Chapter 16

Strategic Management in German Mittelstand Companies

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ABSTRACT

The objective of this chapter is to analyze the special aspects of strategic management in Mittelstand companies. It is a German phenomenon, which comes primarily from the State of Baden-Württemberg, in the south-west of Germany. Although the south-west of Germany was one of the poorest areas in Europe at the end of the 19th century, it developed to the most prosperous region in Europe over the next 100 years despite two wars which threw the region back for decades. The Mittelstand companies especially, sometimes called “the mighty middle,” are strongly connected with the German “Wirtschaftswunder,” the rise of the German economy after 1945. The strategic approach of Mittelstand companies is the content of this chapter. The formal approach of big corporations in strategic management does not really work in the very owner-centric environment of a Mittelstand company. The owners of Mittelstand companies seem to act more intuitively and are more intrinsically motivated than their counterparts in big corporations. The question now is what do Mittelstand companies have in common in their strategic management which can be generalized? This is the basic question of this chapter, which is looking for plausible answers.

INTRODUCTION

The basic reasons for strategic management are the same in every company of each size, to anticipate futures trends and to provide the appropriate market offerings. This implies that companies are able to indicate the new trends, to identify possible business opportunities, to develop their employees for further new tasks, and to change their organization and their business processes for “future fitness”. It may include typical strategic questions for the company:

- Could the company make use of the existing strengths in the future? Could the current strengths be adapted or should new strengths be developed?
- What capabilities and resources are required to provide the future strengths of the market offerings and the company? Could

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Strategic Management in German Mittelstand Companies

existing skills of the employees be transmitted into future business segments?
• How can our efforts be organized to generate new businesses, innovative market offerings and new strategic alternatives? Are there strategic options which may emerge, are already predictable and which could be used?
• What are the business opportunities in the market segments within the next five years?
• How well does the organizational structure and the business processes fit the future purpose or are there any obstacles?
• How can we get our external managers to think strategically? How can we get people committed to the company?

There are different approaches to develop strategies. Porter developed a market-based view with a strong focus on the different forces in the industry structure. Porter also established strategic management as an own discipline (Porter, 1985). Other authors added internal issues such as strengths and resources to the discussion and formed the resources-based view of strategic management which became popular through the publications of Prahalad and Hamel (1990). Parallel to these developments another approach included financial aspects into the strategic discussion and focused on the shareholder value (Rappaport, 1998). It can be assumed that the chosen approach in strategic management differs in every industry and every size of company. The setup of strategies follows particular procedures, from very intuitive to very formal.

The culture of Mittelstand companies is very well connected with the German “Wirtschaftswunder” after the war, especially in the 1950s and 1960s, where many medium-sized companies started and are companies with more than € 1.000 Mio. in sales or more. Today, of course, on the way to a multi-billion-Euro company, formalization finds its way into the company. Examples for this development are companies like Kärcher, who were practically unknown twenty years ago and who pushed their sales from € 107 Mio. in 1990 to € 1.923 Mio. in 2012 with their innovative market offerings. According to statements of Kärcher, innovation is, and was the most important growth factor for Kärcher. Since 2008 Kärcher has brought three worldwide innovations to market in the field of pressure washers for end consumers alone (Kärcher, 2011).

THE TERM “MITTELSTAND” IN BUSINESS

The definition of the term “small and medium sized enterprises” (SME) is mostly based on quantitative criteria such as sales made in the past and amount of employees, e.g. less than 500 employees and sales less than € 50 Mio. is a widely used definition defined by the German “Institut für Mittelstandsforchung”, and less than 249 employees and less than € 50 Mio. in sales, defined by the European Union. In Taiwan, the definition of SMEs is a company with less than 200 employees or capital less than US$ 2,5 Mio. according to the “White Paper Book” of the Ministry of Economic Affairs. This shows that a global definition for SMEs cannot exist. The definition of SMEs depends on national or even regional circumstances.

The German “Mittelstand” can be defined very well through qualitative criteria, so the following characteristics can be used (Ahsen, Heesen, & Kuchenbauch, 2010, p. 4):

• The unity between ownership and management with a special emphasis on the owner.
• The management is often very technical oriented with close relationships to suppliers as well as to customers.
• Flat hierarchies, especially in smaller Mittelstand companies, make it possible to react very fast in case of environmental changes or to overcome obstacles.