

# The role of SME in the Value Creation Chain – Experience from Germany

The role of intangibles in the value creation.  
Experience from Germany

*Recently a lot of focus has been on the German economy for its stability in difficult economic times. The key role in the German success played the “Mittelstand” (German for mid-sized and family owned companies), which was the main driver for the export industry and a low rate of unemployment. Some of the underlying facts for this phenomenon may be used as inspiration for the European Commission project LEGEND<sup>1</sup> of how to curb innovation and growth based on SME (small and midsized companies) in the region of Kosice. The project is funded by the Lifelong Learning Programme – Leonardo da Vinci – and responds to a weak connection of the Slovak labour market and vocational training system.*

## 1 Intellectual Capital Statement

In Germany the lack of natural resources and from time to time financial capital, makes human and structural (organisational) capital extremely important to stay competitive on the world markets. German experience of combining the intangibles to tangibles is reflected in the new method Intellectual Capital Statement, which has already been implemented in most countries in Europe since 2004. The methodology emphasises, that the factors of human, structural and relational capital are equally important as the financial capital and all should be approached in a balanced and comprehensive way.

## 2 Human Capital

The base for the German export industry is based on engineering, testing and innovation. None of the G8 countries exports per capita as much as Germany. These engineering skills are being promoted not only from universities but also research institutions with more researchers than in the US! This combined with the dual system where non-academic youth study and work in parallel gives a today unique combination of theory and practice, which reduces the gap between high-end research and product development. It is said that the free speed on German high ways is one of the success factors behind the German luxury car industry – you can immediately test in reality and adapt quickly where necessary.

## 3 Structural Capital

Only 17 % of a new Porsche is made directly from the company itself. The rest comes from suppliers in the region and worldwide. This process way of thinking and close cooperation to regional suppliers is probably the main reason why Germans can build and construct high complex cars or machinery.

The primary and secondary schools provide people with not only high professional skills, but most importantly also social and ethical ones. The German correctness and honesty is sometimes being smiled at in the world business community, but people with experience working in Germany know how to appreciate those “soft” skills.

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One of the reasons why German politics very much focused on helping SME to expand their business and to get access to skilled labour is that their investments are mostly made in Germany. Corporate taxes are partly being paid directly to the community where the SME has its headquarters, making mayors very aware and interested to attract companies to their regions. Since most of the SME are family owned, the management and owners also have an interest to keep a positive image locally. Usually they have a long regional history and want to preserve good relations to local politicians and inhabitants. Especially in difficult times this is badly needed.

#### **4 Relational Capital**

In the German “Mittelstand” you find many “hidden champions”. These are companies, which either work very closely with large corporations or have a specific niche where the barriers-of-entry are high. They do not seek publicity because usually they are not quoted on any stock exchange nor do they sell to end consumers. Their relations to employees, community and customers are long term and are therefore not directly affected on short-term market turbulences. In the economic down turn 2009-2010 they did not fire personnel, but took all possibilities to keep the staff but with less hours of work. That is why Germany compared to many competitors could gain rapidly from the arising economy as of 2011.

The German “Mittelstand” are usually financially very solid. This is due to the German tax and banking system. The tax system allows to build financial reserves in good times to be prepared for bad times. Also the three pillar German banking systems, with state banks (Sparkassen), saves- and loaning banks (VR-Banken) and the commercial ones, allow long term funding. Especially the state and saves- and loaning banks have showed to be stabile to continue funding also in the times of crisis, not having to change their policy so often as the commercial banks.

#### **5 Good Practice for Slovakia**

Within the realm of the LEGEND project in the region of Kosice it would be interesting to find out:

- What kind of professional skills are there today, including social and leadership skills?
- What are the unique skills and experiences? Are there any niches?
- What kind of institutions and universities are there?
- Is the infrastructure adequate?
- Are the state institutions working efficiently? Are they the right ones?
- Is their enough funding available to build relations and to grow?
- How could the multinational companies on site be integrated in the value chain so they can thrive and bring know how into the region?
- On which markets outside Slovakia could the people in Kosice compete in?

The experiences from Germany show how this could be done. The key message is that all factors are important and should be approached in a balanced and comprehensive way. If one partner in the value creation chain is weak, it will have consequences for the overall outcome.

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