

SME Policy in Germany

Summary

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This dissertation addresses the topic of small and medium sized enterprises within the entire context of German economic policy. In 2007, there were a total of 3,140,509 small and medium sized enterprises, employing 16,790,000 of the total 25,490,000 social-insurance contributing workers in Germany. This means that small and medium sized enterprises account for 99.67% of the German economy, while providing employment for 65.87% of the entire available workforce in Germany. This section of the economy generated an economic turnover of €1,932 billion in 2007.

The Federal Republic of Germany at first glance appears to be an attractive place to do business in Central Europe. Many positive framework conditions in place support this hypothesis. The past number of years for small and medium sized companies have, however, been plagued by a wide variety of problems that have been caused by various factors: high wages, a complex tax system, difficult framework conditions for entrepreneurs and those inheriting businesses. Bureaucratic obstacles, as well as a rigidly structured employment market are only a few of the factors making life difficult for small and medium sized enterprises in Germany.

The Economics Institute (Institut für Wirtschaft) analysed the importance of Germany as a place to do business in accordance with the criteria applied by the World Bank, and ranked it at number 24 on its overall table. The federal government has already reacted to the multi-layered problems and/or deficits, and has drawn up an initiative for small and medium sized enterprises. The approaches being pursued lack a fundamental structure however and have at times not been able to be concretely implemented due to the debates currently being had on the political level. A structured concept for small and medium sized enterprises is required.

The potential dissertation text should illustrate the character of German small and medium sized enterprises, as well as their importance for Germany as an introduction to the topic. Continuing on from there, it is aimed that the dissertation will discuss the structures and problems facing that sector of the economy. This should involve incorporating the different ways that SMEs view science, politics and the media. The methodical approach pursued with the dissertation text first involves determining the theory behind small and medium sized enterprises through to the definition of what small and medium sized enterprises are in the sense of the SME economy.

The qualitative and quantitative economic importance of small and medium sized enterprises in a wider economic context, as well as the general framework conditions in place with respect to regulation and bureaucracy and the advantages and disadvantages in practice are determined. After the performance indicators for small and medium-sized enterprises are identified, next up is the evaluation of the SME policy as it is implemented in the Federal Republic of Germany.

The status quo of the SME policy is the focal point of the considerations. In addition to the historical development, the numerous problems and bottleneck factors were identified. The first step is the categorisation of the term small and medium-sized enterprise within the framework of its quantitative and qualitative definition. This is followed by the theory behind small and medium-sized enterprises in the sense of SME economics. This continues to the economic importance of SMEs, as well as their framework conditions and the discussion of the actual framework conditions for small and medium-sized enterprises. The performance indicators and characteristics of SMEs are also of importance in this case. The legal circumstances for SMEs in the sense of the constitution, based on the rights of the economy in accordance with Article 74, paragraph 1, number 11 of the German constitution and the supporting of agricultural and forestry output in accordance with Article 74, paragraph 1, number 17 of the German constitution are only the initial introductory points that lay the legal foundation for small and medium-sized enterprises. In addition to looking at SMEs in state legislation, as well as the design of political programmes for SMEs as mentioned in the introduction, the current status quo of SME policy in Germany will be evaluated. The content of this dissertation will take a historical look at SME policy as well as identifying the problems and bottleneck factors within German SME policy. In conclusion, the attempt will be made to find and bring about a concept-based solution for a rational SME policy in Germany. This concept-based problem solution for a rational SME policy in Germany lies in re-establishing the planning and legal security on the basis of creating transparent taxation legislation, transparent work and social legislation, as well as creating transparent procurement legislation. Relieving the tax burden on small and medium-sized enterprises by means of efficient double taxation agreements and making it more worthwhile to reinvest profits. The dismantling of bureaucracy and improved legislation, as well as improving the financing of small and medium-sized enterprises through financing instruments with own capital character and loan capital character, as well as the use of Mezzanine capital. The reform of the

labour market in the sense of an attractive wage formation, as well as employment protection legislation that favours employers. The lowering of taxes and social contributions and the introduction of active employment market programmes for the unemployed are also obligatory as is the stabilisation of the social-insurance system when it comes to old-age pensions, the health system and the care system. Stronger investment in education and training aimed at meeting the needs of the EME sector improve the approaches to achieving a conception problem solution for a rational SME policy.

It has been shown that small and medium-sized enterprises are the dominant organisational form in Germany. SMEs are responsible for creating the most jobs and play a central role when it comes to the education and training of young people. And it is against this background that politics emphasises the special importance of small and medium-sized enterprises and why they need to be protected.

It is largely the case that political initiatives cause themselves to run out of steam due the theories behind them. The many publications drafted up to now with the aim of supporting the SME sector by emphasising it, have yet to bring about any discernible change. The examples of the financing or taxation of small and medium-sized enterprises show that individual attempts on the part of politics are mostly accompanied by a deterioration of the position that small and medium-sized enterprises find themselves in, despite the fact that the goal being pursued by politics was actually to support and foster this sector of the economy. Old and new regulations mean SMEs are subject to an enormous bureaucratic burden. These businesses often do not have their own legal departments and, for this reason, are required to procure this consultation externally and at a high cost. What is dramatic is the fact that instead of helping to reduce the strain on SMEs, the reforms examined in the majority of cases actually led to further additional bureaucratic costs.

The German SME sector is made up of a wide range of different family-run companies that are exceptionally loyal to the places that they are located, and it is particularly because of this that they should receive special attention - something which is unfortunately all too often overlooked. One look at the problems faced by small and medium-sized enterprises on a daily basis when it comes to things like financing, taxation and bureaucracy, makes it clear that the issues that SMEs are dealing with need to be addressed in a far more targeted manner.

The most pressing matters where action needs to be taken is in the reduction of bureaucracy and regulations, alleviation of the tax burden, as well as an improvement of the financing possibilities, which have significantly worsened and become more expensive since the development of the "Basel 2 Regulations". In contrast, the many funding instruments offered by the EU, federal government and state governments is positive. The funding of research and development, as well as the funding of innovation is the most important. This is unfortunately not sufficient however in order to be able to guarantee that the economic interests of SMEs are given appropriate consideration in an economic policy sense.

It would appear more expedient to pay far more attention politically to the needs of small and medium-sized enterprises, as well as to focus on funding business start-ups. The demographic development will ultimately have a greater impact on small and medium-sized enterprises as on large companies, who are today already winning the "War for Talents" with SMEs, and winning well. Significant measures in order to strengthen the German economy are primarily favourable financing possibilities, whether that be own capital or loan capital in nature, or a mixture of the two. The needs of SMEs are most likely to be given the suitable consideration through own capital and loan capital instruments. The task of politics is to guarantee German small and medium-sized enterprises easy access to individually-required capital without bureaucratic obstacles.

A further pressing demand and measure is to sustainably and effectively reduce the tax burden on small and medium-sized enterprises, and not remove the bureaucracy at one end, only to double it at the other. Particularly for family-run companies, a relieving of the income, business and inheritance tax burden - which plays an important role for these companies - still needs to be achieved even in the face of and, if necessary, despite difficult budgetary circumstances. The continuing threat of shortfalls in suitably qualified workers being faced by SMEs can be counteracted by means of improving the further-education activities and possibilities.

On the whole it can be said that a SME policy is in place that is still too weak and not sufficiently developed. The respective problem and activity fields make it clear what the most important demands of an economic policy are that is clearly more strongly influenced by small and medium-sized enterprises. Actions must now finally follow the decades of discussions because it will only be possible for German SMEs, as the

sector of the economy that employs the most people, to remain competitive internationally when given targeted support in the form of an economic policy that is tailored to their needs.

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