out the current economic situation.

A. The economic significance of medium-sized enterprises

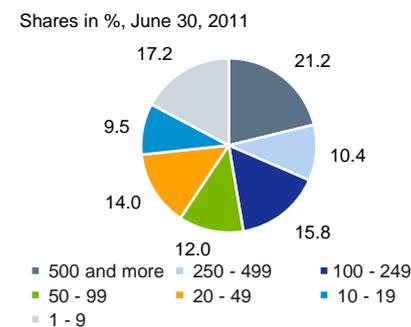
SMEs: Definition of the Institute for Medium-Sized Business Research (IfM) 2

Company size	Employees	Revenue in EUR/y.
Small	to 9	to less than 1 m
Medium-sized	10 to 499	1 to less than 50 m
Large	500 and more	50 million and more

Source: IfM

When drivers are sought for employment, innovation and economic growth, all eyes turn to medium-sized enterprises. This is evident in initiatives at different levels. In the past few years, the German Federal Ministry for Economics, for example, has launched several initiatives to promote the "German Mittelstand". The latest is called "Building on SMEs: greater responsibility, greater freedom".¹ The initiative seeks to improve the conditions for entrepreneurship and to create greater freedom and flexibility for medium-sized enterprises, and thus provide additional stimuli for growth and jobs in Germany. Economic policy in France is also increasingly focused on medium-sized enterprises. Thus, the funding of such companies is one of the key functions of the new state investment bank Banque publique d'investissement (BPI). Also, at EU level, the increased international orientation of SMEs is one of the goals of the "Mission Growth" initiative of the European Commission.

Employees subject to social security contribution according to company size 3



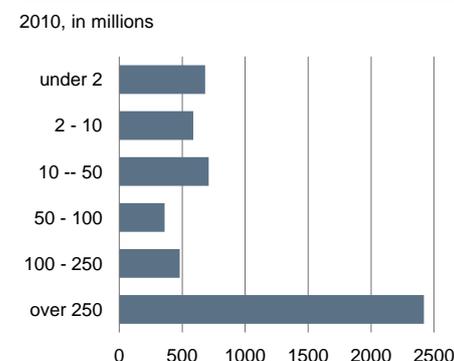
Source: BA

There are many good reasons for this focus. Take Germany for example. This country has a long and positive tradition of medium-sized enterprises, the importance of which it is hard to overestimate.

Small and medium-sized enterprises: An important economic sector

Anyone looking at the business landscape in Germany will immediately be struck by the considerable number of high-performance medium-sized companies both large and small. Even the small and medium-sized enterprise (SME) sector alone constitutes a significant economic force. This is already evidenced by the following facts:

Total revenue of businesses according to revenue class 4



Source: Federal Statistical Office

- A good 99% of the almost 3.62 million taxpaying businesses in Germany belong to the medium-sized business sector. Annual revenue in around 90% of these companies, however, is less than EUR 1 m.
- Small and medium-sized enterprises (SMEs) account for almost half of GDP.
- These businesses account for around 37% of all revenue from German companies. In 2010 this corresponded to sales of EUR 1.9 bn.
- SMEs employ 60% of those working in the corporate sector.
- Medium-sized enterprises provide over 80% of training places.
- Foreign sales amounted to EUR 186 bn in 2010 – part of an upward trend.

¹ See the Internet under <http://www.bmwi.de/EN/Topics/Economy/Small-business-policy/initiative-for-smes,did=388916.html>



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Definition of family business

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Family businesses can largely be characterised by four criteria:

1. one or more families hold the majority of voting rights and/or capital;
2. one or more families exercise a significant influence over the business because family members either occupy managerial positions within the business and/or have decision-making and/or control rights in the advisory/supervisory board or the general shareholders' meeting;
3. certain values are practised in a business, or a certain corporate culture pertains that is dominated by the family/families;
4. a desire for continuance exists in a business, i.e. the wish that the business should be handed on to the next generation of the family/families.

Sources: Stiftung Familienunternehmen, DB Research

Family businesses are particularly dominant in the enterprise environment

Small and medium-sized enterprises do not represent the whole picture in terms of the differentiated enterprise structure in Germany. There is a tendency to overlook the larger family businesses in particular, although this group is especially important. Unlike SMEs, family businesses cannot be defined by numbers of employees or revenue levels. Instead, qualitative features apply here, such as the power structure and the specific corporate culture (see box 5). These features do not depend on the size of the company, nor are they lost when an enterprise exceeds a certain size.

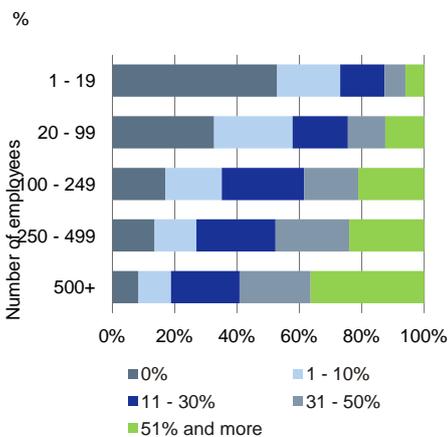
Family businesses are mainly characterised by particular entrepreneurial commitment of the owner families and a specific value orientation. This involves a managerial style based on continuity, sustainable value appreciation and a responsible approach, as well as a strong link with the original (production) location in many cases – even in internationally active businesses. Sustainability, service and proximity to the customer are thus often key aspects of the corporate culture. Other success factors identified by experts include the courage to be innovative and creative, flexibility, horizontal hierarchies and swift decision-making processes.

SMEs and family businesses overlap a great deal. More than 90% of small enterprises that employ fewer than 10 people are family businesses. Family businesses also play a significant role among larger companies that do not count as SMEs. If the cut-off point for SMEs is taken as a revenue of EUR 50 m, there are still around 4,440 businesses in this group.² Around one quarter of large enterprises with more than 500 employees are family businesses.³

Large family businesses are the powerhouses of the German economy. The top 500 family businesses employed 3.6 million people in 2010. That figure corresponds to around 13% of the workforce subject to social security contribution. Globally, these companies actually employ 4.5 m people. The 500 most profitable family businesses achieved a revenue of almost EUR 900 bn in 2010, representing around 17% of the total revenue of all businesses.

Export quotas of companies according to size*

6



* Employee numbers

Source: Federal Statistical Office

Medium-sized enterprises are increasingly involved in the export business

When measured in terms of the number of businesses, the export sector is also dominated by medium-sized businesses. 98% of the approx. 350,000 businesses working in the export sector are small or medium-sized enterprises. The number of export businesses has risen significantly since the 1990s. However, SMEs only have a 19% share of the total foreign revenue of German businesses (2010). This figure underestimates the significance of medium-sized enterprises for the export business. It only takes direct export revenue into account. However, many products from medium-sized enterprises are supplied to larger exporters as intermediate inputs (see p. 6f.).

The level of internationalisation depends on the size of the companies and, above all on the sector of industry. Larger enterprises tend to be more involved in export business than smaller ones, while industrial companies have a greater focus on exports than trading companies for example. This is demonstrated once again by the survey conducted among family businesses in autumn 2012 on behalf of Deutsche Bank and BDI. Across all sectors, the average export

² BDI and Deutsche Bank (Eds.) (2012). Major family businesses in Germany. Data, facts, potential. 2012 Autumn Survey.

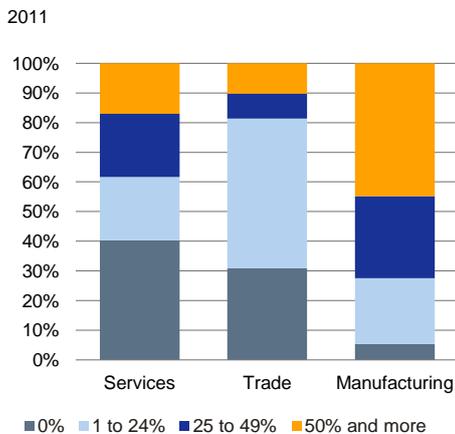
³ Stiftung Familienunternehmen (Eds.) (2011). Die volkswirtschaftliche Bedeutung der Familienunternehmen.



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Export quotas of family businesses by sector

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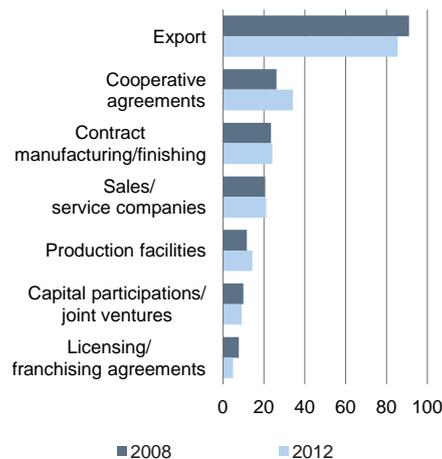


Sources: BDI, Deutsche Bank, IfM

Foreign relations among medium-sized industrial companies

8

Businesses active in the relevant area as a proportion of all businesses with foreign activities*, %



* 936 active members of the BDI medium-sized businesses panel

Sources: BDI, IfM

quota (share of revenue) among the companies surveyed in 2011 was almost 32%. The figure for larger family-run industrial businesses was actually 42%.

Many of the large family businesses in the industrial sector also employ staff abroad. This was true of 75% of these companies in the survey mentioned. In the trading sector, on the other hand, this was only true of one third of companies. However, foreign investments in particular are still mainly the domain of larger companies. Only about 3% of SMEs make significant investments outside Germany.⁴ According to the BDI, even among industrial medium-sized enterprises only 8% of businesses (a good 14% of the companies active abroad) had their own foreign production facilities.⁵ According to the same source (2012) 6 out of 10 medium-sized enterprises (58%) were active abroad. 86% of these were involved in exports, a good one third of them in cross-border cooperative ventures, almost one quarter in contract manufacturing and a good one fifth with their own sales and service companies.

"Secret" world market leaders are enjoying increasing attention among export-oriented medium-sized companies. These "hidden champions" (to quote Prof. Hermann Simon) are particular flagships for medium-sized enterprise. In many cases these are companies that have succeeded on a global level by specialising in a small number of products – sometimes just one single product.⁶ Many of these enterprises achieved three quarters of their revenue or more in foreign countries. Germany is now home to around 1,300 of these world market leaders. They account for around one quarter of all German exports.⁷

Medium-sized enterprises and large family businesses: The trump cards of the German economy

This data reflects the great economic significance of medium-sized enterprises, including family businesses, as expressed in measurable figures. However the significance of medium-sized enterprises goes far beyond this in the network structures of modern economies. The efforts of individual businesses and the way they interact often have positive (external) effects that are not always fully apparent in the results achieved by businesses. The factors that influence the strength of the German economy in particular include:

- Integration in value chains. The German economy is characterised by flexible value chains comprising companies of different sizes. Medium-sized enterprises play a variety of roles in the networks. As providers of all kinds of intermediate inputs that are often closely integrated in the production processes of their customers, they play an important role in enabling modern, highly-efficient production methods to be used in Germany. Likewise, services from medium-sized enterprises in the area of after-sales service, for example maintenance and repair, are key to success of the 'Made in Germany' strategy. In times of global sourcing, regional and national value chains continue to offer benefits such as short distances and easier communication. Above all, however, medium-sized enterprises bring

⁴ Schweer, Dieter (2010). Internationalisierung des Mittelstandes. Manuscript of a speech to the BDI/vbw event entitled "Chancen für den Mittelstand auf den internationalen Märkten: Auslandsgeschäfte erfolgreich finanzieren und absichern", 14 January 2010 in Munich.

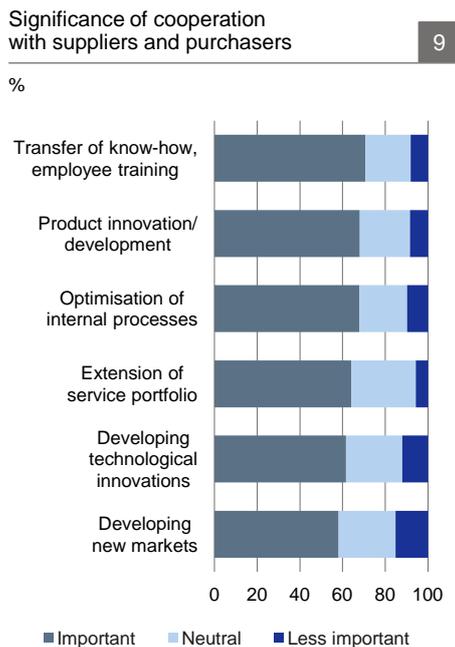
⁵ Cologne Institute for Economic Research (Eds.) (2013). BDI-Mittelstandspanel. Die Karten werden neu gemischt. Iwd No. 6.

⁶ Around one quarter of the almost 90,000 German businesses recorded in the export trade statistics export just one single product, around half up to four products and two thirds up to eight products. (This statistic does not fully cover SME trade in goods with EU countries, however.) See Wagner, Joachim (2012). Neue Fakten über Exporteure und Importeure. Eine Auswertung von Transaktionsdaten für 2009. Wirtschaftsdienst, Year 92 2012, H7, p. 496 ff.

⁷ Simon, Hermann (2012). Erfolgsgeheimnisse: Deutschlands Stärke hat 13 Gründe. FAZ 14.10.2012. idem (2012). Hidden Champions – Aufbruch nach Globalia. Die Erfolgsstrategien unbekannter Weltmarktführer. Frankfurt/New York.



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Source: IfM

their strengths to the value chain: the familiar high levels of flexibility, efficiency, innovation, customer orientation and reliability.

- Seeds for the formation of clusters. It is almost inconceivable that high-performance clusters could be formed without the contribution of medium-sized enterprises. Together with the universities or other research institutions, larger family businesses are key to forming the seeds for clusters in many regions. Businesses from a single sector typically work together in clusters. They use a common labour market. This gives rise to efficiencies. Not every business has to train all specialist staff itself. Training institutions can be equipped to cater for specific needs. In addition, the pool of available qualifications will be enhanced if employees work in different companies over the course of their careers. This is how clusters promote the production and distribution of knowledge. They act as seed beds for innovation, investment and enterprise and thus for economic growth. The interesting fact is that clusters of different kinds have arisen in Germany. Both vertical and horizontal sector clusters as well as clusters of companies from different sectors of industry have formed around larger businesses, many of them family businesses.
- Drivers for regional business. In many cases, larger medium-sized enterprises act as drivers for prosperity and employment. They are often the largest employers or even the main employers in specific localities. In many cases, larger businesses also act as clients and drivers for the entire regional economy – for example in the area of related services and also for intensive added value services, such as consulting, and for less complex services, such as cleaning and site security. However, around two-thirds of the TOP 500 companies in terms of revenue and employee numbers are to be found in the three federal states of North Rhine-Westphalia (2010: 137 of the top companies in terms of employment and 144 in terms of revenue), Baden-Württemberg (105 and 102) and Bavaria (93 and 89). In 2010, only 9 of the TOP 500 companies (in terms of employee numbers or revenue) came from the federal states that made up the former East Germany.
- Creative niche specialists. Medium-sized enterprises play a significant role in enabling the German economy to offer a broad range of goods and services. Medium-sized enterprises have proven themselves to be particularly creative when it comes to accessing new markets. Many companies are niche specialists. They can attribute their success to products that are innovative and unique in terms of quality and/or functionality. The hidden champions are the best example of this.
- Contributions to greater internationalism in business. The hidden champions are also representative of the internationalisation of medium-sized enterprises. Larger family businesses, in particular, are closely involved in the international division of labour. This is true not just on the sales side, but also on the procurement side. 87% of the largest family businesses already purchase a sizeable share of their intermediate inputs from abroad. This is shown by the spring 2011 survey commissioned by Deutsche Bank and the BDI. Enterprises are thus working on both sides to extend the added value chains of German businesses towards the world markets.
- Through their extensive activities abroad, medium-sized enterprises help secure jobs at home.⁸ The same principle applies to investment abroad. Empirical analyses show that – contrary to common fears – outsourcing does not lead to job losses in Germany. On the contrary, without a con-

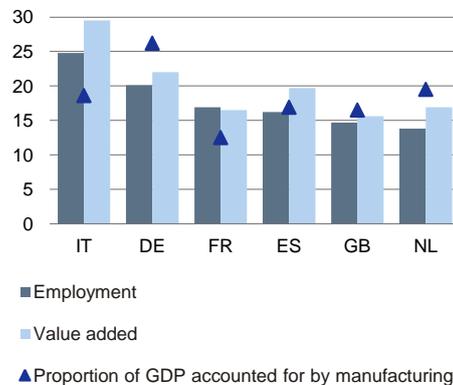
⁸ The German economy's turn towards the East, i.e. the enormous rise in trade between Germany and Eastern Europe and China, created a half a million new jobs throughout the country between 1988 and 2008. See Dauth, Wolfgang et al. (2012). The rise of the East and the Far East. German labor markets and trade integration. IAB Discussion Paper, 16/2012.



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Varying significance of industrial SMEs 10

Proportion of manufacturing SMEs in terms of employment / value added of all SMEs, 2012*, %

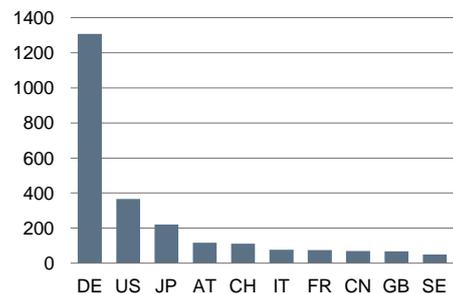


* Estimates

Sources: European Commission, DB Research

"Hidden Champions" - Germany in the lead 11

Number of companies, 2012*

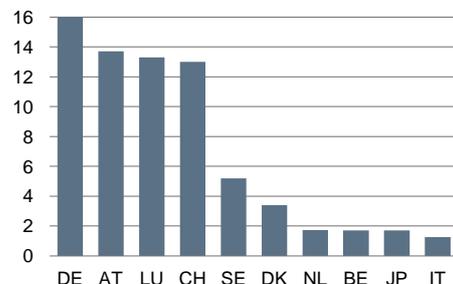


* or last value available

Source: Hermann Simon

Germany also has the largest number of "hidden champions" per capita 12

Number of companies per one million inhabitants



Sources: Hermann Simon, Eurostat, DB Research

sistent strategy in German business towards globalising production processes, i.e. making greater use of the benefits of outsourcing and offshoring than its European competitors, the economic successes of recent years would not have been possible.⁹

German medium-sized enterprises in the European context

However, Germany's economy is not alone in having a strong culture of medium-sized enterprise. The fact is that medium-sized enterprises provide the most jobs in many EU partner countries and generate the lion's share of revenue in the private sector. If one considers SMEs alone, their total share of employment, added value and total revenue in many partner countries is actually even higher than in Germany. This applies to our neighbours, such as France and the Netherlands, as well southern European countries.

However, Germany is characterised by a comparatively strong position in industrial medium-sized enterprises. A good 20% of all those employed in SMEs work in smaller and medium-sized industrial enterprises. This puts Germany out in front of partner countries (FR 17%, GB 15%, NL 14%). Industry is even more heavily represented among large family businesses. Approx. 60% of the 500 largest family businesses in Germany come from manufacturing. In 2010 these numbered 316 businesses in terms of revenue and 298 businesses in terms of employee numbers. Large family businesses only have a similar level of importance in some partner countries, such as Italy, Austria and Sweden.¹⁰

Medium-sized industrial enterprises in Germany are weighted relatively heavily in favour of high-tech businesses. In Germany, more than 18% of SMEs are active in this area, compared with 12% in the EU as a whole. This accentuates the role of industrial medium-sized enterprises in the German economy.

However, Germany's main unique selling point lies in the relatively large number of "hidden champions". While over 1,300 world market leaders have their headquarters in Germany, this number is far smaller in other EU countries, such as France which has 75, and even Japan and the USA, which have 220 and 366 respectively. When calculated in per capita terms, the differences with respect to the countries mentioned is even more surprising.

The crisis in the euro area and demographic changes are clouding prospects in European markets

The economic environment for medium-sized enterprises is currently dominated mainly by the difficult situation in many markets because of the crisis in the euro area. The risk of a collapse of the euro area, still considered high last summer, has been sustainably reduced thanks to the decisive intervention of the European Central Bank. In addition, the crisis-ridden peripheral countries are reporting progress with the necessary changes, such as improving their competitiveness. However, economic growth in many European countries may remain modest even after the current recession in the euro area has passed. This is to be expected in cases in which not only the government itself is highly indebted, but also businesses in the real economy and private households, as is

⁹ Outsourcing enhances the productivity of businesses. However no losses are to be expected in the outsourcing countries. Cf. Meyer, Thomas-D and Florian Schüller (2011). Outsourcing: Division of labour gives competitive edge. Deutsche Bank Research. Research Briefing, Dec. 13, 2011; and Bräuninger, Dieter (2007). Globalisation and Distribution. Industrial countries also face the challenge. Deutsche Bank Research. Current Issues, Nov. 21, 2007.

¹⁰ Mandl, Irene (2008). Overview of Family Business Relevant Issues. Study on behalf of the European Commission, General Directorate for Business and Industry.



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the case in Spain and Portugal, necessitating longer austerity and deleveraging measures.

Europe's current difficulties underline it once again: the prospect of dynamic market growth is mainly to be found in the emerging markets. This is mainly supported by three factors, which should be recalled at this point:

- the continuing potential for 'catch-up' growth – measured as per capita GDP;
- continued relatively low government debt;
- a highly dynamic population in many cases. Many emerging markets can, for the next ten years at least, profit from a young and increasingly well qualified population. This strengthens growth capacity not just on the supply side, but also ensures lively demand together with the potential for recovery in terms of infrastructure. The focus has rightly turned to the growing middle class in the emerging markets.

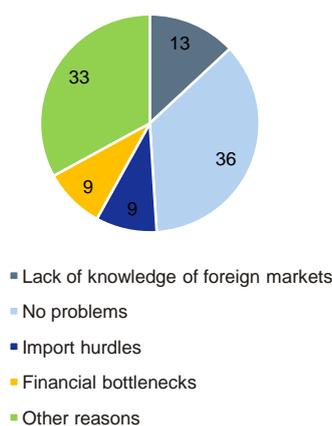
SMEs are currently under-represented in the emerging markets

This means that the lines of force in the global economy will continue to shift. The emerging markets are already responsible for 50% of global economic performance. According to OECD estimates, this figure will rise to around 60% by 2030 at the latest. China's share of gross world product is now almost 11%. In 1990 this figure was only just over 2%. By the middle of the next decade, China will probably have become the largest national economy in the world. However, the focus may become broader, moving beyond the BRIC countries to encompass a wide range of dynamic countries.¹¹

Export obstacles for SMEs

13

%



Source: EU

The export map for Germany's medium-sized enterprises does not yet sufficiently reflect the new growth areas in the global economy. The partner countries in the euro area still play a significant role here. For many export-oriented SMEs these are still the most important export markets.¹² In contrast, large family businesses are more in line with the times. For these significant businesses China was already in second place among key foreign markets in 2010, coming after France and ahead of the USA.¹³ It is important that businesses should have a presence on the ground. In the future, it will be increasingly difficult to tap the potential of precisely these dynamic emerging markets through exports alone.

Many export-oriented SMEs are already planning to realign their foreign involvement. Naturally, such a step is a real challenge in view of the significantly greater distance of many emerging markets and the greater linguistic and administrative barriers to be overcome. However, given their strong and early engagement with the countries of Central Europe, medium-sized enterprises already have a proven track record in successfully negotiating new terrain. They should also be able to repeat this feat in the emerging markets, particularly in Asia and Latin America. Cooperative partnerships between businesses could make this easier.

¹¹ State agency Germany Trade & Invest recently produced a portrait of ten dynamic future markets, located in Africa and Asia in particular, under the title 'Top Exportmärkte 2013'.

¹² In September 2012, the barometer for medium-sized companies published by corporate consultants Ernst & Young showed that medium-sized German companies are involved mainly in Western Europe and in the countries of Central and Eastern Europe. According to the BDI, there is still a strong focus on the European market, particularly amongst exporting SMEs. See Schweer, Dieter (2010). I.c.

¹³ BDI and Deutsche Bank (Eds.) (2011). Major family businesses in Germany. Data, facts, potential. Results of the 2011 Spring Survey.



Megatrends also lead to opportunities in the domestic market

It is important that medium-sized enterprises seize not only the opportunities available in far-off foreign markets. After all, the domestic market should also offer plenty of business opportunities. Greater than average dynamism should mainly prevail in fields in which ongoing megatrends are setting the pace. Three much-discussed trends are:

- This increasing digitisation of business (keywords: Internet-based business models as models for the future, Smart Home, Smart Factory, Smart Everything, Industry 4.0);
- the changeover to alternative energy sources and climate change (further expansion of renewable energy sources, e-mobility, energy restructuring);
- demographic change, in particular the growing number of older people (health as the core of the 6th Kondratiev cycle).

Medium-sized businesses can help influence these trends and can benefit from them. Many SMEs and family businesses are already active in the various relevant fields. Electronics, mechanical engineering, measurement and control technology, medical technology, building technology and many other industries involved here have a significant representation among medium-sized enterprises.

However, the question remains whether medium-sized enterprises in Germany have the necessary resources to be able to exploit their opportunities. Challenges that apply in the context of demographic change, in particular changes in the workforce, are discussed below. One of the main concerns here is the lack of skilled personnel, while another is succession within companies.

B. The challenge of demographic change

Shortage of specialist staff: A concern for medium-sized enterprises

The shortage of specialist staff is a common theme. This is an expression of the concern that, as a result of demographic change, as well as inadequacies in the education and training system, skilled workers are becoming increasingly hard to find. Concerns are even greater because the demand for specialist staff is set to rise in many parts of an economy that specialises in high-tech and high-quality goods and services in the face of tough global competition. Since the end of the 1990s alone, the proportion of employees who perform skilled or highly skilled jobs has risen by around 10%.¹⁴

The diagnosis seems conclusive. However this is a controversial subject, with the acuteness of the situation being the point most in dispute. On the one side there are the economists, such as the representatives of the DIW (German Institute for Economic Research), who do not believe that there is a serious problem here at present. They argue that so far there has been no clear signal of increasing shortages in the skilled labour market, namely wage rises. On the other side there are the professional groups and business institutions that have long complained about significant shortages in the supply of specialist staff. The focus is mostly on technical or MINT professions (Mathematics, Information Science, Natural Science, Technology and Engineering).¹⁵ Thus, in autumn 2012, the Cologne Institute for Economic Research reported a shortage of

¹⁴ Bechmann, Sebastian et al. (2012). Fachkräfte und unbesetzte Stellen in einer alternden Gesellschaft. Problemlagen und betriebliche Reaktionen. IAB Progress Report 13/2012.

¹⁵ Institut der deutschen Wirtschaft (Ed.) (2012). MINT-Herbstreport 2012. Berufliche MINT-Qualifikationen stärken.



Medium-sized enterprises and demographics

skilled staff in the MINT sector of 120,000 people (compared with 130,000 in spring 2012). The shortages were particularly serious in the engineering professions – mechanical and automotive engineering.

This is not the place to assess this debate and the associated data. This is also difficult because there is a lack of generally accepted indicators for shortages in the labour market.¹⁶ Possible indicators include the existence and duration of vacancies (problem: the data reported by the employment agencies is not complete), vacancy rates or results of company surveys.

However, sectors and regions obviously exist in which companies are already experiencing major difficulties finding suitable staff. There is no doubt that there is a shortage of engineers, IT experts and doctors in many regions in Germany. This is confirmed by the latest assessment by the Association of German Chambers of Industry and Commerce, based on over 20,000 responses from companies with up to 1,000 employees. This indicated that in autumn 2012 29% of businesses found themselves unable to fill vacancies for two months or longer. Temping agencies, health and social service providers, engineering practices, high-tech companies and IT service providers are particularly affected. In the autumn 2012 survey conducted by Deutsche Bank and BDI, 58% of the largest German family companies surveyed complained of difficulties in filling their vacancies over the previous twelve-month period.¹⁷

The shortage of skilled staff does not just relate to academics. The fact is that businesses are reporting particular difficulty filling vacancies in a wide range of technical professions and in the healthcare sector. In the autumn 2012 survey conducted by Deutsche Bank and BDI, three-quarters of the family businesses with recruitment difficulties surveyed reported particular difficulty finding skilled staff with professional training. Businesses in rural areas encountered these problems with above-average frequency.

Shortage of specialist staff: Not an inevitability

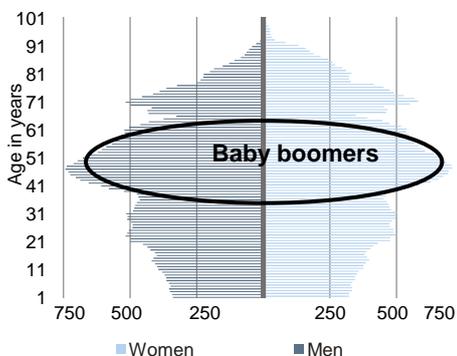
Current shortages are rightly seen as warning signs. If politicians and society, as well as business, do not make decisive interventions, there is a risk of more serious problems in the skilled labour market in Germany in the long term. For example, on the one hand, the demand for specialist staff should continue to increase. After all, there is no reason to suppose that the intensity of international competition, the tempo of technological change or the trend towards labour intensive services, e.g. healthcare, are going to decline. On the other hand, the demographic change driven by the continuing low birth rate for the last four decades and increasing life expectancy is having a sustained impact on the labour market. The pool of available workers is ageing and their numbers are tending to dwindle. This process is accentuated in Germany and many other countries by the ageing of the baby boom generation. Slippage can be expected from the middle of the coming decade onwards as this generation retires from the labour market due to their age.

Naturally a lot depends on how employment and immigration patterns develop. Unless there is an upswing from these quarters, there is a risk that the labour market will actually collapse. On the other hand, the market may remain relatively stable for a long time if the existing potential is tapped. This is shown by analyses and calculations carried out by Deutsche Bank Research (see box on p. 12).

Population structure 2010

14

Number in 1,000



Source: Federal Statistical Office

¹⁶ Maaß, Frank and Annette Icks (2012). Analyse des deutschen Zuwanderungssystems im Hinblick auf den Fachkräftebedarf im Mittelstand. IfM materials No. 217.

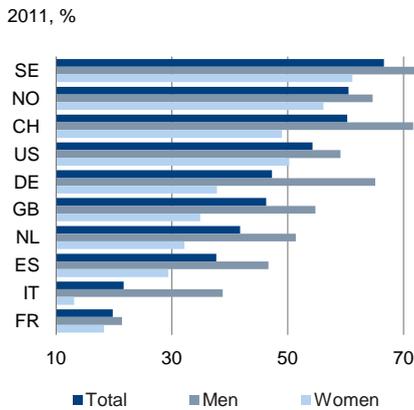
¹⁷ BDI and Deutsche Bank (Eds.) (2012). Major family businesses in Germany. Data, facts, potential. Results of the 2012 Autumn Survey, p. 18f.



Medium-sized enterprises and demographics

Labour force participation rate in the 60 to 64 age bracket

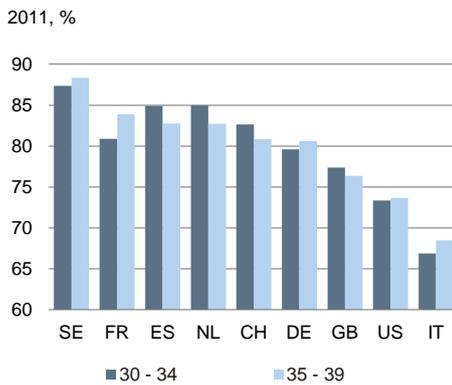
16



Source: OECD

Labour force participation rate for young women

17

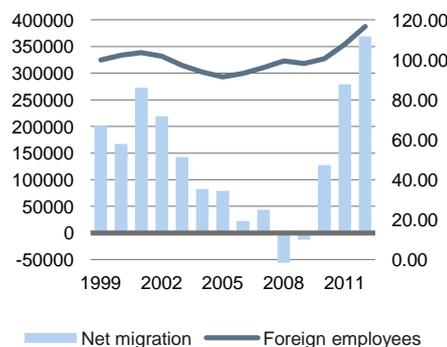


Source: OECD

Net migration & foreign workers subject to social security contribution

18

Net migration, absolute (left), foreign workers subject to social contrib., 1999 = 100 (right)



Sources: BA, Federal Statistical Office, DB Research

Scenarios for potential sources of personnel*

19

Shortage of specialist staff due to demographic change not an inevitability, ...

In an unfavourable scenario that does not provide for either increased immigration (basic assumption around 100,000 persons p.a. as is the average for the last decade) or higher employment take-up among the indigenous population, the number of workers available would decline by 2030 by about 6.6 m or around 15%.

Admittedly, Germany can build on help from abroad, namely immigration. Thanks to its relatively good position in the labour market, Germany has gained attractiveness as a destination for migrants. Thus, in 2011 there were 279,000 immigrants, while this figure rose to 369,000 in 2012. These include many workers from Central and Eastern Europe, who have had free access to the German labour market since May 2011. In addition, there has been an influx of more young people from the crisis-ridden countries of Southern Europe (net immigration in first half of 2012 almost 30,000).

However, large-scale immigration from EU partner countries, particularly the euro area, is a temporary phenomenon. When employment prospects have improved there, few workers will move to Germany from the peripheral countries – as was the case in the years prior to the crisis. In the longer term, the numbers of returning migrants may outweigh the numbers of immigrants, particularly because workers could also become scarce in these countries due to demographic change. If immigration is to support the availability of workers on a sustainable basis, Germany must focus much more than before on workers from third countries outside the EU.

Unlike immigration, the opportunities offered by an increased level of people returning to the labour market are not given sufficient consideration. In particular, there is plenty of scope for increased involvement of women and older people in the labour market. Thus, although the quota of 60-to 64-year-olds in the labour market (comprising the employed and unemployed) is 47.3% in Germany (2011), which is above the average for industrialised countries, 45.7%, it is still below the quotas in countries like Sweden, Norway and Switzerland, which are over 60%. Germany should get closer to this figure with the increase of the statutory retirement age to 67. Overall, the cohort of over 60-year-olds in the labour market could increase by a good 1.5 m by 2030.

In the case of women, there is still scope to encourage individuals back to the work force not just among 60 to 64-year-olds (labour force participation rate 38.7%). The fact is that there are more younger women, particularly mothers, outside the labour market than in other countries. Thus the participation rate for 30 to 34-year-old women in Germany is around 80% (2011), compared with 87% in Sweden and almost 85% in the Netherlands. In addition, the quota of women in part-time employment in Germany is relatively high. While almost 21% of working women work for less than 20 hours per week in Germany, this cohort only represents 7.9% in Sweden and 8.8% in France.

All in all, the available workforce could be kept at the current levels until the middle of the next decade by increasing employment quotas, particularly if immigration remains dynamic. Longer working hours could counteract the shortage in the workforce, too. What's more, the threatened deficit in skilled staff could be countered with an offensive aimed at training younger people who lack sufficient training and who are not in adequate employment and by reintegrating them into the labour market. At the same time, it is realistic to assume that the number of available workers and the volume of work will decrease significantly as baby boomers begin to leave the labour market in significant numbers towards the end of the 2020s.

...however, major structural changes are inevitable

Putting aside the question as to how long the number of workers will remain stable, the structural change in the labour market is moving on: available workers are getting older. While at present around 29% of potential workers (the employed, the unemployed plus undisclosed reserves) are aged 50 or more, this figure will be 34.6% by 2030 and 35.5% by 2040 according to projections by the IAB in Nuremberg. It should be noted that the number of workers aged over 60, in particular, will increase appreciably. This is due not only to the ageing of the baby boomers, but also to the gradual increase in the statutory retirement age to 67. On the other hand, the number and proportion of younger workers will decrease significantly by about 1.8 percentage points by 2030, reaching 19%.

* cf. Gräf, Bernhard (2011). The German labour market. Demographic shift poses formidable challenges. In: Germany: No longer the island of the blessed. Deutsche Bank Research. Current Issues, Aug. 23, 2011.



Medium-sized enterprises and demographics

The potential workforce is becoming older, more international and more female

Is the workforce dwindling in Germany? An increasing shortage of personnel, particularly skilled staff, is a realistic scenario. Nonetheless, there is no need to be overly pessimistic. The demographic change is not about to cause the labour market to dry up. This is shown by the calculations carried out by Deutsche Bank Research. In fact there are ways in which the supply of workers can be increased sustainably. There has already been a great deal of debate about immigration. However, the greater involvement of women and older people in the labour market can also make a significant contribution. There is no way to halt the process of ageing of the workforce due to the significant weighting of the baby boom generation. The following thus applies to a sustainable, fully functional labour market in ageing countries: the workforce will (have to) become older, more international and more female and the competition for young, skilled staff is going to get tougher.

The process of ageing within the workforce is already under way. While in 1991, 56.5% of all those eligible for work (both workers and the unemployed) were aged under 40, today this figure is around 42%. As a corollary, the proportion of those eligible for work aged 40 and over has risen to around 58%. There has been a special dynamic among 55 to 64-year-olds for some time. The number of workers (employees with social insurance obligations) in this age group rose between 2000 and 2011 by 1.92 m (1.32 m) or almost 45% (47.6), while overall employment increased by almost 9% (2%). The proportion of 55 to 64-year-olds in employment thus rose by almost 4% points to 15.6%. This is mainly the result of the increased level of employment among people of this age (cf. p. 11).

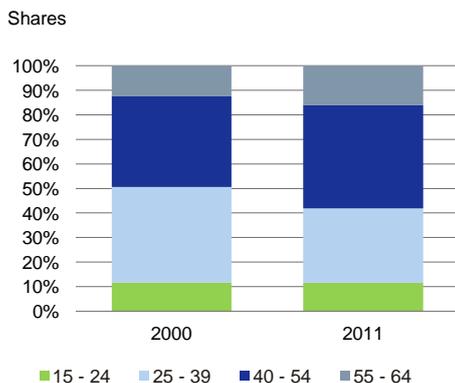
The age structure among staff in SMEs does not differ greatly from the age structure of the entire group of employees with social insurance obligations. This is hardly surprising in view of the fact that the SMEs account for 60% of all those in employment. However, employees in smaller businesses with fewer than 50 members of staff are slightly younger on average. The proportion of young staff under 35 in these businesses is a good 35%, while the same figure for all businesses is 32.5%. In the case of the proportion of staff over 55, the difference is a little smaller at 14.2% vs. 14.9% among all businesses. Nonetheless, these future changes will have clear consequences for all businesses.

Businesses play both a passive and active role in demographic change. On the one hand they need to adjust to the trends outlined. The growing shortage of young skilled workers is a fact that businesses can only influence to a limited extent (by promoting training and education). Nor can they escape the resulting increased competition for skilled junior staff. The story is similar for the growing proportion of older people in employment. Ageing among staff is pre-programmed for most businesses due to demographics.

On the other hand, it is up to all businesses to decide the extent to which demographics are allowed to become a labour market problem. Businesses need to play a role alongside politicians and society in making the best possible use of the potential of the workforce. Thus, the willingness of mothers or older people to offer their services depends on employment conditions in businesses, among other things. This in turn links up with questions like the work-family balance and working hours. Increased competition for staff may produce incentives and conditions that will increase employment activity and attract migrant workers. This is something that can be worked on. These are some of the benefits of the market economy system. Naturally, the advantage will lie with businesses who take the necessary steps at an early stage.

Age structure of the labour force in Germany

20

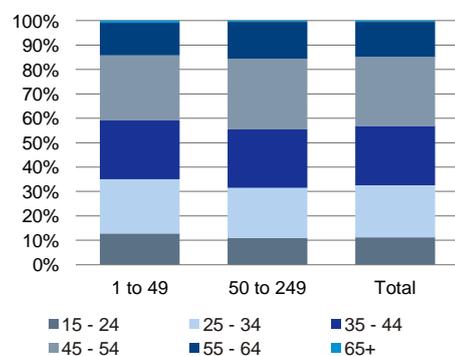


Source: OECD

Age structure of employees according to business size*

21

Proportion of employees subject to social security contribution, June 30, 2012, %



* Employee numbers

Sources: BA, BMAS, DB Research



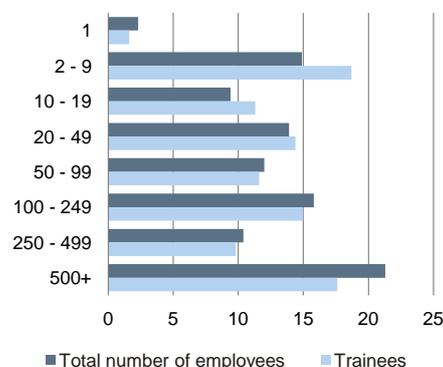
Medium-sized enterprises and demographics

Medium-sized enterprises are aware of the challenges ahead

Major commitment to training in SMEs

22

Share of enterprises according to size*
in total training/employment in Germany, %



* Employee numbers

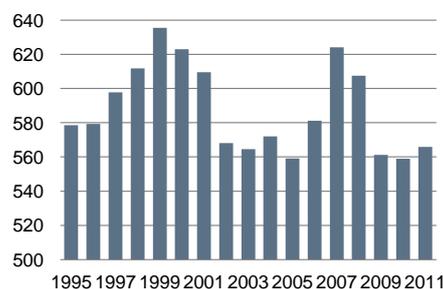
Source: BA

The new shortages in the labour market pose fundamental challenges to all businesses. It is not possible to generalise about whether large or small businesses are more affected. Studies on this are producing contradictory results.¹⁸ For example, larger businesses can build on a higher level of recognition. This should increase the chances of attracting skilled staff from outside the region. In addition, the bigger the business, the greater the outsourcing and off-shoring options. However, larger companies tend to need more staff, particularly because these businesses tend to have higher fluctuation rates. On the other hand, SMEs have above-average involvement in training skilled personnel and thus cultivate their "own" successor staff. The nature and location of a business may be of greater importance than its size. It is likely that the supply of skilled staff for IT and other high-tech companies and in the health-care sector will attract particular attention. In the regions, different problems may arise that can only be touched upon here. Thus, on the one hand, it will be increasingly difficult to find skilled staff in rural areas with unfavourable population structures, simply due to supply. On the other hand, dynamic regions with a lively demand for skilled staff will be subject to extremely intensive competition for the brightest and best.

The number of training contracts on offer is declining

23

Number in 1,000*



* Change in recording of statistics in 2007; previous years only partly comparable

Source: Federal Statistical Office

Medium-sized enterprises and, in particular, large family businesses are familiar with the problems:¹⁹

- Three-quarters of these businesses see the shortage of specialist and managerial staff as the greatest future challenge to their personnel policy. This proportion is smaller among those companies that see themselves as attractive to skilled staff from outside the region, however.
- Half of large family businesses see the rising age profile of the workforce as one of the three biggest personnel policy challenges for the future.
- Almost 42% expect that there will be a shortage of trainees. An analysis by the Institute for Medium-Sized Businesses Research (IfM) dating from 2007 showed that almost 45% of the SMEs surveyed, including a disproportionately large number of medium-sized companies, expected personnel costs to rise.

The fact that so many businesses are aware of the challenge in the labour market is a good sign for Germany. Companies not only recognise the problem, many of them are also responding appropriately. This is illustrated by the phase of economic collapse in 2009: in the face of the threatened shortage of skilled staff, many medium-sized companies kept their staff on board despite some significant declines in terms of revenue.

Sustainable personnel policies require a wide range of investments

How can businesses arm themselves today? In simple terms, two major alternatives are available:

- in the first place, businesses need to position themselves in line with their business objectives in order to compete for skilled staff. This broad field relates to strategies and procedures for recruiting and retaining staff, as well as the question of how businesses can present themselves as attractive employers.

¹⁸ cf. Mesaros, Leila et al. (2009). Fachkräftemangel in KMU – Ausmaß, Ursachen und Gegenstrategien. Expertise im Auftrag der Friedrich-Ebert-Stiftung. WISO Diskurs. November 2009 and the literature listed there.

¹⁹ BDI and Deutsche Bank (Eds.) (2012). I.c. p. 29f.

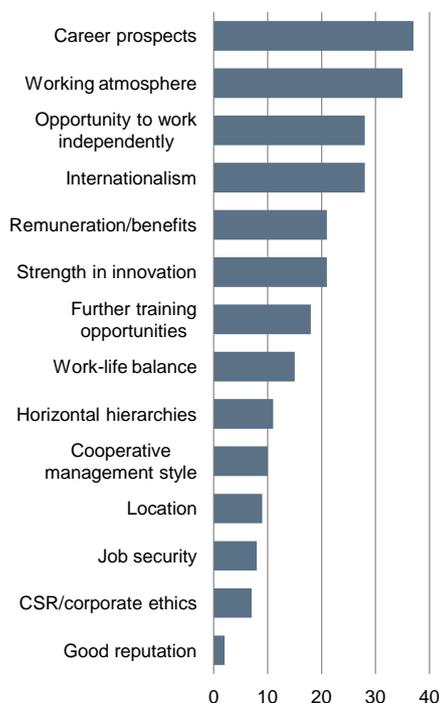


Medium-sized enterprises and demographics

Factors that influence young academics when selecting employers

24

Result of surveys 2008-2010, %



Source: Stiftung Familienunternehmen

— secondly, conditions must be optimised in order to enable employees to be deployed efficiently within companies. This covers operational personnel development (training) as well as the (age-appropriate) organisation of jobs.

In short, in the face of an ageing society, sustainable corporate personnel policy requires involvement and investment in the recruitment of talent, in the reputation of the company as an employer, particularly of qualified women, in the training of staff and in jobs. These points cannot be discussed in detail here, particularly as the focus is less on specific recommended actions.²⁰ Instead, we shall outline how medium-sized businesses adjust to personnel policy challenges.

Young academics: Wide range of expectations when choosing an employer

Before this, it seems prudent to take a quick look at the expectations and wishes of young skilled staff in relation to potential employers. A survey of young academics initiated by the Family Businesses Foundation (Stiftung Familienunternehmen) produced the following list (see also chart 24):²¹ High among priorities are good career prospects and other factors relating to the work environment, such as a good working atmosphere. Opportunities for training and a good work-life balance are also important for young academics in particular. Irrespective of the importance of non-material incentives, young academics still value attractive remuneration packages.

Recruitment: Several channels may bring success

When advertising for skilled staff, successful businesses use several channels. Vacancies are increasingly advertised and filled using new media. This was the result of a study led by the University of Bamberg.²² Large portions of the medium-sized businesses surveyed use job adverts on the company's website (57%), Internet jobs boards (31%) and messages in social media (48%) or regard these channels as useful. 90% of family businesses with more than 1,000 employees use the Internet to recruit personnel.²³ Cooperative initiatives involving universities (supervision of master's theses or dissertations) are also commonplace. There is another trend whereby employees (outside the personnel department) are used as multipliers in the recruitment process. This harks back to a tradition practised within medium-sized businesses in particular whereby companies employ several members of the same family (e.g. father and daughter).

Services such as an occupational old-age pension scheme enhance the attractiveness of businesses as an employer

Even if Generation Y values good career prospects, teamwork, horizontal hierarchies and the right work-life balance, it is also attracted by pecuniary incentives (see above). The central focus here, naturally, is direct remuneration. Accordingly, 78% of large family businesses offer pay rates above the collective

Benefits of occupational pension provisions

25

- Plus points in the competition for skilled staff.
- Strengthening of employee loyalty and identification with the company.
- Improved motivation among employees.
- Increased productivity and profitability through lower fluctuation and greater motivation.
- Opportunity to save on tax contributions.
- Evidence of social responsibility and promotion of the company's reputation.

²⁰ Further information can be found at the Skilled Worker Offensives portal set up by the Federal Ministries and the German Employment Agency.

²¹ The survey involved 465 young academics who attended the "Karrieretag Familienunternehmen" recruitment fair between 2008 and 2010. See Stiftung Familienunternehmen (Ed.) (2011). *Attraktivität von Familienunternehmen als Arbeitgeber. Eine empirische Untersuchung der Sicht junger Akademiker*. Bearbeitet vom Wittener Institut für Familienunternehmen.

²² Weitzel, Tim et al. (2012). *Recruiting-Trends im Mittelstand 2012*. On the Internet under: www.job-affairs.com/externe-studien.html

²³ BDI and Deutsche Bank (Eds.) (2012). I.c. p. 22f.

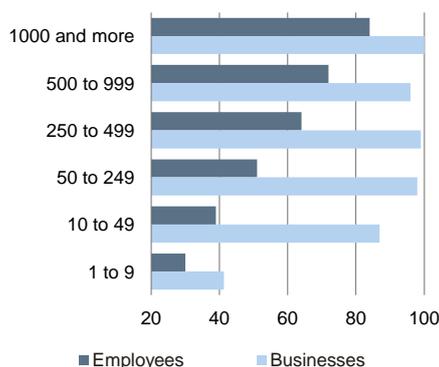


Medium-sized enterprises and demographics

Occupational pension provisions: Still plenty of room for SMEs

26

Proportion of businesses/employees with occup. pen*, priv. enterprises accord. to size**, 2011, %



* (a claim to) an occupational pension
** Employee numbers

Sources: BMAS, TNS Infratest Sozialforschung

tariffs in order to attract, motivate and retain staff. Success and profit-sharing models pursue the same objectives and are offered by 73% of these companies.

An attractive, modern remuneration package involves more than this. The offer of an occupational old-age pension scheme enables businesses to score extra points in the competition for skilled staff. An occupational old age pension is increasingly becoming an indispensable element of a comfortable pension for young people, who can only expect to receive a relatively limited state old-age pension when they retire.

This attitude is very widespread among large family businesses. According to the Deutsche Bank/BDI autumn survey, significantly more than 90% of these businesses offer an occupational old-age pension. There is still room for expansion among SMEs. Only around 40% of private businesses with fewer than 10 employees subject to social security contribution have established an occupational old-age pension system. However, this figure is almost 87% among businesses with between 10 and 49 employees.

The correlation with the size of the businesses is much clearer when it comes to the incidence of occupational pension plans among employees. Only 30% of employees in small businesses are entitled to an occupational pension and this figure is still only around 50% in businesses employing between 50 and 249 people. On the other hand, this figure is around 84% in large businesses with over 1,000 employees. Experience shows that employees are generally more willing to join pension schemes if employers make a financial contribution to the pension provisions for their staff. This is a good opportunity for medium-sized businesses in particular to exploit the financial benefits that accrue for employers from the social security exemptions for deferred compensation.²⁴

Time-value accounts: Greater flexibility in working life

27

Time-value accounts make it possible for employees to "save" working hours and/or part of their pay for later phases of their working lives. This gives employees greater flexibility in their careers.

Employers also benefit: they contribute to a better work-life balance for employees, enhance their motivation and loyalty to the company and gain flexibility.

These accounts can be used to record equivalent values of overtime, remaining vacation and special payments or ongoing salary components. The relevant amounts are recorded in a value account. The amounts saved can then be redeemed later as required. Redemptions can be used to cover training, early retirement, "sabbaticals" or individual emergencies. It is also possible to transfer them to an occupational pension scheme.

Work-life-balance: Opportunities for SMEs

Businesses try to cater to the desire for an appropriate work-life balance by offering flexible working hours and measures designed to help employees balance the demands of work and family life. Naturally this is easier for larger companies. Flexible working hours models are available to employees in 80% of large family businesses. These include both traditional solutions, such as part-time employment and flexible working hours, as well as modern instruments such as teleworking and working hours accounts (time-value accounts).

Instruments like time-value accounts, and new arrangements for occupational pensions could also help support new, flexible forms when the time eventually comes to retire from work. They could be used to help top up income if older employees no longer wish to work full-time in the last phase prior to retirement.

However, smaller businesses do not need to miss out when it comes to the question of work-life balance. Thus, for example, there are many alternatives to the offer a company kindergarten if the business wishes to help parents balance the demands of work and family life. Examples of such family-friendly options can be found on the websites of various state-sponsored initiatives.²⁵ Likewise, not just larger businesses, but also smaller ones can meet the demand among employees for flexibility in terms of working hours. For example, banks also offer solutions for smaller businesses involving time-value accounts.

²⁴ In Germany parts of the remuneration (up to a maximum of 4% of the income limit (west) for chargeable contributions for statutory pension insurance, 2013: EUR 69,600) can be converted tax-free and without liability for social security payments in order to obtain entitlement to an occupational pension. Employers also save the social contributions. This currently amounts to EUR 192.75 for every EUR 1,000 converted.

²⁵ This includes for example the "Mittelstand und Familie" initiative of the Bertelsmann Foundation and Federal Ministry For Families (www.mittelstand-und-familie.de) and the "Beruf & Familie" Centre of Competence of the State of Baden-Württemberg (www.kompetenzzentrum-bw.de).



Looking for talent in other countries: Many companies run into difficulties outside the EU

One way out of the difficulties encountered when recruiting skilled staff in Germany is to look for talent abroad. Thus, at present, many young people from Southern Europe are looking for work in Germany. This has led to increased immigration from these countries. Many businesses, particularly large family businesses, have already reacted to this development. They have not only offered jobs to young Spaniards, but have also helped them to find accommodation and have sponsored language training. On the other hand, the need to recruit staff from outside the EU does not seem to have entered the consciousness of businesses to the same extent. Thus, only around 10% of the large family businesses surveyed in the Deutsche Bank/BDI autumn survey 2012 intended to make use of the new Blue Card scheme.

The OECD recently pointed to the low level of immigration of workers into Germany from outside the EU. It found that German businesses only appoint about 25,000 migrant workers from such third countries each year, corresponding to only 0.2% of the population. The figure for non-European immigrants is five to ten times higher in Great Britain, Ireland and Denmark. In Germany, almost half of businesses that had failed to appoint foreign staff despite unfilled vacancies had never even considered recruiting skilled staff from abroad. Over 30% of businesses also complained that recruitment from abroad was too complicated and that the knowledge of German among applicants was insufficient. According to the survey, SMEs have particular difficulty finding suitable candidates abroad.

For this reason, the OECD recommends helping these businesses in their search for personnel abroad. However, the question also remains whether the situation can be allowed to persist where, as the survey indicates, 90% of SMEs identify German language skills as a decisive criterion for appointing staff. Better integration of foreign skilled staff with good English language skills and the sponsorship of "on-the-job" German language courses could be an alternative.²⁶

A lot of catching up to be done in providing advanced training to older people ...

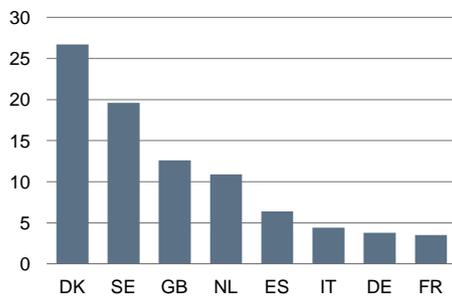
Attracting talented employees and encouraging their loyalty to the company is just one aspect of the required long-term personnel strategy. For many businesses what counts more is the establishment of conditions for sustained productivity among employees. Businesses that motivate their employees with positive career prospects or work-life balance packages make a significant contribution here. In view of the increasing age of staff, sustaining the capacity for work among older people is becoming increasingly important. The overview on p. 18 is based on surveys and indicates the measures older employees would like to see and the extent to which these are practised by businesses in this country.

Admittedly, the survey published in a recent study by the German Ministry for Labour concerning further education and training among older people and the way in which work is organised paints a relatively positive picture that is not confirmed by other analyses. Although many businesses have further training on their radar, in practice, further training activities depend significantly on the sector to which the company belongs (chart 29) and the size of the business (chart 31). While 28% of employees in small enterprises participated in further

Further training among older people: Germany has a lot of catching up to do

28

The proportion of 55 to 74-year-olds in employment involved in further training, 2011, %

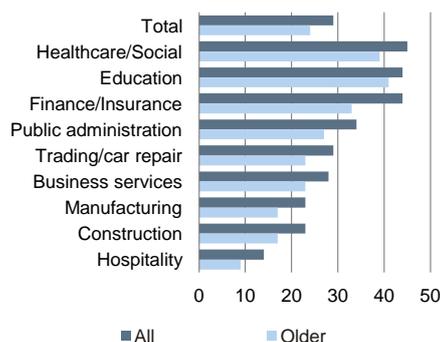


Source: Eurostat

Participation in further education and training in selected sectors

29

Employees subject to social security contribution, 2011, %



Sources: BMAS, IAB

²⁶ Vetter, Stefan (2013). Germany: Greater efforts still needed to attract workers from abroad. Deutsche Bank Research. Talking point, Feb. 11, 2013.



Medium-sized enterprises and demographics

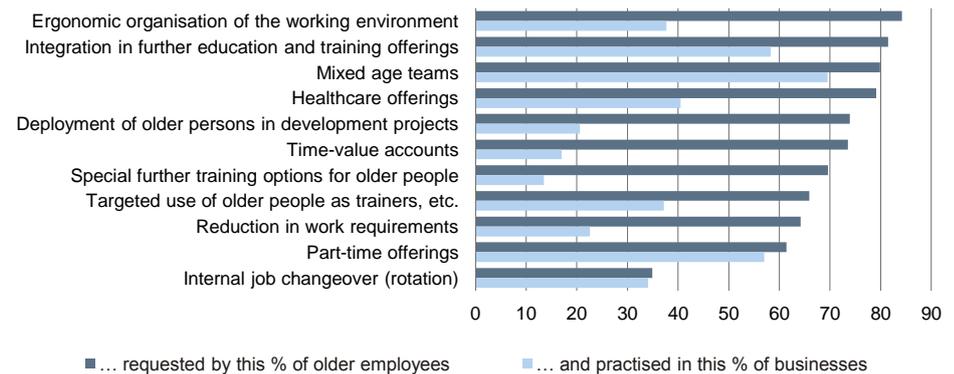
training measures in 2010, the figure for large businesses was around 50%. Almost 80% of large family businesses regard investment in further education and training among their most important long-term personnel policy strategies.

Further education and training should be an issue for both younger and older staff. Germany still has a lot of catching up to do when it comes to further training among older staff. This is demonstrated by a comparison with our European partners. In Scandinavia, around 20% of employees aged over 55 participate in further training measures. According to Eurostat, the figure in Germany is just 3.8%. As the proportion of older people in businesses rises, this figure may increase appreciably, particularly as increasing employment among older people and later retirement are still relatively new phenomena in Germany. There is little doubt that the need for an upturn in life-long learning requires a change of attitude among many older people who have not participated in further training for some time. Another aspect should be mentioned here: the expanding market for further training also offers interesting areas of activity for medium-sized businesses.²⁷

Measures to maintain capacity for work from the perspective of the company and employee

30

Measures specified in %

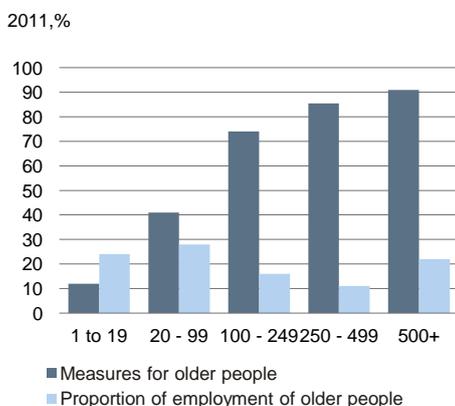


Sources: BMAS, gfk, Roland Berger Strategy Consultants, Gerontology Research Group

... and in changing work practices

Measures for older people depending on size* of business

31



* Employee numbers

Sources: BMAS, IAB

There is also some catching up to be done in relation to the adjustment of work processes and jobs to an ageing workforce. It is true that the need for such developments in companies has been recognised. This is the reason for the "Experience is the Future" (Erfahrung ist Zukunft) initiative sponsored by the federal government, the social partners and a number of socially active institutions. The websites of these and similar initiatives contain numerous examples of businesses that have already organised themselves to take the needs of older employees into consideration. According to analyses by the Institute for Employment Research (IAB), these may be the exception rather than the rule among SMEs. Only 12% of businesses with between 1 and 19 employees have measures tailored to the needs of older staff members. This figure is a good 40% in the next business class size. Measures such as the integration of older people in further training, health promotion, mixed-age teams, special equipment in the workplace or specific performance and work requirements are only commonplace (over 70%) in businesses with over 100 employees. Thus the recently published second government progress report on

²⁷ Rollwagen, Ingo (2011). Skills shortage – an opportunity for education entrepreneurs. Deutsche Bank Research. Talking point, July 1, 2011.

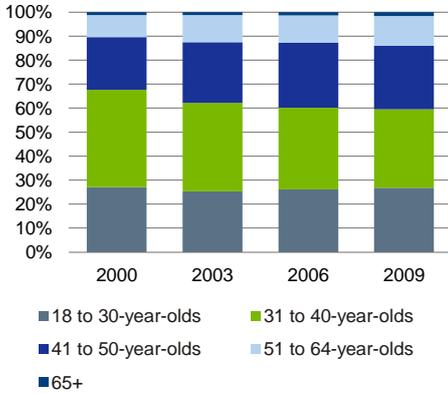


Medium-sized enterprises and demographics

Entrepreneurs: 31 to 40 age bracket dominates

32

Proportion of all entrepreneurs, %

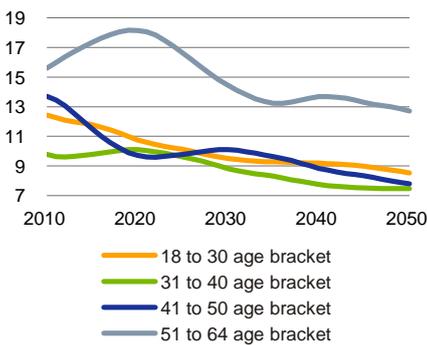


Source: IfM

Major decline in the number of younger people

33

Development of population numbers*, in millions



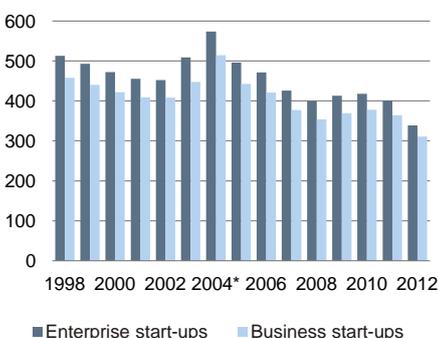
* 12. Coordinated population calculation, variant 1, W1

Source: Federal Statistical Office

Downward trend among enterprise start-ups and business start-ups

34

Absolute figures, in 1,000



* 2003 changeover in statistics

Sources: IfM, Federal Statistical Office

"Age Appropriate Working Conditions" states there is still "plenty of potential for age and ageing-appropriate arrangements in businesses."²⁸

Entrepreneurs: Growing representation among women and migrants

One important point often goes unmentioned in debates on economic policy: the consequences for the potential of entrepreneurs. Risks certainly exist. If the population ages and young people are in short supply, there is also a risk of a shortage of entrepreneurs. A national economy in which entrepreneurs are in short supply is at risk of losing international competitiveness, if not actually becoming completely stagnant. This danger cannot be dismissed in Germany in particular, due to the dominant role of medium-sized businesses. Given the explanations above, there is no need to go into further detail here again. While the shortage of skilled staff is a common topic of conversation, this topic garners less attention.

From a demographic perspective, there is good reason for concern. The age structure among the founders of business start-ups indicates a preponderance of 31 to 40-year-olds. Around one third of all new businesses are founded by people in this age bracket. On the other hand, only 14% of all start-ups are founded by people over 51. However, the number of people in the most active start-up age bracket is going to decline in the coming decades from a current level of 9.9 m to 8.8 m by 2030 and only barely 7.5 m by the mid-century.

This situation could get even worse if the proportion of people who are willing to found a business declines. This is a very real risk in view of the increasing dearth of skilled staff. As skilled staff becomes more and more sought-after, the prospect of founding or taking over a business becomes less attractive to this group in principle.

In fact the number of start-ups has been in decline for some time. While the IfM registered around half a million start-ups in 2005, last year this figure was only 346,000. As well as actual start-ups, this data also includes the take-over of existing businesses through succession, leasing and purchase. For some time, the number of business start-ups has been about 30,000 to 40,000 below this figure per annum. According to IfM analyses almost three-quarters of start-ups involve very small businesses. Only a good quarter are new businesses that are either entered in the commercial register or that have a trading licence or employ at least one person.

However, the future is not as bleak as the drop in start-up activity and long-term significant decrease in the number of people in the most active start-up age bracket would suggest. There is evidence of an important positive trend in relation to start-ups: there has been a relative increase in the number of opportunity driven entrepreneurs. These are start-up founders who start a business in order to increase their income and/or to implement a business idea. Particularly when they involve innovative business ideas, such new start-ups tend to have a greater economic potential than businesses that are started due to a lack of alternative employment opportunities. Opportunity-based new start-ups often employ staff in relatively early stages, thus creating jobs, and they contribute to the rapid spread of new products and production processes in the economy.

According to the Global Entrepreneurship Monitor (GEM), the proportion of opportunity driven entrepreneurs among all start-up founders rose from a low in

²⁸ Federal Ministry for Labour and Social Affairs (Ed.) (2013). "Altersgerechte Arbeitswelt" Progress Report, Issue 2: "Altersgerechte Arbeitsgestaltung". Berlin.



Medium-sized enterprises and demographics

2006 of 58% to 74% in 2011. On the other hand, the upturn in the labour market contributed to the fact that the number of businesses started by job-seekers due to a lack of employment opportunities decreased.²⁹

Even more is happening in the start-up market: women, foreigners and citizens with a migration background are becoming increasingly involved in start-up businesses. However, the associated data varies, depending on the survey method or the subject under consideration. According to a study commissioned by the BMWi, the proportion of women involved in setting up their own business (business start-ups plus take-overs/buy-outs) rose from 35.6% to 41.2%. Also, according to the GEM, both the entire start-up quota among women and female founders of new opportunity-based start-ups rose to their highest levels in 2011. According to information from IfM, the proportion of women starting up individual businesses has recently declined slightly to 29.3% (spring 2012).

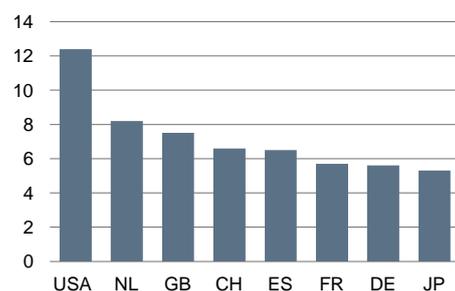
There are also signs of increased activity among citizens with a migration background and foreigners. In 2010, a good 26% of those starting up their own business came from a migration background, compared with 24.6% in 2005. The number of foreigners involved in start-ups rose from 11.3% in 2000 to 18.9% in 2009. The proportion of the population represented by these groups changed little in these periods. However, the rise can also be traced back to migrants from Central European accession countries, who promptly responded to the employee restrictions in place until 2011 by becoming self-employed.³⁰ Here, higher percentages of migrants plan to start up retail and restaurant businesses while fewer plan to open manufacturing businesses than persons who do not have a migration background.

Potential still exists in the aforementioned groups. For example, the proportion of women involved in start-ups is still not only below their proportion of the population in the relevant age group, but also below their proportion of those in employment (46%). There may also be a large number of potential candidates for successful start-ups among the many well-qualified immigrants currently moving to Germany from Southern Europe.

Start-up activities: Still room for improvement in Germany

35

Proportion of entrepreneurs* in the population aged between 18 and 64, 2011, %



* Persons who are currently in the process of setting up a business or who have set up a business in the last 3 1/2 years

Source: Global Entrepreneurship Research Association

The trend towards start-ups in the individual age groups in the indigenous population is quite fluid. This is already evident from the example of women. Willingness to become self-employed or to found a business tends to decline with age after a certain phase in life has been reached. This is already evidenced by risk factors. Older people have less time to compensate for high-loss investments through successful projects, for example. At the same time, capacity certainly exists for increasing willingness to found start-ups among specific age brackets. This is indicated by international comparisons provided by the Global Entrepreneurship Monitor (GEM). According to these comparisons, the quota of start-up founders (according to the GEM definition) in Germany in 2011 was 5.6%.³¹ However, the quota in the USA and the Netherlands was significantly higher with 12.5% and over 8% respectively. (Admittedly, both of these countries also have a more favourable age structure).

If the trend towards start-ups is to be increased, there is a need for favourable conditions in terms of economic and taxation policy. Thus, a team of experts questioned during the GEM analyses assessed the public promotional pro-

²⁹ Start-up activity in this segment also depends on sponsorship. This was significantly increased in the first half of the last decade ("Existenz-Gründungszuschuss", Ich-AG). Funding has been more restrictive since 2005 (exclusion of unemployment benefit II recipients from entitlement; starting in mid-2006, merger of the start-up supplement and the bridging payment for the start-up supplement).

³⁰ Kay, Rosemarie and Stefan Schneck (2012). Hemmnisse und Probleme bei Gründungen durch Migranten. IfM materials No. 214.

³¹ In other words, about one in every seventeen persons aged between 18 and 64 had founded a company or was in the process of preparing to do so in the last three-and-a-half years. GEM, Länderbericht Deutschland 2011.



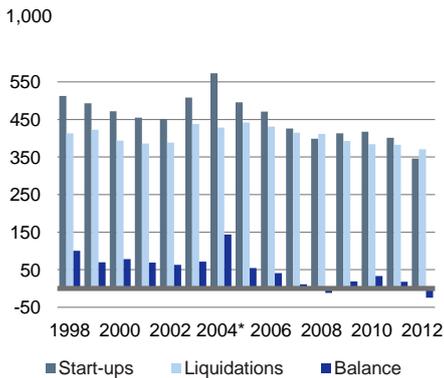
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grammes and financial conditions for founding start-up businesses in Germany as positive – even in an international comparison. On the other hand, the experts were not so favourable in their assessment of the country in terms of educational preparation for independent enterprise or the public perception of start-up founders.

No shortage of entrepreneurs or successors expected for the foreseeable future

Start-ups and liquidations are in decline

36



* 2003 changeover in statistics

Source: IfM

Current trends give cause for confidence. The number of potential start-up founders may be declining due to demographic change, however this trend is countered by developments such as the influx of immigrants and the greater willingness among women to found start-up companies. However, this does not yet answer the question regarding a possible deficit of entrepreneurs. This requires us to view the market from both sides.

Start-ups must be balanced against liquidations. Every year, numerous businesses close down. In 2012 the figure was around 342,000. This is mainly due to a lack of economic success and is thus just down to the vagaries of the market economy. This is also the reason why some businesses do not continue after the previous owner steps down. Liquidations mostly involve very small businesses (or small trades). This even applies to the subgroup of around 30,000 companies (2011) that close due to insolvency. 99.7% of these businesses have an annual revenue of less than EUR 50 m.

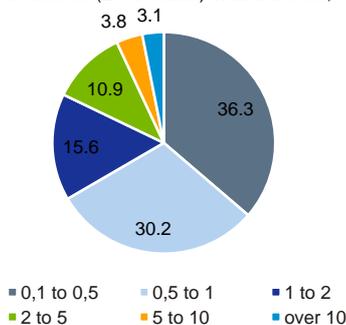
In Germany, liquidations and start-ups have been more or less balanced for some time, something that applies equally to officially registered new companies (*Unternehmensgründungen*) and to a more extended group that also includes people who become self-employed (*Existenzgründungen*). Like the number of start-ups, the volume of liquidations has been in decline since the middle of the last decade. A link exists insofar as some of the new start-ups only have a small chance of surviving in the market. These start-ups then become next year's liquidations. In part this is also due to the relatively robust economic situation. In 2012 start-ups (311,000) were significantly outweighed by liquidations by about 31,000.

Take-overs and transfers as a result of the senior entrepreneur stepping down (for reasons of age) receive particular attention among start-ups and liquidations, particularly as these can also involve established companies. The IfM has produced some estimates in this regard.

Businesses pending transfer according to size

37

The proportion of businesses in the individual revenue classes (EUR million) in all transfers, %



Source: IfM

At present, around 22,000 businesses are transferred each year because the senior entrepreneur steps down for reasons of age, or is no longer available due to illness or death. This development affects around 290,000 employees every year. This is evidence of the macroeconomic dimension of the transfer problem. More than three-quarters of take-overs affect small businesses with between 1 and 9 employees.

From a macroeconomic perspective and when considered in purely quantitative terms, there are currently no major restrictions in relation to take-overs or transfers. In purely arithmetic terms, every business where a transfer is pending should find an interested party. Projections by the IfM and the University of Siegen indicate that this situation is unlikely to change until the beginning of the next decade.

This projection may seem surprising at first: Primarily due to the increasing number of retiring entrepreneurs, the total potential for businesses changing hands is set to rise by at least 17% by 2020 to around 124,000 (another scenario forecasts a figure of almost 131,000, or over 20%). However, the result of the projection can be explained by the fact that, on the one hand, the number of people in the age bracket in which the majority of business start-ups take place



Medium-sized enterprises and demographics

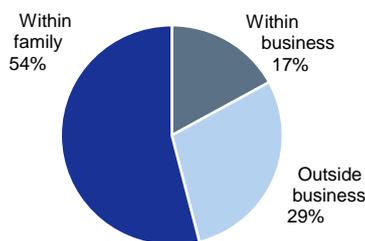
will only decline to a modest degree in this decade due to demographic developments. On the other hand, the institutes predict a rise in the number of liquidations. This means that the potential for take-overs will still exceed the number of transfers in 2020. In view of the accelerated ageing and numeric decline in the population, this situation should only change in the decade after next at the latest. In addition, the institutes also point out that there may be a shortage of suitable candidates to take on existing businesses during the current decade in some regions or specific industry segments.

Early preparations make for easier succession

Medium-sized business: Half of all transfers are internal

38

Selected succession solutions, %



Source: IfM

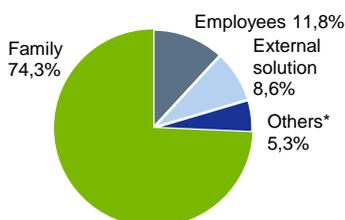
Even though we cannot speak of a general shortage of entrepreneurs at present, the topic of succession in medium-sized businesses is a priority. Already more than one in every eight self-employed persons is aged 60 or over (the figure in 2007 was 12.9%). Accordingly, the number of companies pending transfer will rise further in the coming years (see above). Many owner families have witnessed the same phenomenon as the population at large: a general lack of children. At present, in around half of cases, children or other family members succeed when the senior entrepreneur steps down. In large family businesses almost three-quarters of all cases are resolved with solutions drawn from within the family. In view of demographic patterns, however, it is open to question whether this situation will remain unchanged. Nonetheless, there are good reasons for medium-sized enterprises to focus on this issue, both for those who are planning an external solution and in advance of an internal transfer of power within a family.

Transfers are a major event. If they fail, a lot of things can be put at risk, up to and including the continued existence of the business. Considerable risks remain as transfers can be a complex process. In practice, more frequent and significant problems can arise than the general data presented may lead one to expect. The economic and financial position of the company, the market environment and financial conditions play just as much a role as the motivation, interests and values of the persons involved. A further difficulty is that in many cases this is a one-off or first-time event. Experience is lacking, both on the part of the person handing on the reins of power and the successor.

The family is the clear favourite for succession within larger family businesses

39

Selected succession solution, %



* e.g. foundations

Sources: BDI, Deutsche Bank

If external solutions are chosen, the expectations of the previous owner or owner family must fit with the profile of the person interested in taking over. Increasingly this seems not to be the case according to the current report from the Association of German Chambers of Industry and Commerce (DIHK) on corporate succession. 39% of those willing to transfer the reins of power in their companies were unable to find a suitable successor in 2012, compared to 35% in 2008. Entrepreneurs complain of a lack of qualifications among interested parties. The deficits in schools and other educational institutions mentioned by the experts from the GEM are also evident here. Difficulties often arise when looking for suitable successors and in other critical phases of a transfer, due to the fact that senior entrepreneurs often only consider this challenging process when it is already too late (see chart 40 on p. 23).

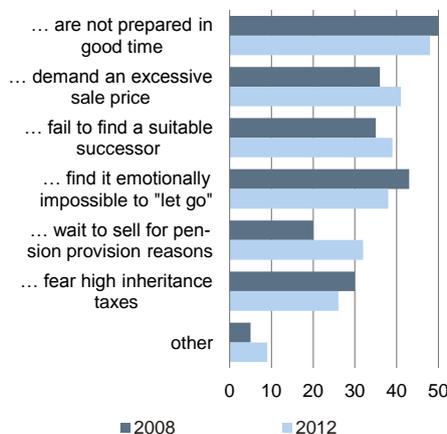
On the other hand, almost half of those interested in taking over a going concern complain that they are unable to find a suitable business. 4 years ago this figure was just 32%. Many potential successors also underestimate the requirements of the difficult transfer process, which, in many cases, also involves examining structures and processes in the company. Overall, the Chambers of Industry and Commerce witness significant difficulties in at least half of the transfer processes they see.



Medium-sized enterprises and demographics

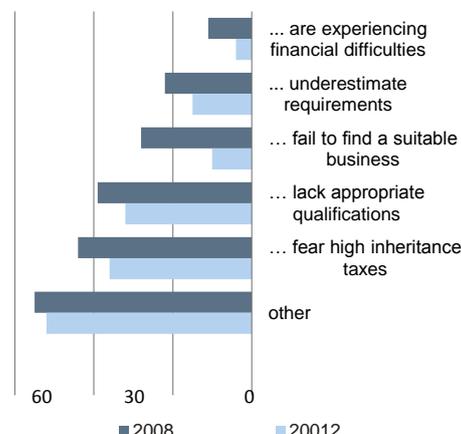
Problems with transfers: Reservations on the part of senior entrepreneurs

The percentage of older business entrepreneurs who ...



Reservations on the part of the potential transferee

The percentage of those interested in taking over who ...



Source: Association of German Chambers of Industry and Commerce

For senior entrepreneurs in medium-sized enterprises who are unable to find a successor from within the family, the alternative is to sell the business on. The majority of senior entrepreneurs in medium-sized enterprises prefer to sell to other businesses or (a smaller percentage) to external individuals. According to a study by the IfM, 23% of those surveyed could envisage selling to a financial investor.³² Obviously, they offer opportunities for private equity.

Many things are quite different for large family businesses. The majority of these businesses are currently in the second or third generation of the family. Thus, generational succession is nothing new to them.³³ What's more, these families are aware of the existential importance of successful succession. The successor generation also seems well prepared and aware of its responsibilities. Studies show that young people and young adults from family businesses continue to practise the firm's characteristic values, as well as a more international orientation in their networks and a particularly creative attitude.³⁴

The question of financing too, which causes difficulties in many small and medium-sized take-overs according to the surveys by the Association of German Chambers of Industry and Commerce, may be less of an issue for family businesses because access to the capital market is easier. Irrespective of this, the financing structure of medium-sized enterprises has developed positively in recent years. SMEs have significantly increased their average equity ratio from 6% to 22% since 1997. However, significant differences still exist between private limited companies and limited liability companies, which generally have much better capital backing.³⁵

Businesses of all sizes have been following the German debate on a more stringent inheritance tax with concern. However, important voices among the proponents of a broader basis for measurement and higher rates of inheritance

³² The number of responses to the relevant questions was relatively small. Moog, Petra et al. (2012). Unternehmensnachfolgen in Deutschland – Aktuelle Trends. IfM materials No. 216.

³³ Deutsche Bank and BDI (Eds.) (2012). Major family businesses in Germany. Results of the 2012 Spring Survey, p. 25f.

³⁴ Stiftung Familienunternehmen, Unternehmernmagazin Impulse and Zeppelin University Friedrichshafen (Eds.) (2012). Deutschlands nächste Unternehmergeneration II. Eine empirische Untersuchung der Werthaltungen, Einstellungen und Pläne.

³⁵ Schildbach, Jan (2013). German SMEs on a sounder financial footing. Deutsche Bank Research. Talking point, Feb. 28, 2013.



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tax also emphasise that these should not be allowed to threaten succession in medium-sized businesses. Naturally the question arises of how this is to be achieved. The current regulations that provide for partial or complete tax exemption for the beneficiary (business) assets if the business continues to operate for a minimum period (5 to 7 years) with minimal changes to the payroll or company structure are seen as too restrictive in view of the rapid changes in the markets. The current debate thus unsettles medium-sized businesses even more.

All in all, the same is true for the succession problem as for the shortage of skilled staff: while it is an issue that deserves attention, it does not represent grounds for pessimism. The important thing is that the affected companies should start to consider the necessary steps in good time. A transfer process usually takes several years. For the senior entrepreneur, this process generally begins with an examination of the available options (transfer to a successor within the family or to an external successor, sale, etc.) and goes beyond the actual transfer, also including the best possible financial security for his/her own retirement, for example. It is also important to prepare the business. Thus, many senior entrepreneurs might be well advised to increase the value of their business through investment. This may enable them to make it easier for successors within the family to make a start. If the business is transferred to an external successor, this may increase the chances of finding a buyer or achieving an attractive sale price.

The complexity of the transfer and its overriding importance in the history of the business are a challenge to all those involved. That is why experts recommend transfer management in which all the necessary steps are planned and implemented – together with external advisors if necessary.³⁶

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³⁶ Further information and guidance for successful succession planning for small and medium-sized enterprises, as well as the self-employed and freelance workers can be found in the brochure published by Deutsche Bank/Deutsche Bank Privat- und Geschäftskunden entitled "Zukunft gestalten. Erfolgreiche Nachfolgeplanung für Unternehmer und Selbstständige.". This is available on the Internet at www.deutsche-bank.de/pbc/download/gk-kompetenzen_service_nachfolgeplanung-fuer-unternehmer-und-selbststaendige-broschuere.pdf