

October 04, 2007 || Professor Bernd Venohr from the Institute of Management at the Berlin School of Economics:

German SMEs' Recipe for Success



Bernd Venohr

Globalization has brought great benefits for many German SMEs. In an interview with SAP INFO online, Professor Bernd Venohr from the Institute of Management at the Berlin School of Economics describes the strategies, management structures and processes that pave the way for global success.

Which companies are you referring to when you claim that SMEs have benefited from globalization?

Venohr: The term "SME" refers to a broad range of companies, covering everything from small corner shops to companies with annual sales of several hundred million euros. It is primarily the "high end" medium size companies that are benefiting from globalization. These are international companies with annual sales of between 50 million and a billion euros. There are around 3,200 of them in the German industrial sector. Companies such as the door technology supplier Dorma, the cooking system manufacturer Rational, and the packaging machinery producer Kronos may not be household names but each boasts a global market share of 50 percent and above in its market sector.

Is this type of company particularly prevalent in Germany?

Venohr: The breadth and capacity of Germany's SME sector is unique, although there are comparable sectors in Switzerland and Austria too. I receive inquiries from many European countries, such as France, Ireland and Belgium, where companies want to learn from Germany's example of succeeding on the fiercely competitive global market despite being in a high-cost location.

What opportunities does globalization offer high end SMEs?

Venohr: For one, these companies can step up their activities on markets like China, India and Russia that until recently were not open to them. The range of products and services offered by many German SMEs ideally matches the demand profile in these countries – quality products for developing the infrastructure are as sought-after as premium consumer goods for the burgeoning elite. The sharp decline in transportation and IT costs has also boosted worldwide opportunities for SMEs.

Which criteria are used to evaluate the performance of German SMEs on the global market?

Venohr: The 3,200 companies in the high end SME sector are responsible for some 30 percent of Germany's total export volume. Around 1,300 of them are ranked in the top three in their market sector worldwide. These companies have been returning above-average sales and revenue figures for many years. Double-figure growth rates are the norm.

What's the secret of this global success?

Venohr: I attribute this success to the special "Made in Germany" management model, consisting of the strategies, management structures and processes typical of German SMEs.

What typifies this model? What strategies do SMEs pursue?

Venohr: The companies dominate niche markets worldwide. They achieve this by developing high-quality products and services, covering everything from machine tools to kitchen appliances and software. This is made possible by the capacity to innovate, something which cannot simply be plucked out of thin air. Consequently, the level of spending on research and development is well above average. It is twice as high as the international norm for the sector. The companies reap the rewards of many years' cooperation and knowledge transfer with suppliers and research facilities at their own site. Added to this is a meticulous approach and the persistence required to set up worldwide sales and service networks. Whenever possible, the companies favor direct customer contact via their own branches. This ensures outstanding service and provides a vital source of innovations.

What role do management structures play?

Venohr: I would call the structure most commonly found among successful SMEs "intelligent family capitalism". The companies are family-owned, but they are often run by managers outside the family from the second generation onwards. This arrangement is more common in Germany than in countries such as the U.S., the United Kingdom or France. It combines the advantages of private ownership, such as long-term objectives and independence from short-term capital market expectations, with innovative management methods. It also overcomes the Achilles heel of the "traditional" family-owned company, that is, a lack of management expertise among the generations succeeding the founder.

Which processes perfect the "Made in Germany" management model?

Venohr: It's not only product quality that's crucial, but also excellence in the company's core processes, from R&D to production, marketing, sales and service. The manner in which successful SMEs have taken the principles of Total Quality Management to heart to continuously improve all these processes has been exemplary.

How important is IT in globalization for SMEs?

Venohr: Globally standardized and IT-based company processes play a vitally important role. In smaller SMEs, managers can "keep an eye" on things by moving around the company and identifying problems. However, in companies with several international locations, it is crucial to have clearly defined and standard processes, otherwise control is quickly lost and there will be impending efficiency losses. Global standardization of processes also ensures consistently high product quality and the increasingly important exchange of "best practices" between sites. This is where Germany's top-performing software industry comes in. Germany – and not the U.S., as many believe – is the world market leader in exporting software. In addition to SAP, there are a number of highly specialized software companies, e.g. in the logistics or production sectors. IT also plays an increasingly important role in the supply of additional services, such as remote maintenance of plants online. The Internet is also a key sales channel, particularly for smaller companies. For example, I know of a small Hamburg-based company called Windpilot with two employees which sells its products exclusively online and is the world market leader in wind vanes for sailboats.

What prompted you to conduct research into SMEs?

Venohr: As a consultant, I developed strategies for large companies and SMEs. I then went on to run a venture capital fund and became familiar with start-ups. Of these three types of company, I found SMEs particularly exciting on account of their specific management models and outstanding products and services, coupled with the strong desire to perform that marks all company processes. What's more, research into SMEs had not gone into much detail before then, mainly because these companies are often privately-owned and reluctant to disclose their figures. That meant there was fertile ground for pioneering research work.

Read this article online

<http://www.sap.info/en/go/35201/>