

Summary and Conclusions

The Finnish *Mittelstand* is a small group of manufacturing companies. The majority of these companies are family-owned and quite old. They are often highly specialized and internationally oriented.

The challenges posed by sales, marketing and distribution are typical barriers to growth particularly for these companies. According to their own assessment, these companies would benefit from a significant improvement in the country's cost competitiveness and easing of their administrative burden.

It does not seem warranted to aim policy measures specifically at the *Mittelstand*, especially when they appear to face fewer financing constraints than the comparison companies. On the other hand, these companies could use some more encouragement to bolster their innovation activity.

Strong *Mittelstand* in Germany promoted economic recovery – what about Finland?

Germany used to be called the sick man of Europe at the beginning of the 2000s. Less than ten years later, it was deemed to be the engine of the European economy.

For example, according to *The Economist* (July 12, 2014) Germany's recovery is attributable to the somewhat loosely defined and slightly mystical *Mittelstand* companies (e.g., *Institut für Mittelstandsforschung* defines this group, poorly in our opinion, as including all companies with less than 500 employees).

Finland is now in a similar situation as Germany was fifteen years ago. This raises questions about the role of the Finnish *Mittelstand* in Finland:

- Are there companies in Finland fitting the business model of German *Mittelstand*?
 - Do these companies have characteristics distinguishing them from other companies?
 - How significant are they in the Finnish economy?
- These are the questions we address in this book.

Finnish *Mittelstand*: 51 companies that globally employ 250–499 people

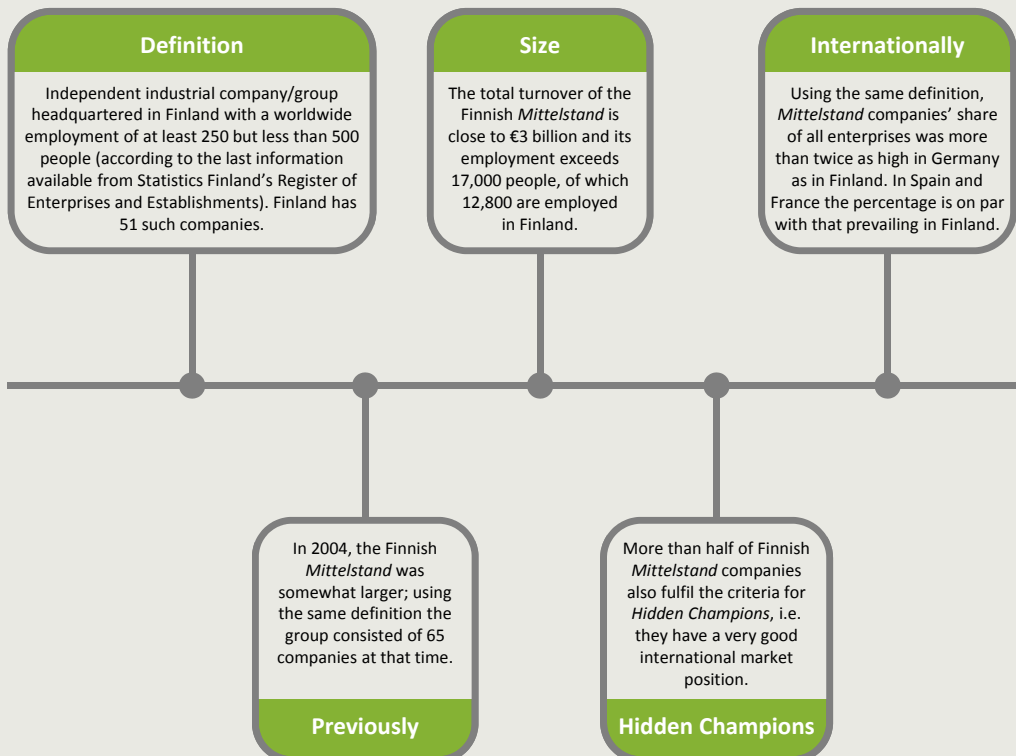
The Finnish *Mittelstand* consists of a small number of industrial companies globally employing at least 250 but less than 500 people. Only 51 such companies are found in Finland. In this book this group of companies is compared to otherwise essentially similar companies except that they are smaller or larger in size.

Almost two thirds of the *Mittelstand* companies are family-owned, and over half of them have been established more than fifty years ago. They are often specialized and international, and they operate in the business-to-business market. They are also more likely to seek to expand their geographical market area than slightly smaller and larger companies.

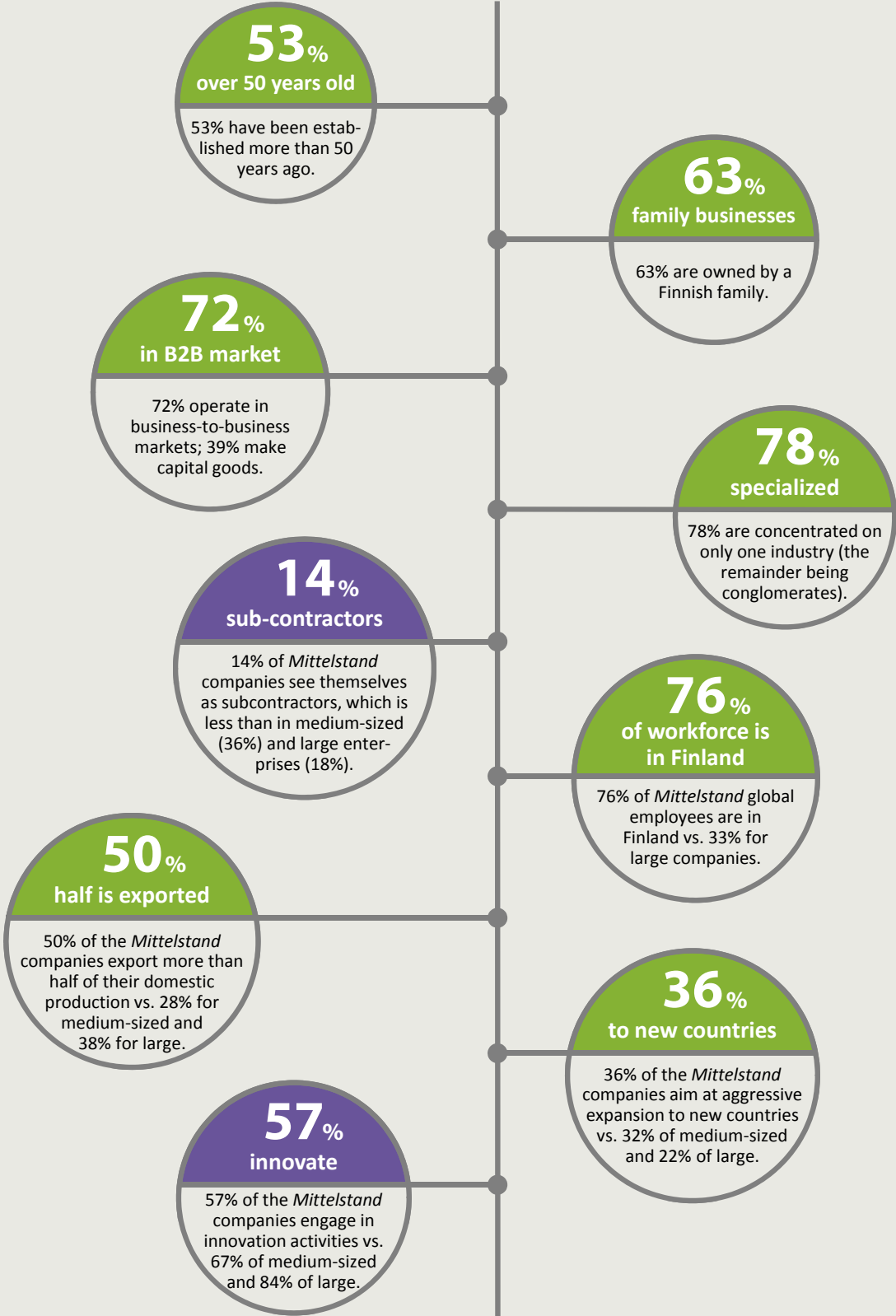
Our definition requires that *Mittelstand* companies are headquartered in Finland. They are otherwise distinctively Finnish: for example, three-quarters of the workforce are employed in Finland, although the majority are selling most of their products abroad.

Finnish *Mittelstand* companies are not particularly active in innovation activities. Considering that they are industrial enterprises, they never-

What is the Finnish *Mittelstand*?



What is the Finnish *Mittelstand* like?



theless have their own extensive software development, and they seek to invest in the industrial internet: 27% have their own full-time software developers (vs. 24% for medium-sized and 29% for large companies). Of the *Mittelstand* companies that generally regard the *industrial internet* or the *Internet of Things* (IoT) to be of key significance for their business segment, 83% invest in these areas (vs. 66% of medium-sized and 92% of large companies).

Domestic employment has remained resilient

In ten years the group of *Mittelstand* companies has thinned out, and the majority of those belonging to this group have changed. *Mittelstand* companies have maintained their domestic employment better than the comparison groups and have thus helped Finland cope with the crisis that began in 2008.

The total domestic employment of *Mittelstand* companies decreased during 2008–2013 by 3.6%, whereas employment in medium-sized businesses fell in Finland by 8.2% and that of large companies dropped by 22.1%. The decrease in employment in the *Mittelstrand* group, which is smaller than the other groups, was less than five hundred people, whereas the decrease in the number of employed in the medium-sized group was many times greater and in the large business group several *tens* of times greater.

Bottlenecks to growth: sales, marketing and distribution

When examining growth barriers, *Mittelstand* companies differ from the comparison companies in particular in two ways:

Inadequacy in sales and distribution channels is considered a growth barrier, especially when compared to large companies.

Also, the companies' own range of goods and services is deemed to be a factor significantly limiting growth. The difference compared to both smaller and larger companies is about ten percentage points.

As in other groups, growth of *Mittelstand* companies is constrained primarily by higher costs than in other countries. From the standpoint of the future, it would be important that companies could differentiate themselves in ways other than their prices. Only in this way will they be able to compete against companies in countries with cheap labour. This is what competitors in Germany, Sweden and other high-cost countries do.

Second, the most important growth-limiting factor that *Mittelstand* companies experience is in administrative burden coming from the public sector. Growth-oriented *Mittelstand* companies say that the difficulties in getting construction and other permits pose a barrier to growth.

Money falling out of the sky would be used for sales and distribution

We asked what companies would do in a situation where a sizeable sum of money suddenly appears in their bank account. *Mittelstand* companies would invest a large portion of the money, on average 40%, to reduce the main obstacles to their growth (relative to the comparison companies), i.e. by promoting sales, marketing and distribution.

It is namely sales, marketing and distribution that appear to be the *Mittelstand* companies' Achilles heel. Medium-sized companies would use 32% and large companies 31% of the additional money on this type of investment.

Availability of debt financing does not constrain Finnish *Mittelstand* growth

It is often suggested that the availability of financing limits the growth of companies. This mainly refers to loans from banks.

On the basis of our survey, it appears that only a few per cent of *Mittelstand* companies have problems financing their desired investments with bank loans or other liability-based financing. The share is many times smaller than that for medium-sized companies or large enterprises.

There may be some blind spots, but the *Mittelstand* seem to have no general problems related to the financing of investments.

Increase/expansion of *Mittelstand* companies would have a fairly direct impact on Finnish welfare

In Finland there appears to be a German-like *Mittelstand* company group, although its relative importance in Finland is smaller than in Germany. In many respects Finnish *Mittelstand* companies' characteristics correspond to their size, but this group also has some specific characteristics (see above).

The economic importance of *Mittelstand* companies is modest due to their small numbers. These companies have nevertheless been at the

forefront of the manufacturers helping Finland cope with the economic crisis that started in 2008.

The rather large size of *Mittelstand* companies already says that they have performed at least reasonably well historically. Many of them specialize in relatively narrow segments in which they also have a significant market position internationally. Sales, marketing and distribution nevertheless seem to be an obstacle to growth specifically for this group. One reason for this may be that the *Mittelstand* companies are simultaneously both distinctively Finnish and internationally oriented. Since only an exceptionally small portion of them operate as subcontractors, they must be able to withstand global competition. In this case, sales, marketing and distribution are subject to tougher requirements than the comparison groups - especially when resources are more limited than in large corporations.

Mittelstand companies are precisely the core group referred to in business policy debate as "export enterprises". They have a track record of international success and their growth would have a direct impact on the well-being of Finns through the geographical distribution of both ownership and production.

It does not seem warranted to aim policy measures specifically at *Mittelstand* companies, especially when they appear to face particularly low financial constraints, for instance. However, they might require some extra encouragement regarding innovation activity: while they can see the development needs of their product and service mix, they are not engaged very actively in innovation activities. The contradiction is obvious. We can also ask why they do not invest more in their Achilles heel – sales, marketing and distribution. Are they faced with some constraint that is not generally discussed?

The *Mittelstand* could be of *special* importance to Finland's future but if history repeats itself, these businesses will remain a positive but limited force in the entire Finnish economy also during 2015–2025.

Improvement of general conditions for business life, such as the reduction of administrative burdens, would benefit both the *Mittelstand* and other companies.

If structural reforms succeed during the current government's term in office, the effects should be reflected in the form of a larger and stronger *Mittelstand* as early as 2025. Time will tell.