Club of Three/Cercle d'outre-Manche Seminar
London, 10 October 2019

Intermediate-sized enterprises in France, Germany and Britain: towards a European Mittelstand?

MEETING SUMMARY

Some 50 senior figures from business and the policy field in France, Germany and the UK gathered at the Oxford and Cambridge Club in London on 10 October to discuss and highlight the specific contribution that intermediate-sized enterprises were making to the economies of these three countries.

In France, it was felt that this category of companies – characterised as businesses employing between 250 and 5,000 employees – needed targeted government support. France had a healthy number of large companies (representing about 30% of all large European firms) and a myriad of small companies. Its weakness lay in mid-sized companies and this was partly due to historical reasons: measures introduced by the French government in the 1980s had had a detrimental impact on them.

About 75% of French intermediate-sized enterprises were family-owned. This made the transfer of company shares, especially within families, a crucial issue once they had reached a critical size, and French taxation on such transfers had been a major barrier to maintaining a solid Mittelstand in France. The wealth tax also had disastrous consequences for this category of companies. Their numbers went down from 5,000 to 4,000 between the 1980s and 2000s as a result of these measures. But the situation was improving as the French government was now paying attention to this problem. This was reflected in a decision by President Macron to end the wealth tax on financial assets.

The German Mittelstand had for a long time been a model to follow in both France and the UK. It specifically referred to small and medium-sized companies with up to 500 employees and annual revenues of up to €50m. There were now some 3.5 million Mittelstand companies in Germany. The vast majority of them were concentrated in the machinery, automotive, chemicals and engineering sectors. Like in France, they tended to be family-owned and their product specialisation and access to international markets were particular strengths. Another important aspect of the German Mittelstand was its long tradition of vocational training which had no equivalent elsewhere, and it constituted a major part of its success. It provided training for 82% of all apprentices in Germany.

But this model had proven very difficult to export to the UK. Efforts to launch apprenticeship schemes in this country had achieved minimal success. Germany's training tradition simply did not exist in Britain. Another cultural problem was a tendency among small UK business owners to sell to larger firms once they started to grow. This meant that few of these small companies ended up joining the Mittelstand category, at which point they start taking on more employees and expanding further afield.

A third noticeable difference in the UK was the lack of interest in international markets among SMEs. Most of them were micro businesses very much embedded in their local communities. German SMEs also had a strong local presence but they were internationally minded and targeted their products at a range of foreign markets, whereas their UK counterparts tended to focus on the type of products that could sell across Britain.

Brexit was of course brought up during the discussion. German companies in the UK were reasonably well prepared. 85% of British SMEs had done no planning and were generally unwilling to make financial outlays in the hope that they would not be necessary. Training was going to become an ever more important issue for Britain after leaving the EU: upskilling its workforce was imperative in order to cope with the increased competition resulting from Brexit. As far as the final political outcome was concerned, a British business representative warned SMEs that were now minded to support a no-deal in the false hope of getting certainty. He believed that a no-deal would only prolong the uncertainty.

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