

## German SMEs Affected by the World Crisis

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**Abstract.** *2009 was one of the hardest years in the last decades for SMEs. The areas that had faced difficulties before the crisis felt sharply the negative effects, but those which had registered continuous progress until the crisis broke out have also been affected. 2010 was a year of reconsolidation, while the current year could mark off a progress for most SMEs, due to a very special evolution of the German economy as a whole (an economic growth of 3.6% in 2010, much more over analyst expectations, and a forecast of 2.8% for 2011). Regarding the establishment of SMEs in the crisis period, an unexpected development has paradoxically been noticed in Germany: the interest of individuals in establishing a business, declining in the last years, began to grow.*

**Keywords:** economic crisis; economic evolution; Germany; Romania; SMEs; SMEs establishment, SMEs liquidation.

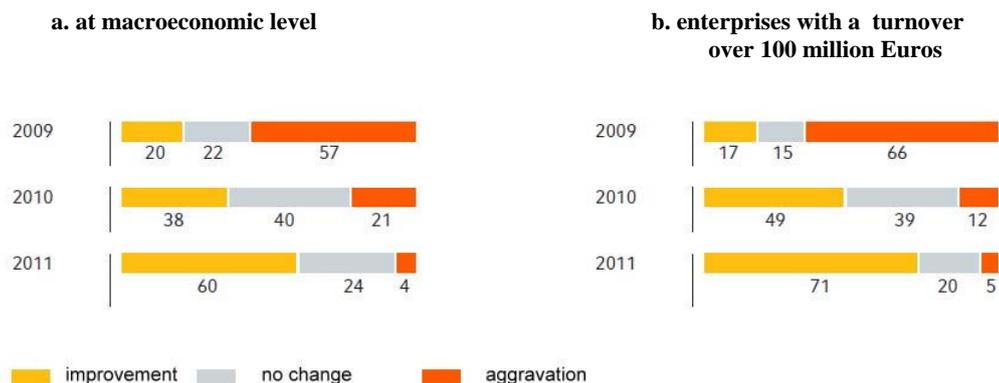
**JEL Code:** G01, M21.

**REL Codes:** 14K.

### 1. 2011, a promising year for small and medium-sized enterprises' prosperity

As in the other states of the world, in Germany, SMEs were as well affected by the economic crisis. According to a study conducted by Commerzbank, in 2009, 57% of enterprises registered a decrease in business, but meanwhile that the situation in Germany may be said to have stabilized. In 2010 only 21% continued to encounter difficulties, while for 38% the situation got better. But the real progress is expected during this year, 60% of the SMEs considering the year 2011 economically fruitful. Only 4% expect the situation to deteriorate again. That optimism, however, does not mean that SMEs will reach the level they had before the economic crisis.

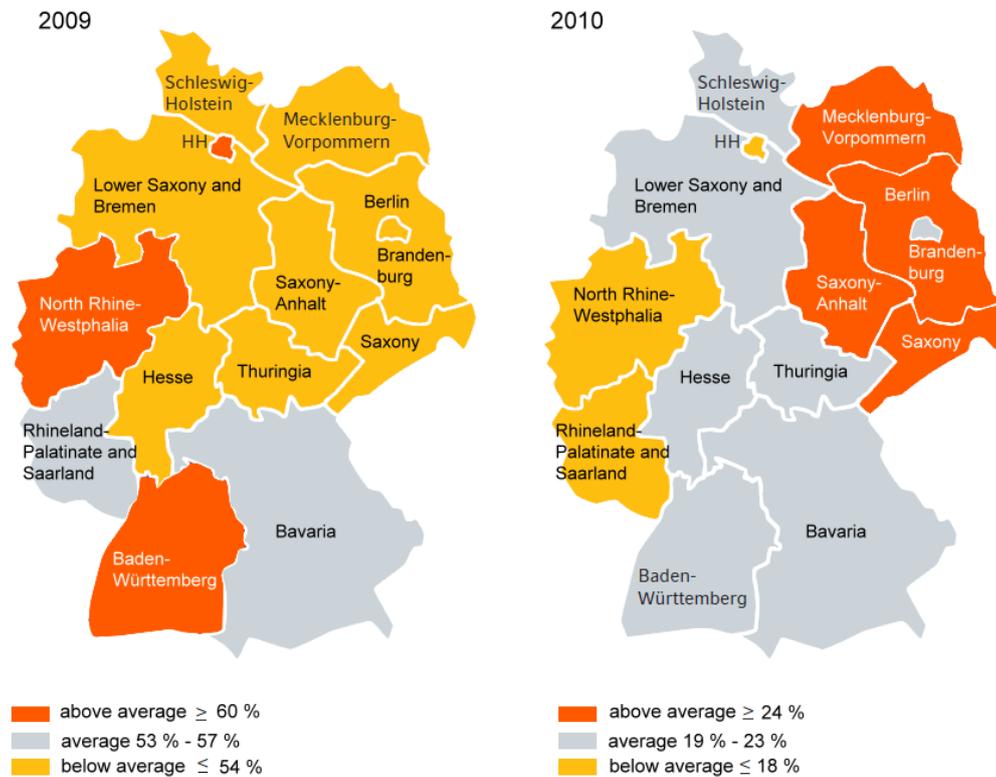
Regarding the enterprises with a turnover exceeding 100 million Euros a year, these have been strongly affected by the 2009 crisis (Figure 1). 66% of them had reported a degradation of the business situation.



**Source:** Study SMEs in crisis. Changes toward progress, conducted by Commerzbank, 2011

**Figure 1.** SMEs economic situation between 2009 and 2011  
(in percentage points, compared with values from previous year)

The crisis did not affect all the enterprises in the German territory and those affected did not feel the difficulties at the same time. Thus the next chart shows which Länder have been more or less affected by crisis (average). Industrial zones like North Rhine Westphalia, Baden-Württemberg, and Hamburg had registered in 2009 a more acute deterioration of the economic situation than other Länder. In these three regions, over 60% of the SMEs reported a poor economic situation. In 2009, small and medium-sized enterprises from Bavaria, Rhineland-Palatinate and Saarland were also more affected than the Länder from central and eastern Germany.



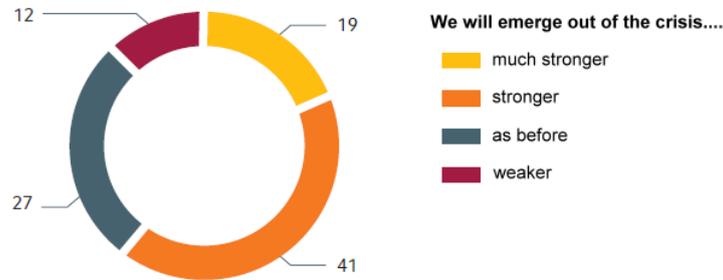
Source: Study SMEs in crisis. Changes toward progress, achieved by Commerzbank, 2011.

Figure 2. Länder economic situation

The negative effects of the crisis reached eastern Germany Länder later, in 2010. Therefore, about a quarter of the SMEs based in the East registered a deterioration of their economic situation in 2010 compared to 2009. In Brandenburg Land, the decrease was more pronounced, 29%.

*Every fifth enterprise believes that it will emerge stronger from the crisis*

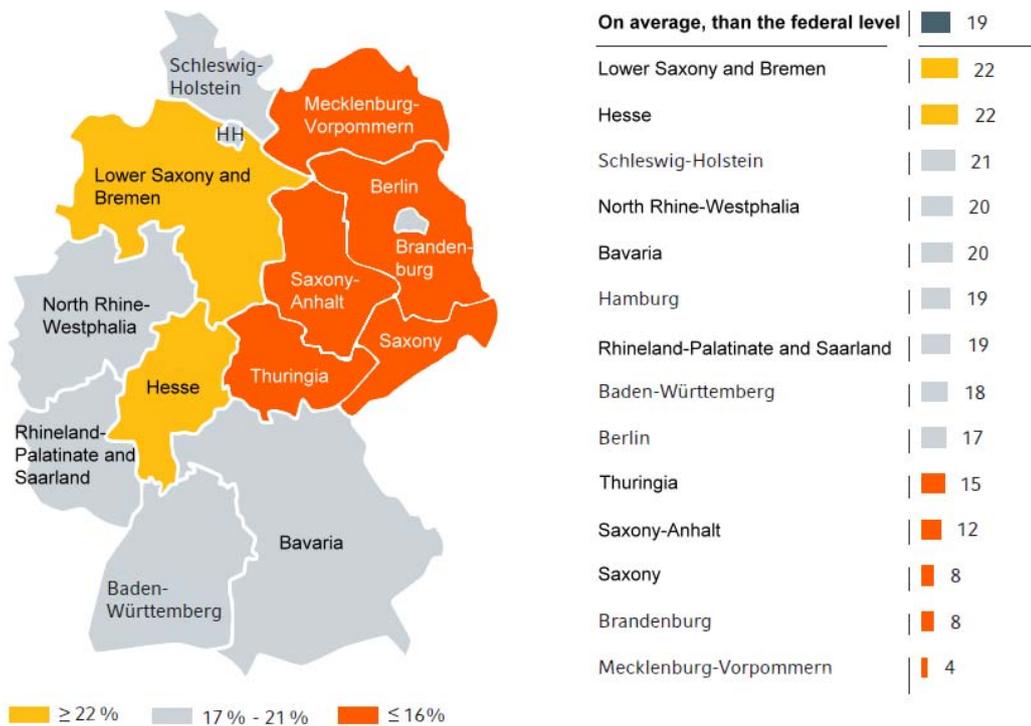
19% of the SMEs consider that they will emerge stronger from the crisis (Figure 3). It is here for those companies which had a consolidated position at the start of the recession. At the opposite side are those companies which consider that at the end of the crisis their situation will be worse than before crisis (12%). The optimism of small and medium-sized enterprises is remarkable: overall, 68% of the SMEs believe that they would emerge at least as strong, if not stronger, from crisis.



Source: Study SMEs in crisis. Changes toward progress, achieved by Commerzbank, 2011.

Figure 3. Situation expected by small and medium-sized enterprises after the crisis

Regarding the future chances, major differences are observed depending on the Länder where the business ventures operate. In the East, the companies are less optimistic than in the West, the business situation being considered more stable (Figure 4).



Source: Study SMEs in crisis. Changes toward progress, achieved by Commerzbank, 2011.

Figure 4. We will emerge from the crisis stronger than we entered (percentage)

## 2. Establishment and liquidation of enterprises in Germany

In Germany, the financial and economic crisis, paradoxically, led to an unexpected development: the interest of individuals in establishing a business, declining in the last years, began to grow. According to the annual report regarding the SMEs<sup>(1)</sup>, once the crisis was felt in all economic sectors, more and more people turned to counselling services in order to open a business. Last year, in the crafts as well as industry and trade areas, there were about 110 thousands counselling sessions on how to establish the foundations of an enterprise and how to run it. The Institute for SMEs Research in Bonn announced for 2009 a 3% increase in business start-ups compared to 2008 (a total of 410,000 new businesses).

Many of these companies are not the result of a possible calling for business but rather a lack of alternative solutions. According to a report developed in 2009 by the German Ministry of Industry and Trade, 6 of 9 companies established in this area arose as an alternative to the bleak prospect of job loss or after entry into unemployment.

In Germany only 3.8% of active persons aged 18 to 64 are establishing or are owners of businesses, the German State occupying the second to last place in the group of the 18 most industrialized countries (the US ranks first, with 10.8%).

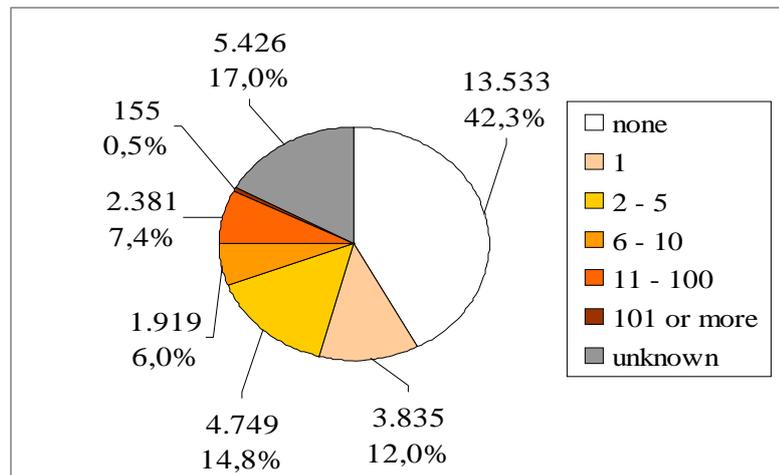
With regard to outsourcing, only 44% of businesses are left in the "hands of the family", but most are given to employees, external managers or are sold.

According to a statistic made by the Institute for SMEs Research in Bonn, the number of newly created SMEs increased in 2010 compared to 2009 by 3%, that is to say about 410 thousand businesses. Meanwhile, the number of market exits decreased by 3.6%, or about 397 thousand business.

The end result of the statistics reveals for 2009 a positive trend of business start-ups, but this positive trend should not divert attention from the fact that the recession in 2009 left traces in the economy of these small and medium-sized enterprises.

This fact is demonstrated also by the increased rate of enterprises that entered into default, SMEs accounting for a rather large share among them.

The number of businesses that defaulted in 2009 increased by 16% compared to the previous year, amounting to 34,000. According to statistics, three quarters of these companies which became insolvent had no more than 5 employees (Figure 5).



Source: The Institute for SMEs Research Bonn.<sup>(2)</sup>

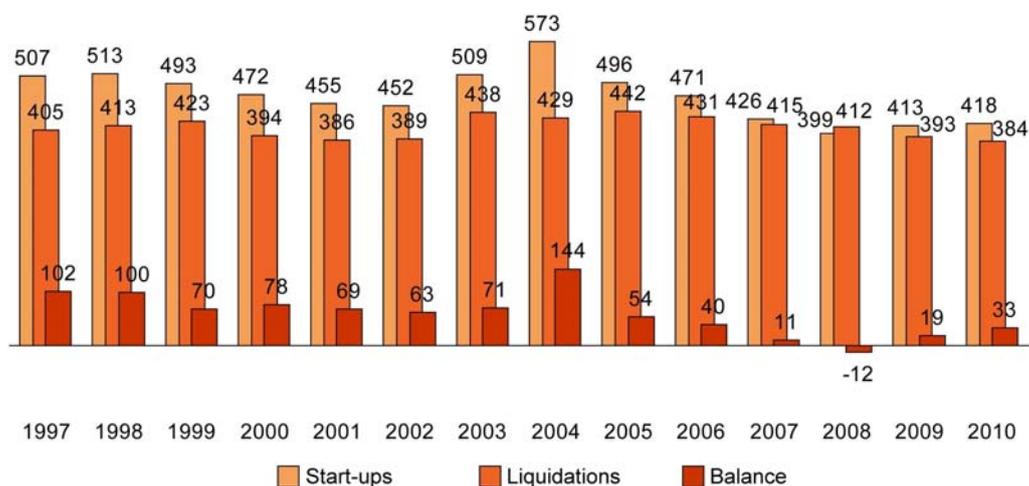
**Figure 5.** Companies that defaulted, according to the number of employees

Despite this crisis situation, small and medium-sized enterprises are those that contributed in 2009 and 2010 to support and develop the labour market. Another analysis realised by the Institute for SMEs Research in Germany shows that these firms, compared to large enterprises, have contributed greatly to the creation of new jobs.

This rate of establishing start-ups, typical for the period of crisis – "better on their own than unemployed" – was recorded also in 2009 but in smaller proportions, the number of enterprises increasing by only 0.2% or 10,000 enterprises.

To what extent SMEs affected the stabilization of the labour market in 2009 is attested by the number of employees, which remained relatively stable, the 90,000 cases of job loss representing only a modest percentage of -0.3%.

In 2010, the positive trend on the establishment of new SMEs continued. If in 2009 their number rose to 412,600, in 2010 it reached 417,600, an increase of 1.2% in comparison with the previous year. To note that, in the new Länder of Germany, the number of newly established companies is higher than the old ones. With regard to the liquidation of commercial companies, their number decreased by 2.3%, rising to 384,200 in 2010. Thus, the balance between set-ups and liquidation amounts to 33,400, representing an increase of 14,200 compared to 2009 (Figure 6).



Source: The Institute for SMEs Research Bonn.<sup>(2)</sup>

Figure 6. Set-ups, liquidations, balance between 1997-2010, in thousands

The percentage of foreigners who decide to set up an SME is becoming larger, while the number of women entrepreneurs in 2010 was decreasing.

Services areas were preferred by those who decided to set up an SME, and the legal form they preferred was in 80% of cases, the company with one employee.

Table 1

Set-ups, liquidations, default, 2010			
	Total	Changes from 2009 - absolute -	Changes from 2009 - percentage -
Start-ups established in 2010	471,644	+ 5,045	+1.2
Liquidations 2010	384,220	-9,205	-2.3
Balance	33,425	+ 14,249	
Bankruptcy 2010	31,998	-689	-2.1
Insolvency rate	10,4%		

Table 2

**Evolution of the number of companies that have entered  
into default during the period 1991-2010**

Year	Number of insolvencies Germany	Changes over the same period previous year - absolute -	Changes over same period previous year - percentage -
1991	8,837		
1992	10,920	2,083	16.1
1993	15,148	4,228	30.4
1994	18,837	3,689	15.9
1995	22,344	3,507	10.2
1996	25,530	3,186	9.7
1997	27,474	1,944	5.8
1998	27,828	354	-0.8
1999	26,476	-1,352	-6.7
2000	28,235	1,759	7.7
2001	32,278	4,043	19.9
2002	37,579	5,301	23.00
2003	39,320	1,741	11.1
2004	39,213	-107	1.5
2005	36,843	-2,370	-6.7
2006	34,137	-2,706	-3.6
2007	29,160	-4,977	-13.9
2008	29,291	133	1.2
2009	32,687	3,396	12.1
2010	31,998	-689	-0.8

**Source:** The Institute for SMEs Research Bonn.

### 3. Conclusions

Thus, one can see that, despite the fact that 2009 was a difficult year for most German businessmen, they are optimistic about 2011. There are several cases in which the crisis was actually a springboard for businessmen.

Although in early 2009 the demand decreased, entrepreneurs estimate that it will revive and the economic situation will become favourable.

The set-up of companies transmits pulses for: state's economic growth, raising the employment, technological development and structural foresees the tendency of businesses set-ups will consolidate.

Given the changes at the macroeconomic level, we can but note that SME owners' optimism is justified. Germany's economic situation as a whole has recovered from the crisis, proving that the country remains "the engine of the European economy".

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### Notes

- (1) SME Annual Report is drafted by nine private sector organizations, from among craftsmen, commerce, gastronomy, freelancers and banking industry. The report contains information on the situation of the private sector and provides recommendation on fiscal policy, financial, social, educational and labour employment. The report addresses first of all policy makers, in order to convince them to promote an appropriate SMEs policy.
- (2) Research Institute for SMEs in Bonn (IfM Bonn) was founded in 1957. The founders are the Federal Ministry of the Economy and Technology and Ministry for Economy, Energy, Housing and Transport of North Rhine Westphalia Länder. The Research Institute is dealing with SMEs development and with the problems they face. Also, among the themes addressed is the life cycle of small and medium-sized enterprises and their management.

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### References

„SMEs in crisis. Changes to progress” (*Mittelstand in der Krise. Umsteruern für den Aufschwung*) – study conducted by Commerzbank between 11.11.2009 - 15.01.2010 on a sample of 4,000 SMEs

\*\*\* Federal Ministry for Economics and Technology ([www.bmwi.de](http://www.bmwi.de))

\*\*\* Crisis Response Plan adopted by the Federal Republic of Germany (2008, 2009)

\*\*\* German Economy, 2011, Federal Office for Statistics, Germany

\*\*\* Research Institute for SMEs in Bonn (<http://www.ifm-bonn.org>)

\*\*\* Study developed by Commerzbank, *SMEs in crisis. Changes to progress*  
([https://www.unternehmerperspektiven.de/media/up/studien/8studie/studie\\_8\\_mittelstand\\_in\\_der\\_krise.pdf](https://www.unternehmerperspektiven.de/media/up/studien/8studie/studie_8_mittelstand_in_der_krise.pdf))