

A Kienbaum Study

Quo vadis, German Mittelstand?

Internationalization strategies and global business perspectives for SMEs

Kienbaum



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Preface

Small and medium-sized enterprises (SMEs) are not only the backbone of Germany's economy, but also an expression of the German mentality. Established in their niche, many German companies are hidden champions with a significant export share and international footprint, which combine economic capability with social responsibility.

Due to today's global competition, cross-border supply chains and the need to foster companies' innovative abilities, internationalized German SMEs are facing increasingly complex challenges. The recent pandemic has acted as a catalyst: It has exposed the fragility of international value chains and highlighted the shortcomings in terms of digitalization.

While the impact of the pandemic could be felt across the globe, German SMEs displayed creativity and resilience: traits which, combined with the highest quality standards and a focus on their distinctive competencies, have granted them international recognition.

But how exactly do the current macroeconomic developments influence German SMEs? Is the commitment to internationality still undaunted? What are the motives behind future international endeavors?

Kienbaum, the Kienbaum Institute @ ISM and the market research institute INNOFACT have addressed these questions by asking decision-makers in internationalized SMEs about their plans and perspectives concerning internationalization.

The structure of this study follows the chronology of an internationalization scenario from market selection to market entry taking the influences of the COVID-19 pandemic, trade conflicts and constantly changing political landscapes into account.

Based on the study results, we are convinced that the German Mittelstand has lost none of its pioneering spirit. Furthermore, Germany continues to work hard at retaining its status as an international leader in technology and innovation.

We wish you an informative read with insights at the intersection of internationalization and the German Mittelstand.



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Executive Summary

Key findings and methodology

1 SMEs forecast noticeable increase in foreign sales

Even though 2020 was heavily impacted by the COVID-19 pandemic, the vast majority of the 312 executives surveyed (59.7 %) expect sales to grow by up to 10 % per year by 2023 and thus predict a considerable recovery scenario. Only 5.3 % expect foreign sales to stagnate or decline over the next three years.

2 A solid competitive position in foreign markets will be increasingly important in the future

The driving force for future internationalization is market penetration, i.e. to obtain a more significant share in markets with pre-existing activities. As a result of intense competition in local markets, SMEs often become targets for potential takeovers. Therefore, they aim to position themselves in less competitive foreign markets.

3 The majority of SMEs were able to put large parts of their foreign investment plans into action

Even in times of a pandemic, SMEs are investing in their foreign business. About 25 % fully realized their investment plans, whereas 32 % could at least do so to a large extent. About 29 % of the companies surveyed were able to realize small extents of their foreign investment plans while less than 8 % were not able to invest at all.

4 Top-level executives assess their internationalization efforts more favorably than extended management

Across all sectors, just under 40 % of managing directors and board members agree with the statement that their company's internationalization is sufficiently advanced. Among business unit managers, department heads and team leaders, only about 15 % do so.

5 SMEs represent Germany in its role as an export nation with a focus on the US, China and Europe

In 2020, German SMEs accounted for a significant part of the total export volume of around 1.2 trillion euros (-9.3 % compared to the previous year).¹ Across all industries, 73.7 % of the SMEs surveyed realized the most significant part of their foreign sales with one of Germany's top 15 trading partners in terms of export volume.

6 Uncertainty clouds SMEs optimism for the future

With recovery scenarios being difficult to predict and supply shortages, i.e. of semiconductors or wood, prices skyrocket and fears of inflation increase. SMEs lived off the fruits of previous years in 2020 and are now forced to plan on a short-term basis. This level of uncertainty is detrimental to innovative strength and competitiveness – both nationally and internationally.



About the study

The human resources and management consultancy Kienbaum has designed this study as a comprehensive online survey including more than 300 SMEs with headquarters in Germany and business activity on an international level.

The operational implementation and scientific support of the survey was carried out by the Kienbaum Institute @ ISM and the renowned market research institute INNOFACT.

The questionnaire was available in German and included questions concerning the international business development of the respective SMEs. The majority of the questions were answered via multiple-choice formats or multi-level Likert scales.

1 Introduction



Introduction

Internationality is a success factor for the German Mittelstand – business perspectives are partly unclear

Germany has the world's largest current account surplus and, following China and the United States, is the third largest export nation today. Thus, Germany benefits more than almost any other country from its strong international orientation.²

The German Mittelstand, known as the backbone of the local economy, is increasingly operating on an international level. Established in its niche, German SMEs are often hidden champions with significant export share and an international footprint.

The advantages of a global setup are self-evident: diversification of sales and procurement activities, cost-optimized production and access to talent.

However, when the COVID-19 pandemic reached Germany in the spring of 2020, there was a sudden, profound collapse in economic performance. As a result, SMEs quickly realized that a high degree of internationalization also goes hand in hand with great complexity. In particular, the fragility of international value chains is reflected in a 9.3 % decrease in German export volumes (2020) compared to the previous year.³

Based on this development, the question arises as to which business perspectives the internationally active SMEs see for themselves and their competitors. After all, companies of different sizes and different sectors are impacted to varying degrees by the consequences.

As an HR and management consultancy, Kienbaum has been an established partner for the German Mittelstand for decades. Together with decision-makers from SMEs, the following business perspectives will be examined:

- **Which strategies is the German Mittelstand pursuing in terms of its internationalization?**
- **Which motives are the main drivers of internationalization efforts and which benefits do arise?**
- **How do executives assess prevailing macroeconomic trends and their impact on their international business?**

With this report, Kienbaum contributes to understanding SMEs' international development in times of a pandemic, globalization, trade conflicts, and changes in the political landscape. And – we will only reveal this much – these insights encourage SMEs to drive internationalization further.

2 Sample Description



Sample Description

312 internationalized SMEs took part in the survey –
57 % were represented by members of the board or business unit managers

The survey was conducted among 312 executives in SMEs from a diverse range of industries with 100 to 20,000 employees and annual sales ranging from 10 million to 3 billion euros.

Another requirement for participation in the study was a headquarter in Germany and either current or planned business activities abroad, such as import and export business, international joint ventures, franchising or sales or production sites outside of Germany.

More than 30 % of the 312 SMEs surveyed are industrial firms, followed by 21.5 % of technology and media companies and 17.4 % of participants from the financial services sector. Other companies belong to the sectors consumer goods (12.9 %), professional services (8.4 %), construction (4.8 %), and healthcare (3.2 %).*

Over half (n=179) of the companies surveyed were directly represented by members of the board or business unit managers, who have a significant influence on their respective international corporate development.

INDUSTRY*: TO WHICH INDUSTRY DOES THE ORGANIZATION YOU CURRENTLY WORK FOR BELONG?

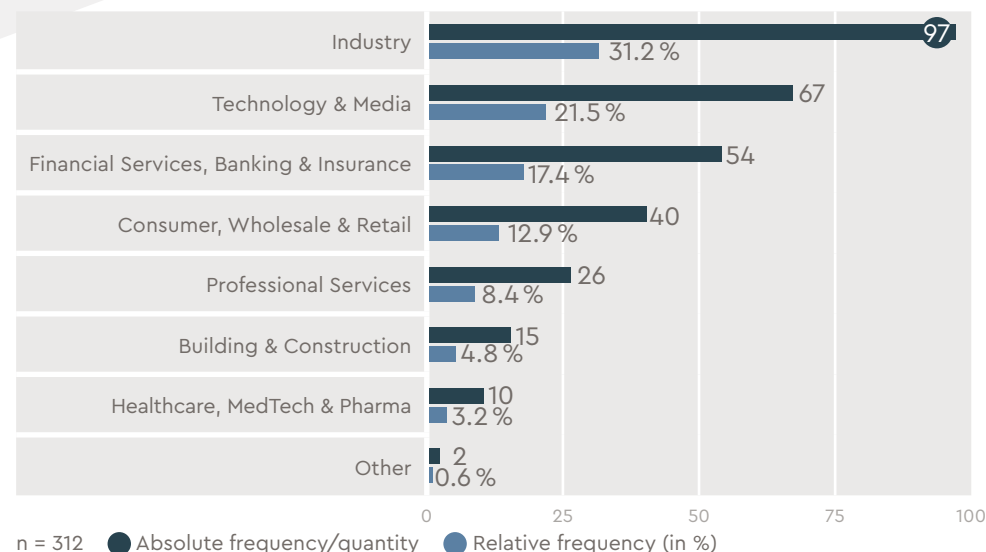


Figure 1: Distribution of organizations by industry clusters.

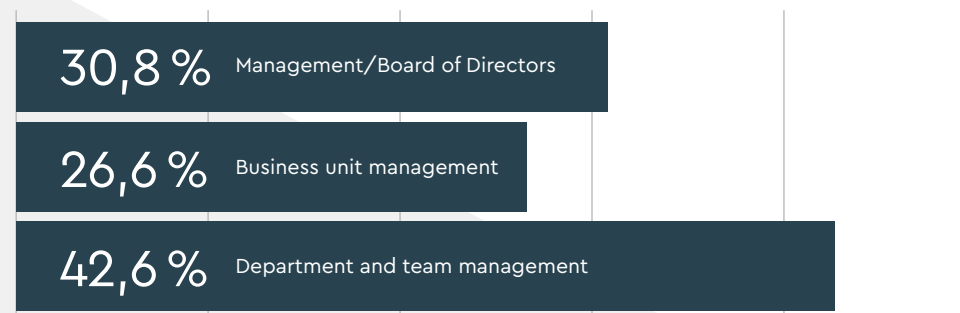


Figure 2: Distribution of participants according to current position.

*In the [appendix](#), you can find an overview of the companies clustered according to industry sectors.

Sample Description

Differentiation between small and large Mittelstand companies

The vast majority of the SMEs surveyed (82.7 %) employ between 100 and 5,000 people, an additional 15.4 % between 5,000 and 20,000 people. A look at the revenues reveals that about half (49.7 %) of the companies generate annual sales between 100 million and 1 billion euros.

130 companies in the sample (41.7 %) are family businesses.

In order to assess the findings in more detail, the sample was subdivided into small and large Mittelstand companies, thus separating the sample at the threshold of 500 million euros in annual sales and the number of employees at 1,000 (with sales being the superior criterion). This approach leads to a division into 62.2 % of small and 37.8 % of large companies.

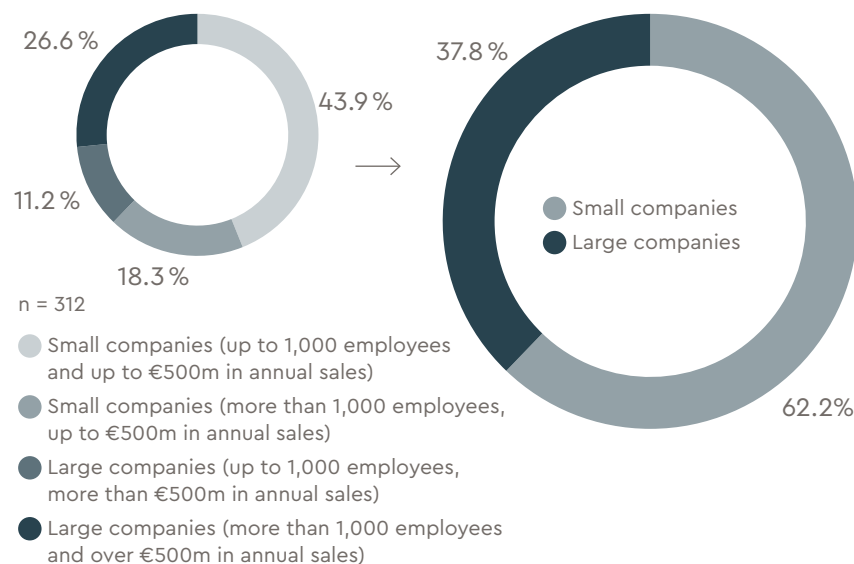


Figure 3: Differentiation between small and large companies based on sales and employees.

NUMBER OF EMPLOYEES

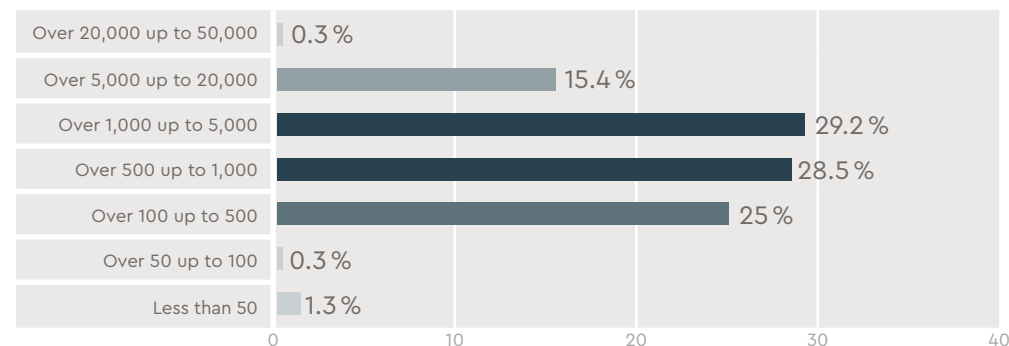


Figure 4: Distribution of companies based on number of employees.

ANNUAL SALES IN EURO

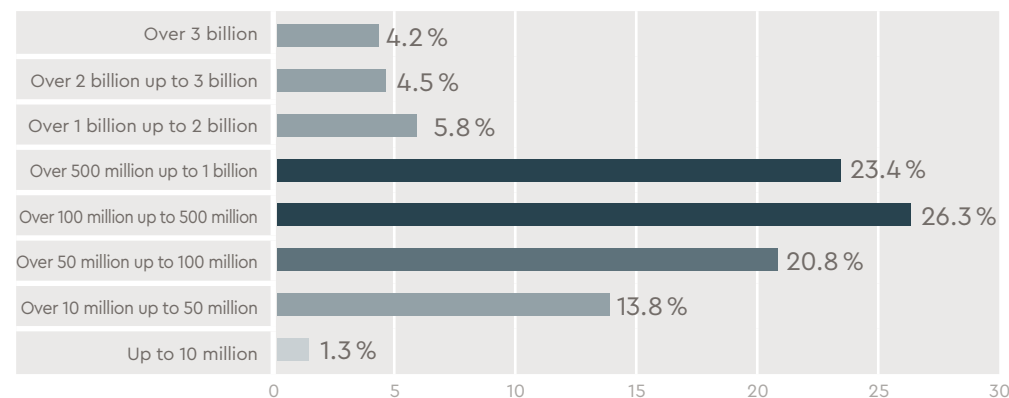


Figure 5: Distribution of companies based on annual sales.

Sample Description

Only a small fraction of German SMEs perceive themselves as fully international companies

Regarding the international orientation of their organization, more than half (55.9 %) of the SMEs surveyed describe themselves as "essentially German with occasional international activities". Thus, the main business activity is primarily conducted in Germany and is selectively expanded by activities in global markets. As many as 29.1 % consider their companies multinational, i.e. with several veritable international subsidiaries.

Only 14.7 % consider themselves a "fully international company", following globally aligned standards, systems and processes, i.e. employee rotations

between international locations and English as company language (cf. figure 6). Executives of larger companies (in terms of sales and employees) tend to perceive their companies as more international than their counterparts in smaller firms do (cf. figure 7).

This finding correlates with the number of current foreign subsidiaries: While 63 % of small companies focus on up to five foreign markets, 53.8 % of larger firms are active in six or more foreign countries. Roughly 12 % of large Mittelstand companies even operate more than 20 branches abroad.

HOW DO YOU PERCEIVE THE INTERNATIONAL ORIENTATION OF YOUR COMPANY?

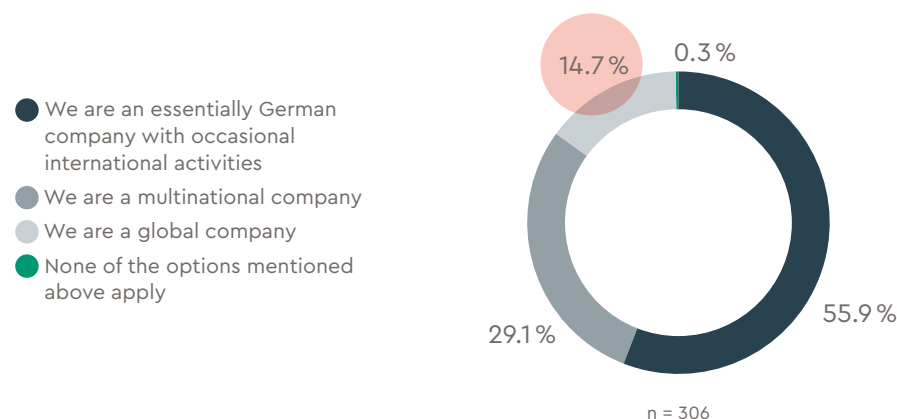
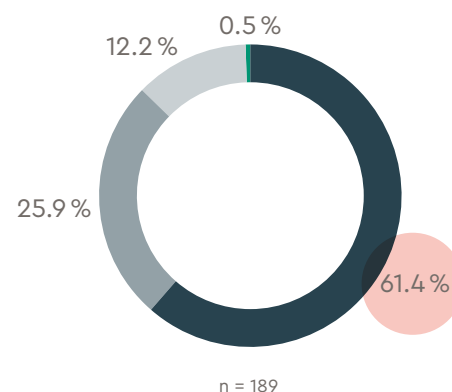


Figure 6: Perception of company-specific international orientation.

INTERNATIONALIZATION OF SMALL COMPANIES



INTERNATIONALIZATION OF LARGE COMPANIES

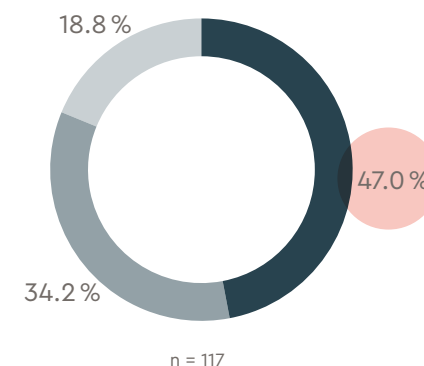


Figure 7: Differentiation between small and large companies with regard to internationalization.

3 Current International Activities and Future Target Markets



Current International Activities and Future Target Markets

The German SMEs surveyed generated the majority of their foreign sales in Europe, North America and Asia. Around 57 % stated that their company generates the most significant part of their foreign sales with one of the 27 EU member states – followed by North America (20.5 %) and Asia (14.7 %).

Although the companies are also active in South America, Africa, or Australia, these markets are rarely (acc. 5 % of all participants) considered the main source of income for the group.

Larger Mittelstand companies are more frequently operating in Asia

Small and large companies equally focus their international activities on the European market.

Asia – and China in particular – appears to be an important market, especially for large companies. Almost one in five (18.3 %) claim that the greatest amount of their foreign sales were realized in the Asian market. 20.4 % of large Mittelstand companies are already active in Asia, a further 6.7 % plan to enter the Asian market in the near future.

INTERNATIONAL ACTIVITIES* BY CONTINENT

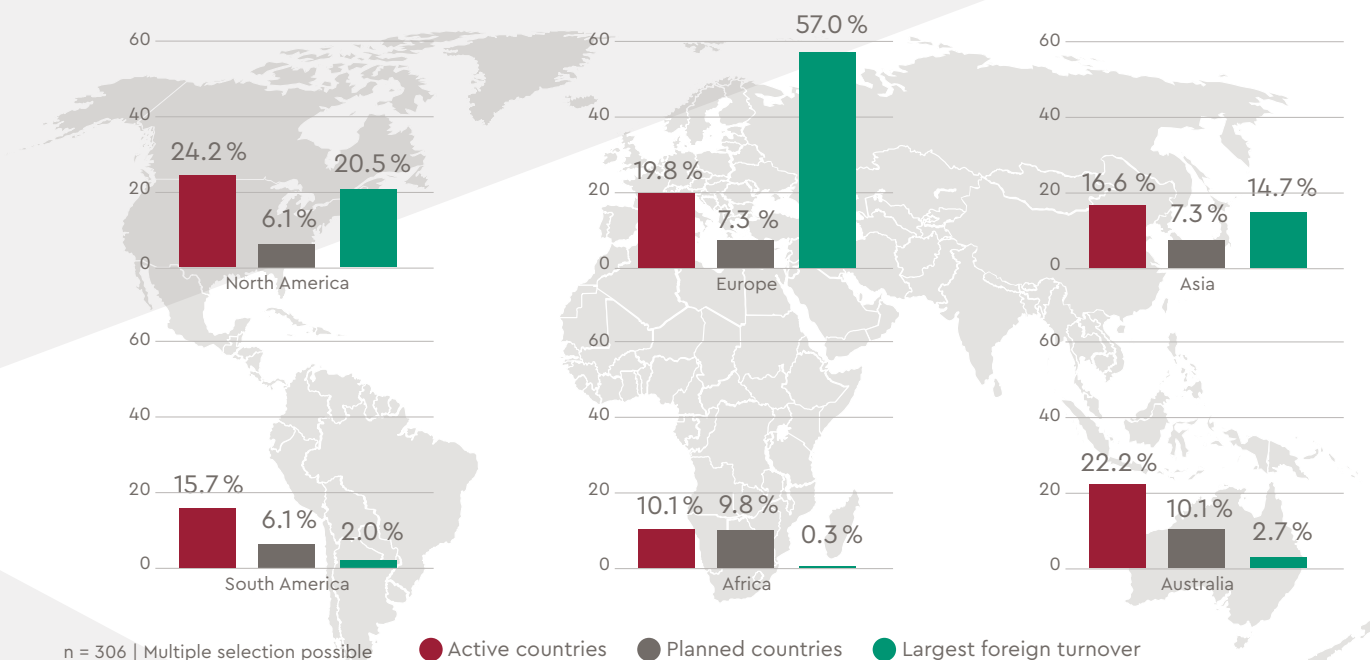


Figure 8: International activities by continent (active, planned, largest share in foreign sales).



***International activities/Foreign direct investments (FDI)** – According to the KfW, a German state-owned investment and development bank, these do not only include the acquisition of an existing company abroad or a share in it, but also the establishment or expansion of a new production facility or sales subsidiaries abroad. Foreign direct investment is an essential factor in increasing internationalization, fostering lasting links between economies, facilitating the transfer of technology between countries, and promoting economic growth in both home countries and target markets.⁴ In the context of this study, the term "international activity" encompasses import and export business, international joint ventures, franchising, and sales branches or production plants outside of Germany.

Current International Activities and Future Target Markets

SMEs represent Germany in its role as an export nation with a focus on the US, China and Europe

Number of companies participating in the survey	Most active countries		Most popular countries for future market entries		Countries with largest share in foreign sales in the group	
n=312 (cross-sector)	1. France	44.1 %	1. Switzerland	12.4 %	1. USA	17.7 %
	2. Austria	36.3 %	2. France	11.1 %	2. France	10.9 %
	3. USA	32.0 %	3. Denmark	11.1 %	3. China	9.9 %
	4. United Kingdom	30.4 %	4. China	10.1 %	4. Austria	7.5 %
	5. Switzerland	30.4 %	5. Australia	10.1 %	5. Switzerland	5.8 %

Table 1: International activities of German SMEs across industries by country (active, planned, largest share in foreign sales).

Across all sectors, 73.7 % of the SMEs surveyed realize their largest share in foreign sales with one of Germany's top 15 trading partners in terms of export volume⁵, once again highlighting Germany's role as an export nation. With the United States, France, China, Austria and Switzerland being the five most frequently named countries in this context, it is no surprise that these are also the ones which rank among the top 10 trading partners for German SMEs. Mittelstand companies are responsible for a significant proportion of Germany's total export volume of around 1.2 trillion euros in 2020 (-9.3 % compared to the previous year), generated primarily through business with the US, France and China.

Geographic proximity is a decisive factor for SMEs

The most frequently named countries, in which business activities are conducted, include a large number of European member states, most of which share a border with Germany. In addition to the EU domestic market being only moderately regulated, local proximity to international markets appears to be a decisive factor for SMEs. Companies headquartered in Baden-Wuerttemberg, Bavaria and Saxony in particular generate a large share of their foreign sales through direct exports to neighboring states. In addition to their activities in the domestic markets, SMEs across all sectors plan to gain access to neighboring countries such as Switzerland (12.4 %), France and Denmark (11.1 % each). However, the focus is also shifting towards more distant and previously less penetrated markets such as China and Australia (10.1 % each).



Top-level executives assess their internationalization efforts more favorably than extended management

Across all sectors, managing directors and board members of SMEs regard their current internationalization efforts more positively than business unit managers, department heads and team leaders.

Nearly 40 % of top decision-makers believe that their current internationalization progress is sufficient. Only about 15 % of the members of middle management agree.

However, the extended management is not entirely dissatisfied: A further 72.9 % of its members classify (4 or 5 on a scale of 1–6) the current internationalization efforts as adequate.

Current International Activities and Future Target Markets

The degree of internationalization and respective target markets vary according to industry

Especially larger companies from the manufacturing industry are internationalized

Considering differences concerning company size and sectors, it becomes apparent that especially larger manufacturing companies are highly internationalized. About a third of the industrial companies surveyed (31.1 %) generate their largest share in foreign sales in the US – despite the high number of industrial companies in the sample (n=97). Looking ahead, they prioritize future market entries into China (14.9 %) and Brazil (10.6 %).

Technology companies with a strong focus on the US – one in four plans to enter the Austrian or Swiss market

Technology and media companies operate most frequently in the US, with 14.1 % of them generating the largest share in foreign sales in this market.

In the future, about a quarter of the companies surveyed plan to conduct business in Austria (21.2 %) or Switzerland (24.2 %). A high purchasing power, geographical proximity, a common language, and the fact that the markets are relatively manageable are solid reasons for market entries.

Almost 90 % of financial services companies, banks and insurance companies are operating in Ireland – does Brexit foster a push for smaller financial markets?

87.5 % of medium-sized financial services companies report doing business in Ireland. This is hardly surprising given the fact that the corporate tax rate in Ireland is only 12.5 % – the lowest among the 38 members of the OECD.⁶ 15.4 % of them generate their largest foreign revenue in the UK – which does not include Ireland.

The Brexit deal between the UK and the EU is regarded as a unique opportunity for smaller financial markets such as Dublin, Amsterdam or Paris.⁷ Accordingly, the Netherlands (with 16.7 %) and France (with 13.0 %) rank highest among the most popular countries considered for future market entries. However, one market far away from Europe sparks a lot of interest: Australia, which recovered from the consequences of the COVID-19 pandemic at a remarkable pace. 18.5 % of the SMEs surveyed state that they aspire to do business in this region. The Australian Bureau of Statistics indicates that the economic performance in the fourth quarter of 2020 was only 1.1 % below the respective figure in the year before⁸ – a circumstance which did not go unnoticed by financial services companies either.

Consumer, wholesale and retail companies with a clear focus on Europe

Consumer goods, wholesale and retail companies of the German Mittelstand report a clear focus on Europe. 57.5 % of them are currently operating in Austria, followed by France, the Netherlands, Italy, Switzerland and Poland. 13.2 % report generating their largest share in foreign sales in Austria.

The COVID-19 pandemic has proven again that everyday consumer products are not heavily affected by economic cycles; companies in the hygiene and food sectors have even been able to profit anti-cyclically.

However, traditional brick-and-mortar retailers in the B2C environment, which could not rely on multi- or omnichannel sales strategies, were hit disproportionately hard and are unlikely to reopen.⁹

4 Internationalization Scenarios



4.1 Internationalization Scenarios: Motives, Market Selection, Plans

Why do Mittelstand companies foster their internationalization?

Number of companies participating in the survey	Top motives for past internationalization activities	Benefits realized	Top motives for future internationalization activities
n=312 (cross-sector)	1. Market access 44.1 % 2. Customer demand 36.3 % 3. Cost savings 32.0 % 4. Access to know-how 30.4 % 5. Stronger competitive position abroad 30.4 %	1. Market access 41.8 % 2. Customer demand 41.5 % 3. Cost savings 29.1 % 4. Access to workforce 29.1 % 5. Access to technology 27.8 %	1. Market access 31.4 % 2. Stronger competitive position abroad 30.4 % 3. Cost savings 26.1 % 4. Customer demand 24.8 % 5. Access to technology 23.5 %

Table 2: Cross-sector motives for the internationalization of SMEs (top 5 out of 14 possible answers, sorted by frequency).

Access to new markets is both a longstanding and future motive for international business activities

What motivates SMEs to drive internationalization in the first place? Across all sectors, about half of the companies surveyed answered that their main intent is to get access to new markets. This motivation has already been the decisive driver of international expansion in the past – and will continue to be in the future. One third of the SMEs state that they have entered new markets in the past to respond to customers' immediate demands. 41.5 % also report an increase in the demand from their customers after a successful market entry.

In retrospect, cost savings (26.8 %), access to know-how and a stronger positioning in the competitive

landscape (26.1 % each) constitute further motives for the internationalization of SMEs. The least important motives in the past were gaining reputation (19.3 %) or reacting to a decline in domestic demand (13.1 %).

Stronger competitive position abroad increasingly important in the future

Looking into the future, German SMEs regard the importance of a stronger competitive position abroad as significantly higher than they did in the past. In addition to simply entering into new markets, an increased market penetration, i.e. obtaining a larger market share, will increase in importance and become a key driver for future international activities.

Specific sectors, such as food retailing, exhibit an extremely high market concentration in Germany. For years, Edeka, Rewe, the Schwarz Group and Aldi have accounted for about 70 % of the domestic market.¹⁰

The German Monopolies Commission fears that the economic downturn caused by the COVID-19 pandemic will – in the medium term – lead to a further increase in market concentration in heavily affected sectors. Mittelstand companies are increasingly exposed to fierce competition; in some cases, unilateral dependencies on a few customers are emerging. As a result of these developments, SMEs are prone to takeovers and thus aim to position themselves in less competitive foreign markets.^{11,12}

4.1 Internationalization Scenarios: Motives, Market Selection, Plans

Which factors determine the selection of international target markets?

Market growth, volume and structure are primary market selection criteria

Once the decision for further business internationalization has been made, the question naturally arises as to which markets should be entered. But which macroeconomic criteria are applied to choose a suitable market?

Among the Mittelstand companies, the attractiveness of a target market is primarily determined by market growth, followed by market volume (number of customers and products that can be sold) and market structure (industry rivalry, bargaining power of buyers and suppliers, barriers to market entry, threat of substitutes). Across industries, the selection criteria, price structure and cost situation (e.g. local labor costs) achieve a medium ranking. The procurement situation (e.g. supply of raw materials) and infrastructure, on the other hand, play a rather subordinate role in the selection process of target markets.

Prioritization of criteria varies only marginally across sectors

Clustering the results according to sectors, a more differentiated picture emerges:

For financial services companies, market volume – i.e. the number of customers and sales volume – possesses an above-average value. The cost situation is of particular importance to the industrial companies, which, with comparatively high personnel requirements, specifically look into wage levels (and local unions). The construction industry, on the other hand, places more importance on the procurement situation, i.e. raw material supply and prices in the target markets.

Despite industry-specific priorities, the evaluation of the selection criteria hardly varies across different sectors and is therefore universally applicable.

MARKET SELECTION CRITERIA

Which macroeconomic criteria do you apply when assessing the attractiveness of a potential target market?

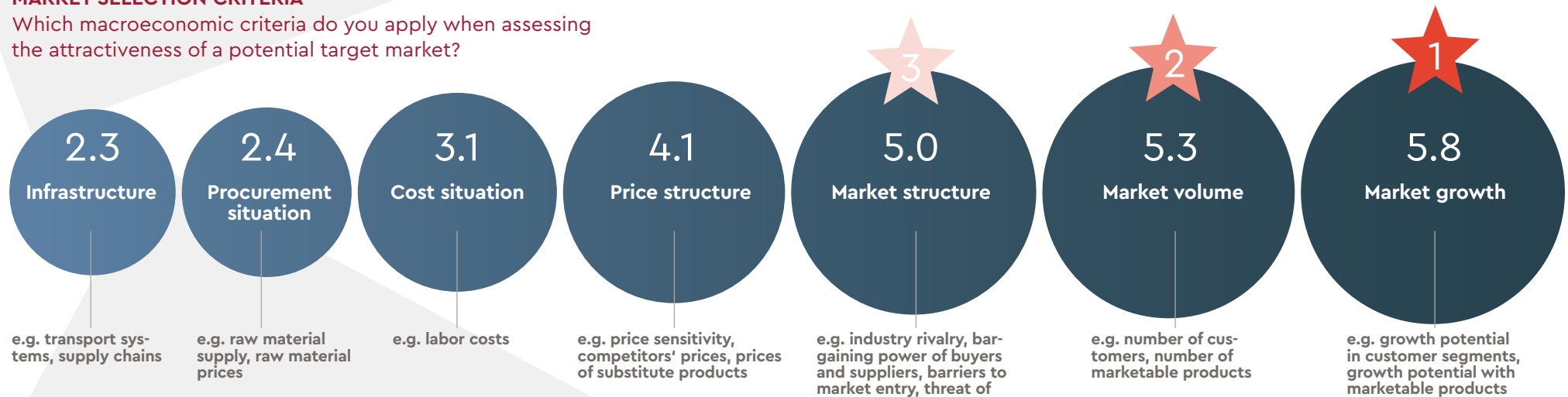


Figure 9: Ranking of criteria for assessing the attractiveness of foreign target markets (average values per attribute between 1=low and 7=high; n=264).

4.2 Internationalization Scenarios: Obstacles, Requirements, Implementation

Legislation, bureaucracy and cultural differences pose the biggest obstacles to market entry

Nearly 40 % of the SMEs surveyed state that limited knowledge of the regional legal situation constituted a challenge in their respective internationalization efforts. More than half of the companies (54.9 %) rely on advice by external lawyers concerning issues such as customs and corporate law. One in three say that they seek advice regarding the search for and selection of key employees in the course of their internationalization process.

Supporting SMEs in their international expansion has been a fundamental part of the business model of legal, HR and management consultancies. They are organized in networks, form alliances, or even open locations themselves in the clients' target markets. They support their customers from the target country, offering a wealth of local know-how and connections.

Larger Mittelstand companies are increasingly relying on external support

When bringing in external consultants, SMEs also expect support with bureaucratic tasks, intercultural moderation and the search for local business partners.

Compared to smaller companies, larger firms rely more heavily on external partners for international issues. This could either be due to the greater complexity of larger organizations or the frequency of new market entries. Lawyers and HR consultants seem to play a significant role in this context, whereas smaller firms are more likely to seek advice from foreign trade experts and IT specialists.

It is particularly striking that only 2.6 % of the larger companies claim that they possess sufficient internal expertise to realize an international market entry without any external support (vs. 8.6 % in the smaller SMEs).

Smaller companies are either more self-confident, demonstrate a greater cost discipline or simply have less need to rely on external support.



SMEs display a strong commitment to internationality

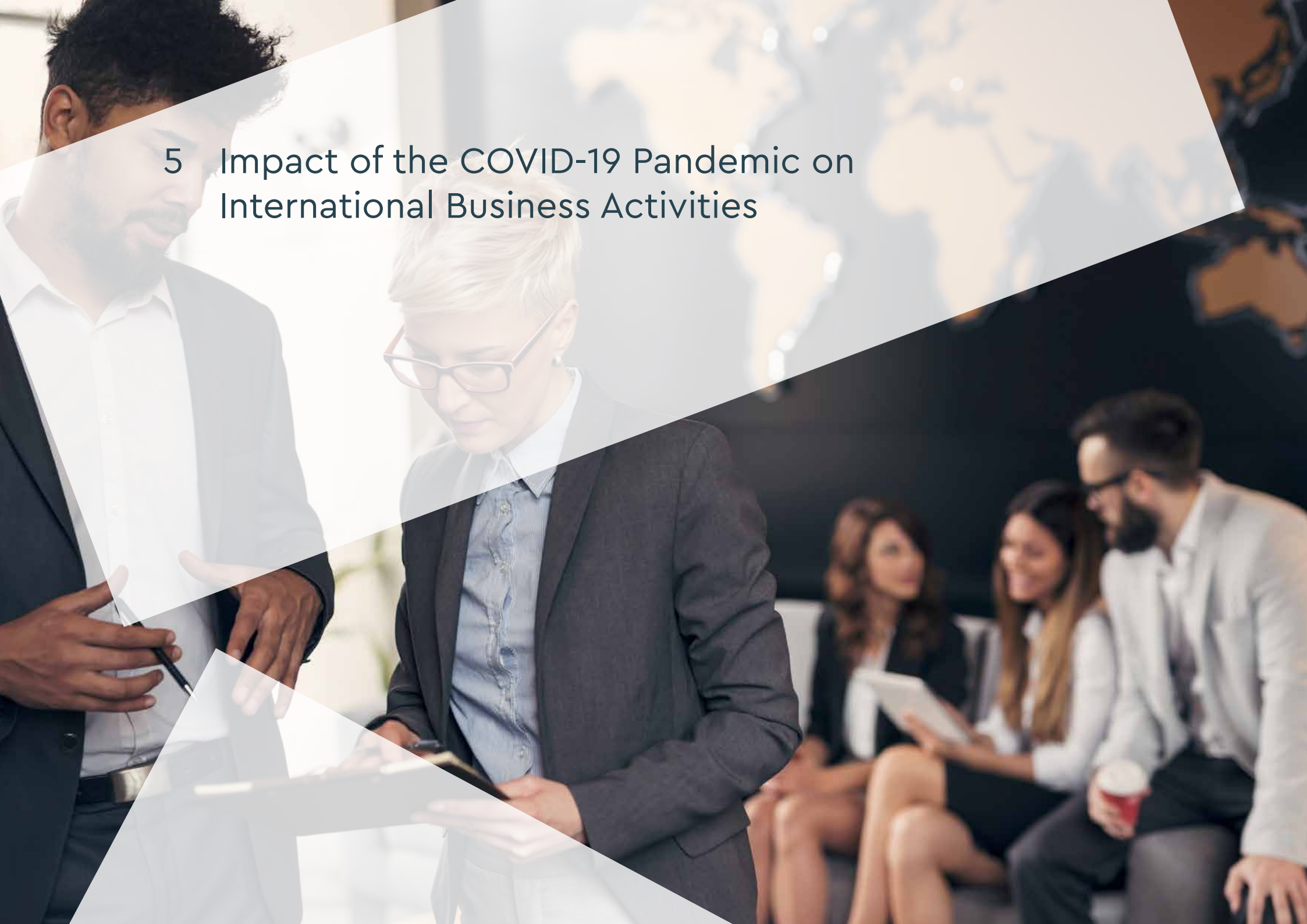
Regarding the ongoing financial year the companies in the sample demonstrate a strong commitment to their international activities.

As a result of the COVID-19 pandemic, one third plans to stabilize running activities and will continue to work within their current organizational setup.

A combined 44 % plan to scale up existing international business activities and simultaneously enter new markets.

In contrast, only 2.9 % of the Mittelstand companies are planning to withdraw from certain foreign markets.

5 Impact of the COVID-19 Pandemic on International Business Activities



Impact of the COVID-19 Pandemic on International Business Activities

The impact of the COVID-19 pandemic on international activities varies strongly between different sectors – positive outlook for SMEs

In the spring of 2020, the COVID-19 pandemic reached Germany – and resulted in an abrupt and fundamental economic collapse. How did this development influence the international business activities of local SMEs?

Overall, our survey reveals a positive tendency – albeit with slight limitations: Only three of the more than 300 companies surveyed are facing the question whether to terminate their international business activities based on the results forecasted.

13 % of the companies report a significant decline in profits from their international business activities due to a drop in sales. Smaller companies with three or less international subsidiaries are disproportionately affected. They face a particular "cluster risk" and – unlike larger firms with a global presence – cannot compensate for losses in a single country by diversifying their foreign activities.

Therefore, larger companies operating in several countries simultaneously were less affected by the pandemic. Following the virus outbreak in Asia, the national economy immediately shut down and recovered ahead of schedule compared to Europe. Larger companies with branches on several continents thus had the opportunity to allocate resources specifically to those markets where demand remained most stable.

An example for this development can be found in the automotive industry: VW, BMW and Mercedes now sell almost 40 % of their new cars to Chinese end customers – and countless German Mittelstand companies constitute an integral part of the supply chains in the automotive industry.¹³

In China, production downtimes and resulting declines in sales only occurred at the beginning of 2020; during the rest of the year, the sales generated there were able to stabilize the industry as a whole, whereas the US and Europe suffered significant losses.¹⁴ Companies only selling their products in Europe and the US could not profit from this rapid recovery in China.

Irrespective of this industry-specific example, the largest proportion of SMEs (35.9 %) is pleased to have witnessed a stable international business performance even in times of a pandemic. A quarter reports losses in sales and profits in their business abroad, but describes the deficits as manageable.

Despite – or perhaps because of – the ongoing pandemic, more than a quarter of the companies surveyed claim that they are benefiting from increased customer demand. This applies primarily to companies in the MedTech and pharmaceutical sectors, professional service firms and the construction industry.

HOW HAVE YOUR FOREIGN OPERATIONS BEEN AFFECTED BY THE COVID-19 PANDEMIC?

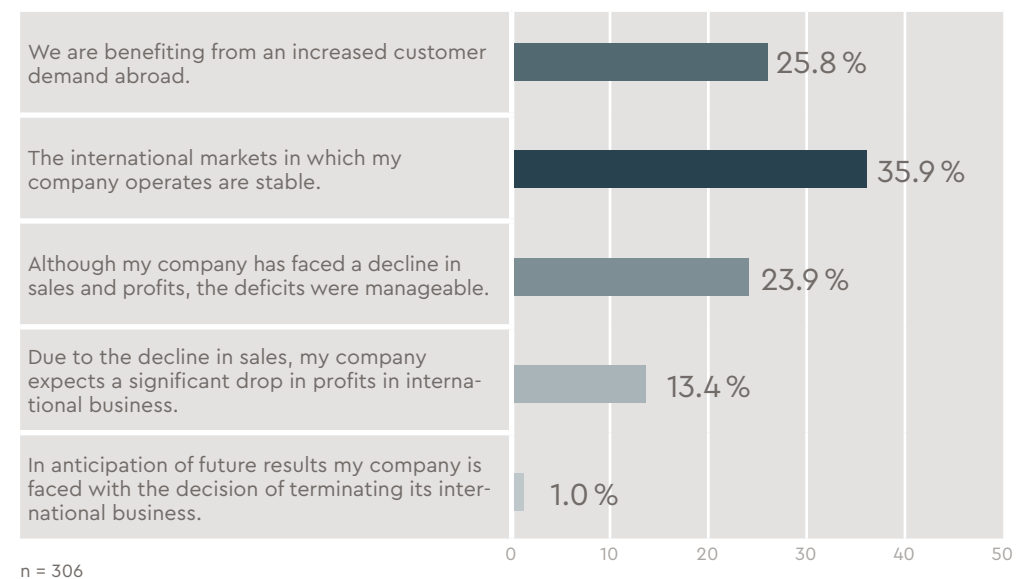


Figure 10: International activities of SMEs affected by the COVID-19 pandemic.

Impact of the COVID-19 Pandemic on International Business Activities

Investment behavior and countermeasures*

Travel restrictions and stricter HSE requirements had the greatest negative impact on international operations

Across all economic sectors, SMEs have had to contend with restrictions they had not anticipated. 40.5 % of surveyed companies said that travel restrictions and stricter HSE regulations hampered their international business operations the most. 36.3 % of respondents identified restrictions on transportation and related services as significant obstacles for their activities.

Approximately a quarter of the companies named a lack of demand for their products or services, uncertainty about future regulations, and staff shortages as the most adverse impacts caused by the pandemic. Only 15.7 % of respondents perceived the decline in or the postponement of orders as the most negative consequence.

Challenges concerning liquidity in their foreign subsidiaries were only named by 13.1 % of respondents. Only 8.5 % initiated subsidies from Germany for their international sites.

In 2020, the majority of SMEs were able to realize their international investment plans to a large extent

Almost a quarter of SMEs were able to meet their foreign investment goals in 2020. Another third responded that they had almost, but not completely, invested according to plan. Thus, it can be concluded that most SMEs did not decide to freeze investments in 2020 and that, notwithstanding the pandemic, investment in foreign operations has intensified. Approximately 29 % of surveyed businesses could not fully meet their investment goals for 2020, whereas nearly 8 % were unable to invest as planned. Finally, 2.6 % had not made any investment plans for the year from the start.

Larger Mittelstand companies take more resolute measures to combat pandemic fallout

Larger companies are taking a range of measures beyond remote work to address the challenges posed by the COVID-19 pandemic in the context of international business. Participants were explicitly asked about actions taken in foreign markets to support international operations.

One third of the companies named technological changes such as remote maintenance of machines in this context. The creation of a cross-functional international COVID-19 task force (31.4 %) and process-related changes (31.0 %), including the adaptation of supply chains, are also highly popular (see figure 11).

Smaller companies generally use short-time work in their foreign subsidiaries more frequently than large firms (24.7 % vs. 15.5 %). In contrast, the latter are more resolute when it comes to procedural changes (i.e. moving organizational units back to Germany).

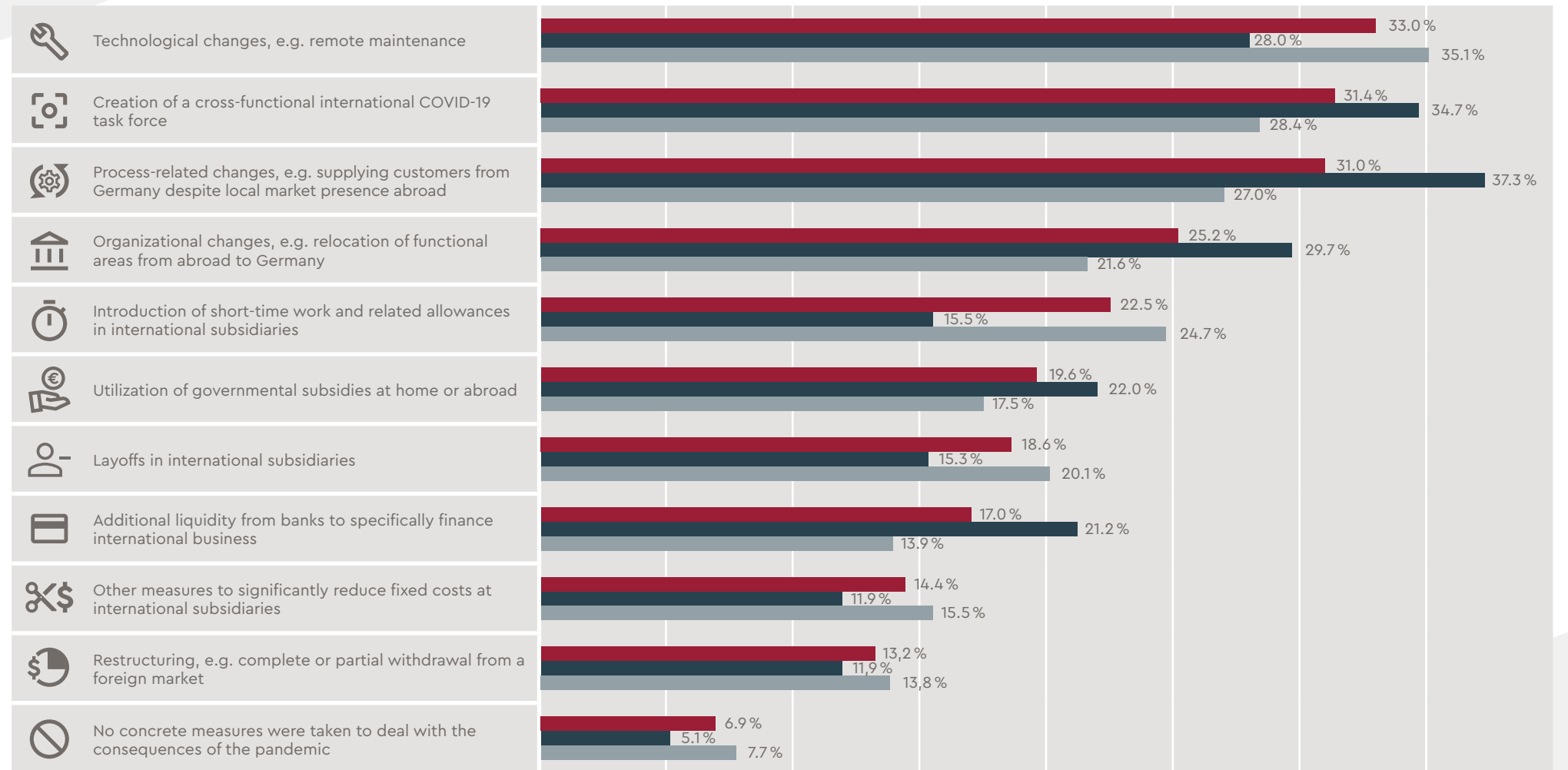
Furthermore, smaller companies (7.7 %) stated more often than larger firms (5.1 %) that they had not taken any specific measures to deal with the pandemic's impact on their international business.

Restructuring measures, such as complete or partial withdrawal from a foreign market, were taken comparatively rarely (13.1 %).

*An overview of the detailed countermeasures can be found on the following page.

Impact of the COVID-19 Pandemic on International Business Activities


Countermeasures in response to the COVID-19 pandemic



n = 306, 189 of which were small Mittelstand companies and 117 of which were large Mittelstand companies | Multiple selection possible

● Total ● Larger companies ● Smaller companies

Figure 11: Countermeasures in response to the COVID-19 pandemic.

A nighttime photograph of a city street with light trails from cars and buildings. The image is overlaid with several semi-transparent white geometric shapes: a large triangle in the top left, a smaller one in the top right, and a large one in the bottom left. The text is positioned within the top-left triangle.

6 Forecasts 2021+ Taking into Account Macroeconomic Trends

Forecasts 2021+ Taking into Account Macroeconomic Trends

SMEs have a positive outlook for the future – with a few limitations

It is no secret that the COVID-19 pandemic has caused long-term damage to the German economy. Based on certain recovery scenarios, the Federal Bank of Germany assumes that the GDP of Europe's largest economy will not reach pre-crisis level until the end of 2023.¹⁵ As future economic development will depend on the course of the pandemic and the success of the vaccination campaign, it remains to be seen whether this prognosis turns out to be correct.

The Federal Statistical Office of Germany reports that the first-quarter GDP of 2021 fell by 1.7 % in comparison to the fourth quarter of 2020.¹⁶ Although the German economy had recovered somewhat in the second half of 2020, the COVID-19 crisis led to another decline in economic performance at the beginning of 2021, resulting in the revision of several positive forecasts.

The revival of the export economy will lead to a recovery for both the internationalized SMEs as well as for the German economy as a whole.

The export market is already supporting the shrinking economy and can compensate for the decline in private consumption to a certain extent, but it is still far from the pre-crisis level.¹⁷



Forecasts 2021+ Taking into Account Macroeconomic Trends

SMEs have a positive outlook for the future – with a few limitations

Globalization as an opportunity – embracing international competition

The majority of the SMEs surveyed view increasing globalization as an opportunity and regard its impact on their competitive position as predominantly positive.*

The impact of the latent trade conflict between the US and China on the development of their business is largely viewed neutrally by SMEs.

This assessment may well be linked to the change of administration in the US.

Four out of five welcomed a shift away from the protectionism of the Trump administration and a return to more moderate positions expected from President Biden. Even if a turnaround concerning trade policies cannot be expected, the first few months of the new administration have given rise to justified hope for transnational cooperation and investment security.

A first step in this direction has been taken with the \$1.9 trillion COVID relief bill in the US. Although the plan is designed to boost American consumer demand and the domestic services industries, the effect is so powerful that the German economy will also benefit from higher exports: The US stimulus package will increase Germany's GDP by an additional 0.3 % in 2021 and 0.1 % in 2022.¹⁸

The impact of Brexit tends to be assessed negatively – which effects does the trade agreement have?

Approximately one third of the SMEs surveyed conduct business in the United Kingdom and consequently view Brexit negatively. The ratification of the Trade and Cooperation Agreement between the EU and the United Kingdom in May 2021 will hopefully dispel some of the initial concerns.

The agreement will provide the United Kingdom with access to the European domestic market. Trade between the two sides will be free of tariffs and quantitative import restrictions. In return, the EU was able to assert equal competitive conditions – the so-called "level playing field". This deal refers to comparable environmental, social, and subsidy standards.¹⁹

The EU-UK Trade and Cooperation Agreement, however, does not automatically guarantee a harmonious and uncomplicated cooperation. The level playing field, control on goods, and other contractual elements of the agreement are enforceable in court. If one of the two parties violates the agreement, the other may impose punitive tariffs or limit imports. Thus, the EU could theoretically cause the UK great damage. The fact that contractual partners threaten to sue each other in the course of signing a treaty is not the most common occurrence.²⁰

Optimism clouded by uncertainty

The bottom line: The business outlook for internationally active SMEs is positive. Building on 2020, a year dominated by the pandemic, the clear majority of the 312 executives surveyed for this study (59.7 %) expect that by 2023 sales will grow by up to 10 % per year, and thus a noticeable recovery.

Only 5.3 % of respondents expect a stagnation or decline in foreign sales over the next three years.

*Approximate normal distribution on a scale of 1–6; 65.8 % of assessments positive (≥4).

7 Conclusion and Implications



Conclusion and Implications

Strong commitment to internationality and an optimistic attitude

The study results show that German SMEs are optimistic about the future of their international businesses. Across all sectors, the majority of SMEs forecast substantial annual growth rates in foreign sales up to and including 2023, while less than 10 % of respondents expect stagnation or decline throughout the same period.

It becomes apparent that SMEs still regard their international setup a decisive success factor for the company's overall performance. This is reflected in the investment behavior of SMEs: Even during this period of economic uncertainty resulting from the pandemic, the overwhelming majority invested specifically in their international business activities – most of them even according to their original plans.

In addition to entering new markets, SMEs will prospectively focus on penetrating international markets they are already present in.

Across all sectors, export business will remain an essential driver of growth. German SMEs are especially intensifying their business with neighboring countries, thus illustrating the importance of EU domestic trade. German industrial companies display an above-average degree of internationalization as they drive their expansion beyond the EU into markets such as the US, China, and Brazil.

We thus conclude: German SMEs remain brave and internationally minded thinkers and doers.

Uncertainty as a constant companion

Despite this optimism, uncertainty clouds the Mittelstand's outlook on the future. Many business decisions depend on the recovery after the pandemic, which at this point remains difficult to predict. It remains unclear, which long-term effects it will have on the economic performance of internationally active SMEs.

In the second quarter of 2021, this uncertainty is fueled by supply shortages in primary products and raw materials such as semiconductors, metals and lumber. Paradoxically, companies have full order books, but are unable to meet the clients' demands. While these shortages cause the prices of primary products and raw materials to skyrocket, challenges in logistics and transportation worsen the situation.

In addition, German SMEs fear inflation. The Federal Statistical Office of Germany predicts a domestic inflation rate of 2.0 % for April 2021 compared to the same month in the previous year.²¹

Plea to politicians: Stronger support for an internationally competitive German Mittelstand

German SMEs currently face a lack of security with regard to long-term planning. This could be achieved through a solution-oriented and pragmatic political agenda.

Over the past year, many SMEs had to live off their savings and thereby lived up to their social responsibilities in an impressive manner. Fiscal support measures helped companies with their liquidity needs; however,

they were partly perceived as too little and too late. In many cases, these problems arose from inefficient administration processes in federal, decentralized structures.

As a consequence, SMEs now face a lack of financial resources for investments in technological infrastructure and the modernization of existing business models. The government must therefore create an environment, which enables German SMEs to regain international competitiveness in the long run.

In addition to the pandemic, which has dominated the political agenda for over a year, SMEs face a variety of challenges. Due to demographic change, the shortage of skilled labor will increase in the coming years. The climate crisis and related demands for sustainable business models, digitalization, as well as succession planning in family-owned businesses – none of these were put on hold during the pandemic.

While it is not exclusively the government's responsibility to address these challenges, the administration should nevertheless establish a framework, which enables SMEs to shape their own future. It will be interesting to see which of these issues will make it to the top of the political agenda after the upcoming German parliamentary elections; and, on this basis, which measures the German SMEs will take to further develop their international business operations.

Conclusion and Implications

Implications and recommendations for the international business of German SMEs

1 Increase market penetration in existing foreign markets

- Penetrating established foreign markets more strongly can be an effective strategic response to intense competition in the domestic market.
- This is particularly evident in the investment behavior of German SMEs: Despite unfavorable conditions the majority still invests in their international business activities.
- Valid means to foster market penetration are increasing the average consumption per existing customer, winning over clients from competitors and activating latent customer needs.
- Scarce investment resources need to be allocated carefully – market growth, volume and structure are primary criteria for market selection among SMEs.

2 Establish an international partner network in the professional services environment

- Only a few of the top managers at SMEs indicated that they possess sufficient in-house competencies to realize an international market entry without external support.
- A substantial partner network in the professional services environment provides a huge advantage in this context. One-stop shops that can support SMEs in several markets at once are ideal for this purpose. They allow for a globally aligned cooperation across several markets without long-term capital lockup.
- Several service providers, many of which are also SMEs, have positioned themselves to support their customers in all matters regarding market entry, the legal situation and personnel issues relating to both the home market and abroad. Combined with the worldwide network of foreign chambers of commerce, Mittelstand companies can rely on an excellent infrastructure to support them in their internationalization efforts.

3 Implement a modern, internationally oriented recruiting strategy

- As many international business units are rather manageable in size and complexity compared to the German headquarters, their success is highly dependent on mission-critical key employees. However, this matter is not always addressed appropriately.
- A proper recruiting strategy should be driven by a more international mindset, rather than exclusively planning for the home market. Expatriate programs and international job rotations after an onboarding at the German HQ provide a valuable addition to local recruiting measures.
- On the other hand, active sourcing abroad can lead to the immigration of highly qualified specialists and can thus support SMEs facing a shortage of skilled workers. Positioning the company as an international player through employer branding campaigns can also help to attract high potentials.

4 Involve extended management more strongly in internationalization

- Across all industries, managing directors and board members of mid-sized companies assess their current efforts to drive internationalization more favorably than business unit managers, department heads and team leaders.
- A more active involvement of the extended management in the planning and implementation of the internationalization strategy is essential for resolving this dissent.
- This can be achieved by intensifying internal communication, strengthening of intercultural competencies or by creating career paths with mandatory assignments abroad. Ultimately, a group-wide internationalization can only be achieved if the motives and strategy underlying this move are both understood and internalized by the entire management.

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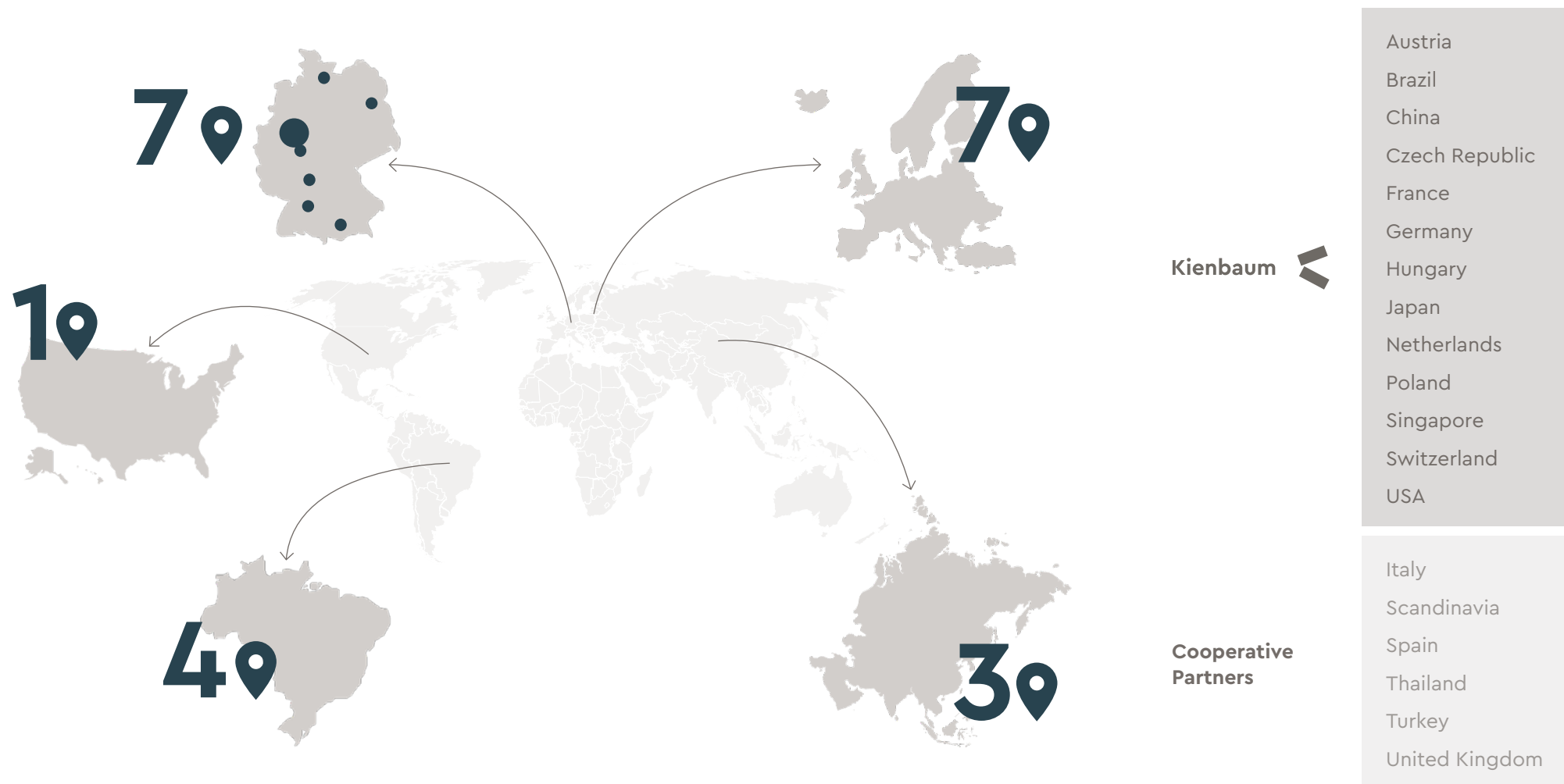
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International Market Coverage by Kienbaum

Kienbaum supports its clients in the search and selection of personnel not only in their home markets, but also in the most important economic regions of the world – With 22 offices in 13 countries on four continents and a strong partner network



Appendix



Appendix

Nomenclature – industry clusters

Industry cluster	Included therein	Distribution (absolute; relative)	
Industry	Automotive, automotive suppliers, vehicle construction, vehicle suppliers, energy and water suppliers and disposal, chemical and petrol industry, plastics, transport and logistics, other manufacturing, metal processing, electronics and electrical engineering, mechanical and plant engineering	n=97	31.2 %
Technology & Media	Technology, IT & internet, printing and publishing, agencies, advertising and marketing	n=67	21.5 %
Financial Services, Banking & Insurance	Financial services, insurance, banking, real estate	n=54	17.4 %
Consumer, Wholesale & Retail	Wholesale & retail, consumer goods & FMCG, food & beverages	n=40	12.9 %
Professional Services	Other services, education and training, consulting, auditing and legal, hospitality	n=26	8.4 %
Building & Construction	Technical building equipment, building supply industry, construction industry	n=15	4.8 %
Healthcare, MedTech & Pharma	Healthcare, medical technology and life sciences, pharmaceutical industry	n=10	3.2 %
Others	n.a.	n=2	0.6 %

Appendix

Nomenclature – country clusters

Country cluster	Included
Neighboring countries	Austria, Czech Republic, Denmark, France, Luxembourg, Poland, Switzerland
EU/EU 27	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Slovakia, Spain, Sweden
Asia	Afghanistan, Armenia, Azerbaijan, Bahrain, Bangladesh, Bhutan, Brunei, Cambodia, East Timor (Timor-Leste), Egypt (Sinai Peninsula), Georgia, India, Indonesia, Iran, Iraq, Israel, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Laos, Lebanon, Malaysia, Maldives, Mongolia, Myanmar (Burma), Nepal, Northern Cyprus, North Korea, Oman, Pakistan, P.R. China, Philippines, Qatar, Russia, Saudi Arabia, Singapore, South Korea, Sri Lanka, Syria, Taiwan/Republic of China, Tajikistan, Thailand, Turkey, Turkmenistan, United Arab Emirates, Uzbekistan, Vietnam, Yemen
Africa	Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Comoros, Congo (Democratic Republic of the), Congo (Republic of the), Djibouti, Egypt, Equatorial, Eritrea, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe
North America	Canada, Mexico, USA
South America	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela
Australia/Oceania	Australia, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Palau, Papua New Guinea, Solomon Islands, Samoa, Tonga, Tuvalu, Vanuatu
Top 15 trading partners by export volume	USA, P.R. China, France, Netherlands, United Kingdom, Poland, Italy, Austria, Switzerland, Belgium, Czech Republic, Spain, Hungary, Sweden, Russia

Appendix

Industry-specific foreign activities of medium-sized German companies by country (active, planned, largest share in foreign sales)

Industries of the medium-sized companies in the survey	Top 5 active countries	Top 5 popular countries for future market entries	Top 5 countries with largest share in foreign sales
cross-sector (n=312)	1. France 44.1% 2. Austria 36.3% 3. USA 32.0% 4. United Kingdom 30.4% 5. Switzerland 30.4%	1. Switzerland 12.4% 2. France 11.1% 3. Denmark 11.1% 4. China 10.1% 5. Australia 10.1%	1. USA 17.7% 2. France 10.9% 3. China 9.9% 4. Austria 7.5% 5. Switzerland 5.8%
Industry (n=97)	1. France 59.6% 2. USA 46.8% 3. United Kingdom 44.7% 4. China 43.6% 5. Austria/Italy 41.5%	1. China 14.9% 2. Brazil 10.6% 3. Norway 9.6% 4. Hungary 9.6% 5. USA 9.6%	1. USA 31.1% 2. China 16.7% 3. France 13.3% 4. Austria 6.7% 5. Canada 6.7%
Technology & Media (n=67)	1. USA 28.8% 2. Austria 27.3% 3. France 25.8% 4. Switzerland 25.8% 5. Australia/China 24.2%	1. Switzerland 24.2% 2. Austria 21.2% 3. France 19.7% 4. South Africa 18.2% 5. United Kingdom 16.7%	1. USA 14.1% 2. Belgium 9.4% 3. Austria 9.4% 4. China 7.8% 5. France 7.8%
Financial Services, Banking & Insurance (n=54)	1. Ireland 87.5% 2. France 35.2% 3. Austria 33.3% 4. Switzerland 31.5% 5. Luxembourg 29.6%	1. Australia 18.5% 2. Netherlands 16.7% 3. Denmark 14.8% 4. France 13.0% 5. United Kingdom 13.0%	1. United Kingdom 15.4% 2. Switzerland 13.5% 3. Australia 9.6% 4. Netherlands 9.6% 5. Austria/China 7.7%
Consumer, Wholesale & Retail (n=40)	1. Austria 57.5% 2. France 50.0% 3. Netherlands 47.5% 4. Italy 42.5% 5. Poland/Switzerland 40.0%	1. Ireland 12.5% 2. Switzerland 10.0% 3. Ukraine 10.0% 4. Denmark 10.0% 5. Portugal 10.0%	1. Austria 13.2% 2. China/Italy/Netherlands/Switzerland/USA 10.5%
Professional Services (n=26)	1. France 54.2% 2. Austria 33.3% 3. Luxembourg 29.2% 4. Belgium 29.2% 5. Netherlands/Switzerland/USA 25.0%	1. South Africa 20.8% 2. Netherlands 16.7% 3. Switzerland 16.7% 4. Spain 16.7% 5. Austria/India/Norway/Sweden/Ukraine 12.5%	1. France 17.4% 2. Belgium 8.7% 3. Luxembourg 8.7% 4. Switzerland 8.7% 5. USA 8.7%
Building & Construction (n=15)	1. Ireland 80.0% 2. France 26.7% 3. USA 26.7% 4. Luxembourg 26.7% 5. Switzerland 26.7%	1. Australia 26.7% 2. Belgium/Brazil/China/France/Italy/Japan/Russia/United Kingdom/USA 20%	1. France 21.4% 2. Denmark 14.3% 3. Australia/Bulgaria/Luxembourg/Netherlands/Singapore/South Africa/Switzerland/United Kingdom/USA 7.1%
Healthcare, MedTech & Pharma (n=10)	1. Ireland 88.9% 2. France 50.0% 3. Italy 50.0% 4. Netherlands/United Kingdom/USA 40.0%	1. Canada/Czech Republic/Denmark/Hungary/Japan/Slovakia/USA 20.0%	1. United Kingdom 30.0% 2. USA 20.0% 3. Brazil/Canada/Denmark/France/Italy 10.0%

Appendix

Internationalization motives and benefits realized by sector

Industries of the medium-sized companies in the survey	Top motives for internationalization in the past	Benefits realized	Top motives for internationalization in the future
cross-sector (n=312)	<ol style="list-style-type: none"> 1. Market access 45.8 % 2. Customer demand 33.3 % 3. Cost savings 26.8 % 4. Access to know-how 26.1 % 5. Stronger competitive position abroad 26.1 % 	<ol style="list-style-type: none"> 1. Market access 41.8 % 2. Customer demand 41.5 % 3. Cost savings 29.1 % 4. Access to workforce 29.1 % 5. Access to technology 27.8 % 	<ol style="list-style-type: none"> 1. Market access 31.4 % 2. Stronger competitive position abroad 30.4 % 3. Cost savings 26.1 % 4. Customer demand 24.8 % 5. Access to technology 23.5 %
Industry (n=97)	<ol style="list-style-type: none"> 1. Market access 40.4 % 2. Customer demand 38.3 % 3. Cost savings 33.0 % 	<ol style="list-style-type: none"> 1. Market access 55.3 % 2. Customer demand 44.7 % 3. Cost savings 40.4 % 	<ol style="list-style-type: none"> 1. Cost savings 36.2 % 2. Market access 33.3 % 3. Stronger competitive position abroad 30.9 %
Technology & Media (n=67)	<ol style="list-style-type: none"> 1. Market access 47.0 % 2. Customer demand 33.3 % 3. Access to technology 33.3 % 	<ol style="list-style-type: none"> 1. Market access 39.4 % 2. Customer demand 39.4 % 3. Access to workforce 30.3 % 	<ol style="list-style-type: none"> 1. Stronger competitive position abroad 31.8 % 2. Customer demand 28.8 % 3. Access to know-how 28.8 %
Financial Services, Banking & Insurance (n=54)	<ol style="list-style-type: none"> 1. Market access 44.4 % 2. Customer demand 29.6 % 3. Access to know-how 27.8 % 	<ol style="list-style-type: none"> 1. Market access 40.7 % 2. Customer demand 37.0 % 3. Access to know-how 29.6 % 	<ol style="list-style-type: none"> 1. Market access 40.7 % 2. Stronger competitive position abroad 38.9 % 3. Customer demand 35.2 %
Consumer, Wholesale & Retail (n=40)	<ol style="list-style-type: none"> 1. Market access 60.0 % 2. Customer demand 37.5 % 3. Stronger competitive position abroad/ Access to know-how 25.0 % 	<ol style="list-style-type: none"> 1. Market access 50.0 % 2. Customer demand 45.0 % 3. Access to workforce 30.0 % 	<ol style="list-style-type: none"> 1. Market access 45.0 % 2. Cost savings/Stronger competitive position abroad/Innovation impulses/Reputational gain 22.5 %
Professional Services (n=26)	<ol style="list-style-type: none"> 1. Market access 45.8 % 2. Innovation impulses 37.5 % 3. Access to workforce 33.3 % 	<ol style="list-style-type: none"> 1. Customer demand 45.8 % 2. Market access 41.7 % 3. Access to workforce 33.3 % 	<ol style="list-style-type: none"> 1. Innovation impulses 37.5 % 2. Tax benefits 33.3 % 3. Market access/Cost savings/Access to technology/Reputational gain 20.8 %
Building & Construction (n=15)	<ol style="list-style-type: none"> 1. Access to workforce 46.7 % 2. Market access 40.0 % 3. Regulation in the domestic market 33.3 % 	<ol style="list-style-type: none"> 1. Access to technology 60.0 % 2. Customer demand 53.3 % 3. Access to know-how/Access to workforce/Innovation impulses 40.0 % 	<ol style="list-style-type: none"> 1. Stronger competitive position abroad 40.0 % 2. Regulation in the domestic market 40.0 % 3. Cost savings/Tax benefits 33.3 %
Healthcare, MedTech & Pharma (n=10)	<ol style="list-style-type: none"> 1. Market access 50.0 % 2. Cost savings 50.0 % 3. Access to know-how/Access to technology/Access to workforce 40.0 % 	<ol style="list-style-type: none"> 1. Access to capital 40.0 % 2. Stronger competitive position 40.0 % 3. Market access/Cost savings/Access to technology/Access to workforce/Reputational gain 30.0 % 	<ol style="list-style-type: none"> 1. Customer demand/Cost savings/Tax benefits/Reputational gain 30.0 %

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