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German Mittlestand: Any Lesson for Development and Sustainability of Small and Medium Scale Enterprises in Nigeria?

Nkechinyere R. Uwajumogu*

Department of Economics and Development Studies, Faculty of Humanities and Social Sciences, Federal University Ndufu-Alike Ikwo, Ebonyi State, Nigeria

Ebele S. Nwokoye

Department of Economics, Nnamdi Azikiwe university, Awka, Anambra State Nigeria

Lasbery Anochiwa

Department of Economics and Development Studies, Faculty of Humanities and Social Sciences, Federal University Ndufu-Alike Ikwo, Ebonyi State, Nigeria

O. R. Ojike

Department of Economics and Development Studies, Faculty of Humanities and Social Sciences, Federal University Ndufu-Alike Ikwo, Ebonyi State, Nigeria

Abstract: The small and medium scale enterprises (SMEs) sector has been identified as a critical sector for the various roles it plays in the socio-economic development of an economy. Such roles include employment generation, bedrock of entrepreneurial development, avenue for investment and innovation, poverty reduction and economic growth. It is also a source of forward and backward linkages to multinational corporations (MNCs) which will engender foreign direct investment and local technological development. In Nigeria, the SMEs are faced with many challenges which include limited access to fund; lack of capacity of managers etc. These have undermined the growth, development and sustainability of the sector. It is in order to ameliorate these numerous challenges that government over the years have formulated and implemented several policies to develop, encourage and sustain SME success in Nigeria. The study is aimed at drawing important lessons from the success stories of German Mittlestand by importing, adopting or adapting their characteristics. The Mittlestand was chosen as a benchmark because the sector is resilient and was able to weather economic storms during the economic meltdown than many of their competitors. Important lessons that could be learnt by Nigeria's SMEs include amongst others, the importance of investing in human resources through the adoption of Germany's dual vocational system; production of high quality goods and services; investing in research and development; provision of after sales services; having a sound business plan that consents to business inheritance, etc. On the part of government, the lessons that could be learnt include: provision of critical infrastructure; creating enabling environment for small businesses; passing and enforcing the local content bill etc.

Keywords: German mittlestand; SME development; SME success; SME sustainability.

1. Introduction

The importance of SMEs in the growth of various economies has been acknowledged by various scholars. Nnanna (2003) and Salako (2004) cited in Nwokoye *et al.* (2015) maintain that SMEs are generally acknowledged as the bedrock of industrial development of any country and apart from the numerous commodities produced by SMEs, they provide veritable means of large scale employment as they are usually labour intensive. They also provide training grounds for entrepreneurs even as they generally rely more on the use of local inputs. Moreover, if well managed, SMEs can turn into giant corporations of tomorrow. These contributions explain why governments and international agencies mobilize efforts towards realization of sustainable industrial growth and the creation of mass employment through the rapid growth and development of SMEs (Nwokoye *et al.*, 2015).

Okonjo-Iweala (2005) and Okonkwo (1996) maintain that a strong entrepreneurial base is an essential driver of economic growth and prosperity in a modern economy as it empowers the populace and provides greater possibilities for the use of available local raw materials. These go a long way in encouraging vertical and horizontal linkages amongst the SMEs and between the SMEs and multinational enterprises (MNEs) operating within the economy. Sule (1986) and World Bank (1995;2006) all cited from Nwabude (2014) assert that SMEs provide the effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested

*Corresponding Author

and aiding the growth of local technology while Adelaja (2005) also declared that SMEs account for more than 60% of all regional entrepreneurship and up to 50% of paid employment. This sub-sector can also promote economic growth through its contribution to tax revenue.

The effectiveness of SMEs as apparatus of economic growth and development in Nigeria has long been under scrutiny because despite government's institutional and policy supports aimed at enhancing the capacity of small and medium scale enterprises, there are serious concerns and skeptic on whether SMEs have been fully equipped to bring about economic growth and national developments in Nigeria. This apprehension is even more worrisome when comparing Nigeria's SMEs with those of other countries like Germany and Singapore, where SMEs have become harbingers of economic reconstruction and transformation (Ekpenyong and Abomaye, 2015; Ihua, 2009). In Nigeria today, SMEs have performed at abysmal levels and these low performances have further exacerbated poverty, hunger, unemployment and low standard of living in the country.

The challenge of addressing the problems of hunger, poverty and unemployment is even more worrisome when considering the dreams of actualizing the Vision 20 2020 by the year 2020. Scholars have deemed this actualization possible only with the strengthening of private sector initiatives like the enhancement of SMEs capacity.

There are evidences that the performance of Nigeria's SMEs is not proportionate to these efforts which the Nigerian State has made towards their re-enforcements. The low GDP growth rate, the rising unemployment rates and the rising poverty rates are clearer attestation to this supposition as implied by Table 1 which contains some other basic macroeconomic indicators in percentages.

Table-1. Nigeria's Selected Macroeconomic Indices (%)

Year	+ Rate of Unemployment	+ Growth in GDP per Capita	*Inflation Rate
2000	13.1	2.5	6.9
2002	12.6	17.9	12.1
2004	13.4	7.6	10
2006	12.3	3.4	8.6
2008	14.9	3.1	15.1
2010	21.1	5.1	11.8
2011	23.9	4.3	10.3

Sources: + World Economic Outlook 2012 retrieved from World Fact Book on 17/07/2012 by 2.05pm, *CBN Bullion 36(2), all cited from Nwabude (2014)

Table 1 reveals that Nigeria's rate of unemployment is on the increase thereby threatening the growth potentials of Nigeria. Growth in GDP per capita is unimpressive while the cost of living embodied in the rate of inflation is on the increase. This goes to augment the fact that an increasing number of people are suffering in Nigeria despite increases in the number of SMEs in Nigeria as in indicated by a 2010 survey on MSMEs in Nigeria which is 17,284,671 MSMEs exist in Nigeria employing about more than 32 million people.

National Bureau of Statistics (2010) reports that above 70% of Nigerian (about 105 million persons) live below poverty line as against 54% which was reported in 2008. Its harmonized Nigerian living standard survey for 2010 further reported that 90% of Nigerian lives on less than \$2 a day and put the poverty rate at 69% out of which 38.7% were extremely poor. The United Nations Habitat put the poverty rate at 76% for 2010 against 46% which it reported in 1996, despite the continuous inflow of foreign direct investment and the ever increasing establishment of new SMEs all over the country.

1.1. Problem Statement

During the 2007/2008 global recession, the German mid-tier businesses, known collectively as the Mittelstand, proved to be better at withstanding existing economic onslaught than many of their competitors, by building flexibility and resilience into their business eco-system than many such businesses in the world (Hyde, 2013). At that period when unemployment was high globally, Germany had the lowest unemployment rate of 6.6% in 20 years (OECD, 2015). For Nigeria, unemployment rate peaked to 23.9% in 2011. Comparing Nigeria's SME and German Mittelstand may not be very apt because of the very many structural differences existing between them but in a nutshell we are interested in Mittelstand because:

- Germany's SME sector is one of the fastest expanding in the entire European Union (EU)
- Its Small business performance is above the EU average in terms of hi-tech manufacturing, but only average on knowledge-intensive services
- Conditions for SMEs in almost all policy domains in Germany are better than in the EU on average
- Promotion of entrepreneurship is the only area of its concern

Replicating the German model may not be what we are advocating here, or the only option or the right thing to do for SME businesses in Nigeria because of obvious structural differences, but there are characteristics of German business that could, in some form, be imported, adopted or adapted. The experiences of developed economies in relation to the roles played by SMEs buttresses the fact that the relevance of SMEs cannot be underestimated especially among the Less Developed Countries (LDCs) or rather Developing Countries. One major drawback in Nigeria's quest for industrial development over the past years has been the absence of a strong, vibrant and virile SME sub-sector. Given a population of well over 170million people, vast productive and arable land, rich variety of

mineral deposits, as well as enormous human and other natural resources, Nigeria should have been a haven for Small and Medium Enterprises with maximum returns as it also has the location advantage as a marketing hub for the West and even East African Countries (Onugu, 2005). It is pertinent therefore to investigate what makes SMEs successful in Germany so that Nigerian SMEs can draw some lessons thereof.

2. Literature Review

2.1. SME Success Keys

A successful and sustainable small business must, according to Fitzgerald *et al.* (1991) have long-term strategic plans that will enhance its competitiveness and profitability. Accordingly, SMEs must strive to have well articulated long term business plans with clearly defined vision and mission. This will help identify likely pitfalls the business may face in future and propose several alternate solutions.

Maltz *et al.* (2003) identified five critical success dimension factors which include finance, market, process, people and future. This means that a successful SME must have access to finance and market for all factor required. It must also have access to both local and international markets for productive factor as well as market to dispose its goods and services. The productive process is equally important and must be adapted to the environment of the SME as well as being forward looking which involves making long term plans. The human resource is also critical especially in developing countries where skilled manpower is in short supply.

Jarvis *et al.* (2006) laid much emphasis on intangible success factor which include human capital, reputation, customer relationship and intellectual property. This means that successful SME must have adequate human resource and must strive to have goodwill as an organization that has integrity and trustworthy both on the part of its suppliers and demanders of its product or service. The enterprise must also strive to maintain its market by having a long term satisfying relationship with its customers. The enterprise must also seek protection of its intellectual property in other to get maximum benefits of its research and development.

Study by Zambon and Bergamini (2007) identified important intangible success keys in France, Germany, Italy and United Kingdom as strategy, customer and market, human resources, organization, innovation and intellectual property and corporate governance. Innovation and technology, advancement of production value chain, deployment of ICT for operational efficiency, investment in training, and aggressive marketing for competitiveness were identified by Federation of Malaysian Manufacturers as key success factors for SMEs (Federation of Malaysian Manufacturers (FMM), 2008). Ng and Kee (2012) recognized leadership, innovation, entrepreneurial competencies, image and reputation and organizational factor as success keys for small businesses.

2.2. Small and Medium Scale Enterprises in Germany

At the beginning of the global economic crisis in 2007, German economy had 8.54% unemployment rate while at this period the unemployment rate for Euro Zone was 7.51% (OECD, 2015). At the height of the economic crisis in 2009, unemployment level in Germany decreased to 7.64% while for Euro Zone, it increased to 9.64%. The aftermath of the crisis was very visible in the Euro Zone by 2011 when unemployment rate was 10.19% while German unemployment rate was 5.83% (OECD, 2015). At this period, it had considerable trade surplus and its economy was the 4th largest in the world with a good living standard.

The definition of SME in Germany, using the European area standard includes micro, small and medium scale enterprises (Kaya, 2014). The sector includes enterprises with less than 10 employees to less than 250 employees. The medium scale industries are more in proportion and this can also be one of the reasons why they are resilient, have low mortality, export more and have diverse sources of fund.

Table-2. Classification of Germany's SMEs

Size	Employees	Annual Turnover	OR	Annual Balance Sheet
Medium	<250	≤Eur50m		≤Eur43m
Small	<50	≤Eur10m		≤Eur10m
Micro	<10	≤Eur2m		≤Eur2m

Source: Bottcher (2013)

Germany's economic success was attributed to effective government policy, Germany's emphasis on manufacturing and exports over the financial industry and most importantly on its vibrant SMEs that were the bedrock of the economy (Hill, 2011). The SMEs were vibrant because according to Hill (2011) emphasis was laid on the human resource, engaging in many sectors and production of world-class goods and services. There emphasis on human resource is seen in their dual employment vocational training.

Bottcher (2013) identified key features of German Mittlestand. These enterprises are owned and mainly managed by a family and they plan for generations rather than in short terms. The SMEs though based in Germany, they have global outreach, producing international goods and creating niches for themselves in the global market. The SMEs are involved in a wide range of sectors but manufacturing especially mechanical engineering and metal products is the major sector. The method of production imbibes high technological resulting in increased value-added and quality of employment.

The competitiveness and resilience of the German Mittlestand is as a result of their innovative drive, networking and industrial cluster as well as expansion into global markets while keeping their hold on the regional markets

(Bottcher, 2013). To improve on their competitive edge, the Mittlestand invest much in Research & Development and produce quality products and services. They also strive for excellent and long-lasting customer/consumer relationship.

The German SME is known for its long term view of business and this makes them to focus more on product quality and after sales services. Though owned and managed by families, their vision is often in building a business that lasts for generations instead of daily, quarterly or yearly results. (Bottcher, 2013)

3. Method of Study

In this section, a comparison is made on the status and nature of Nigeria's SME and German Mittlestand using data from agencies involved in SME development in the two countries.

4. Presentation and Analysis of Findings

4.1. Size of MSMEs

Table-3. Classification of Nigeria's SMEs

Size	Employees	Assets (Nm) Excluding land & Building
Medium	50-199	50 to less than 500
Small	10-49	5 to less than 50
Micro	<10	≤ 5

Source: MSME Collaborative Study, 2010

For the study, the SME in Nigeria includes on those in the formal sector: the small and medium scale businesses. The small scale businesses are more in number. Out of a total of 6652 SMEs, 5939 (92.8%) are small businesses while 713 (7.22%) are medium sized businesses. This is in contrast to the German SME where a large proportion of the businesses are medium scale businesses.

4.2. Export of Products/Services

Analysis of MSME Collaborative Study (2010) reveals that only 2.6% of the SMEs engage in exportation of their goods and services unlike in Germany where the Mittlestand is more internationalized and at the same time maintaining strongholds on the regional markets.

4.3. Market Channel of Products/Services

Most of the small businesses (%) sell their products within the same region in the following proportion: same locality (24.5%); Nigeria only (23.7%); and same state (21.2%).

4.4. Patent Right

Patent right is important so as to improve production processes and adapt innovation. It is also important for investment in Research and Development (R&D). It was seen that 64.1% of the small businesses had no patent right while 35.9% had patent right.

4.5. Skill Gap

The MSME Collaborative Study (2010) reported that qualified artisans are in short supply. Specifically, there is skill gap to the tune of 46.1%, 40%, 32% and 30.2% in the following sectors education, agriculture, manufacturing and building/construction respectively in the SME sub-sector.

4.6. Major Problems and Challenges

The major challenges facing the enterprise are as follows in descending order: lack of access to finance; weak infrastructure; inconsistent government policy; lack of work space and multiple taxation.

4.7. Limited Access to Finance

Access to capital was identified as a major challenge facing small businesses. According to the survey, the major source of capital is personal savings with 54.4%, next is loan with 22% while family source of capital ranked third with 16.7%. For the German Mittlestand, according to Bottcher (2013), major source of finance in 2011 was as follows: own resource (54%); Bank loan (29%); promotional loan (17%) and others (14%). Though access to capital market is limited but there are many banks that provide long term loans and financial solutions especially for start-ups (Bottcher, 2013).

4.8. Lack of Business Plan

78.2% of the SMEs in Nigeria do not business plans and this affects their visions and plans for the future. This is unlike German Mittlestand where many operate with business plans and plan for generations.

4.9. Poor Customer Relation

The German middlestand is known for its world-class products and services to their customers as well as after-sales services. They value their customers as much as they value their employees.

4.10. Unfriendly Business Environment

The Nigerian SMEs operate under harsh business environment which include inadequate infrastructure, policy reversals, multiple taxation, macroeconomic volatility etc. These affect their productivity and success. Comparatively, the business environment in Germany is better than Nigeria's. Many small businesses in Germany though owned by families and are found in clusters, they are equally committed to fierce competition both in the domestic market and foreign market.

5. Conclusion and Recommendations

Based on the findings of the study, the following lessons should be learnt by Nigeria SME policy formulators and implementers and operators of small businesses:

Lesson 1: It is pertinent to note that size matters. Though small-sized businesses are easy to form and manage, they are equally susceptible to quick mortality and are more vulnerable to shocks. Moreover, medium and large scale businesses enjoy economies of scale, making them to be more sustainable. Thus, the first lesson to learn from the Middlestand is to decrease business size; make the micro businesses to be small scale and formalize them. This can be achieved by forming clusters and co-operatives.

Lesson 2: more business should be outward oriented. Improve on the quality of products and services to make them competitive in the international market. For starters, Nigerian SMEs should target West African sub region markets.

Lesson 3: the framework for intellectual property rights should be enhanced and strengthened so that small businesses are encouraged to be innovative and devote resources to research and development.

Lesson 4: Nigerian government in general and SMEs in particular should adopt and implement the German dual vocational method where people go to school and at the same time get practical exposures and training from industrial organizations. This is to develop entrepreneurial spirit in the youth.

Lesson 5: government should ease the business environment. This will include drastic improvement in infrastructure especially power supply.

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