

Fuchs Petrolub: The strengths and vulnerabilities of the German Mittlestand in the modern world

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Fuchs Petrolub: The Strengths and Vulnerabilities of the German Mittelstand in the Modern World

Amy Chen

INTRODUCTION

This report explores the German phenomenon of the “Mittelstand”, argued by some to almost be a philosophy and way of life in and of itself; a method of running a business, remaining conservative, and being long-term oriented. This is a foreign ideology and there is no direct translation to English, however it is understood that Mittelstand firms are considered small to medium sized enterprises (SMEs) while also being characterized by specific values, work ethic, and management practices. The modern German economy has a reputation for being incredibly strong, and many consider Mittelstand firms to contribute to this strong economy. These firms are known to be foundational and critical in the modern German economy, employ most of the workforce, and its prominence in Germany is unique to the country. These companies are incredibly competitive in their respective niche markets, and command a strong reputation for high quality as well as innovative despite generally having low public visibility. Using Fuchs Petrolub SE as a prime example, the world’s largest independent lubrications producer, one can further examine how a company uses Mittelstand characteristics to its advantage on the global stage, but also how it may cause some complications and problems that managers face in Germany, as well as how they are consequently being handled.

THE GERMAN MITTELSTAND PHENOMENON

The Mittelstand

Mittelstand firms are also considered small to medium sized enterprises (SMEs), but are additionally characterized by a set of values, beliefs, and tend to follow a similar competitive and management strategy. These companies exist all over the world, but are particularly prevalent in the German speaking countries, making it a distinct phenomenon, and are understood to act as a driving force for the economy of the country (Simon, 2009, p.251). The term itself is in German, and there is no direct translation into the English language. There is no strict definition as to which companies are in the Mittelstand category, as it varies depending on the organization or entity in question doing the evaluation to set the criteria. To some, there are not meant to be strict guidelines, and it is considered to be merely a theory or philosophical idea and intentions behind the operations of a business. According to the German government, the definition exists as companies that employ no more than 500 people and must have an annual turnover below 50 million Euros (Federal Ministry of Economics and Technology, 2012). The firms exist in the different sectors and areas of business, however, the majority of them retain similar characteristics that make them fairly easy to identify. Companies that have similar operational strategies exist all over the world, however approximately two thirds originate from German-speaking countries (Simon, 2009, p.30).

Characteristics of the Mittelstand

Historically, Mittelstand companies have known to be world leaders and innovators in their respective niche categories, with a reputation for producing highly specialized and professional products. The strategy to emphasize vertical integration and specialization in products is much prevalent than compared to other companies, as can be shown in Figure 1, where there is an emphasis on depth rather than breadth. Rather than excel in having a diverse and broad variety of products to choose from, they opt for the high quality, high performance, reliable products. Additionally, “many hidden champions report that they define the standards in their sector” (Simon, 2009, p.51).

Low visibility is a very common characteristic of companies in this category. Although they are world leaders and produce every day products, their names are not often known outside of its particular niche market (Simon, 2009, p.15). These companies tend to operate almost in secrecy, with some of these companies actively avoiding publicity (Simon, 2009, p.14). Mittelstand firms have been coined “hidden champions” by Hermann Simon, due to their lack of active presence in society, coupled with how its existence is vital to the health of the German economy (Simon, 2009, p.15). The prevalence of these companies and their hand in every day products that consumers are not even aware of is what makes them so unique and interesting, as they maintain strong market share while only those operating in the procurement departments of particular companies will be aware of their strong presence. For instance, “half of all cell phones worldwide” and “80% of all chip cards produced” contain an adhesive from a German company called Delo (Simon, 2009, p.24). Jungbunzlauer is a company that provides the citric acid “for every Coca-Cola produced and sold”, and Nivarox has a “global market share of 90%” over a specific mechanical regulation system in wristwatches in the world (Simon, 2009, p.23). Gerriets is in the business of producing large curtains for theatres around the world, and has a market share of 100% (Simon, 2009, p.7). Those who actively seek the information will be aware of the industry leaders, but otherwise, they will remain hidden and unnoticed as they operate so effectively that their inclusion is no longer questioned. The products from these Mittelstand firms simply become a point of parity amongst the products of its competitors.

In terms of Human Resource and Management strategy, the majority are owned by families of the individual who started the company, and are passed down through the generations, although increasingly this has no longer been the case. The companies are often established generations in the past, and primarily operate as well as employ in small towns across Germany (Federal Ministry of Economics and Technology, 2012). This results in leadership continuity, reliability, and establishes trust. The companies tend to be the only major employer in the region where it finds itself, and therefore the relationship between the employer and employee tend to be long term, and mutually beneficial (Simon, 2009, p.133). Through research, many have also found that the amount of sick employees and turnover tend to be lower compared to regular business in Germany (Simon, 2009, p.263).

Research and development are primarily done in house, in order to protect trade secrets and allow them to transform processes to become more efficient and unique (Simon, 2009, p.244). This is also done to reduce costs, and avoid outsourcing to protect its local identity. However, this is not to say that nothing is outsourced. It is common for anything non-essential that does not affect its primary product and quality are to be outsourced, like that of accounting and finances (Simon, 2009, p.254).

A strong relationship to customers is essential for a Mittelstand firm as well. Most companies state that most of their business come from a small percentage of their companies therefore customer loyalty is highly key to the success of the Mittelstand as well (Simon, 2009, p.135). The flexibility involved with adjusting products and services to a consumer’s needs is a unique service that is easier to execute in the circumstances of the German Mittelstand, due to its long term and dedicated relationship with not only consumers, but suppliers, and other stakeholders.

In terms of funding methods, these companies avoid methods that are risk-prone, and generally often avoid it if possible, as Mittelstand companies prefer to avoid relying on external resources. As a result, more than half of its own investment is funded through its own equity, and almost a third from bank loans (Federal Ministry of Economics and Technology, 2012).

What makes them special?

Despite the fact that they are essentially just SMEs, they comprise of most of the businesses and employers in the nation. An understanding of this topic as a whole will allow one to better understand what fuels the German economy, how it has continually been the world’s top exporter, and the strongest economy in Europe (Simon, 2009, p. 17). The philosophy and deeply rooted traditions and values that encapsulate what a Mittelstand firm is.

Additionally, as a force that continually innovates and creates new technologies and efficiencies, they are helpful for the German economy and also entrepreneurial and reputation for high quality goods.

CURRENT ECONOMIC STATE OF GERMANY

The German economy is the environment in which the Mittelstand firms operate, effect, and thrive in, and therefore it is critical to fundamentally understand this context. The health of this economy and the health of the Mittelstand firms work closely together and move in tandem, and understanding that the German economy is now going through a peak while having a shortage in skilled workers will change the way a company will manage its operations and its people.

Germany is currently performing very well with steadily increasing GDP (Nienaber, 2017). The strongest industries in Germany include industry and construction, as well as production in cars, machinery, electrical equipment, and chemicals (Federal Ministry of Economics and Technology, 2012). As an indication that Germany is a strong producer and exporter, many of the Mittelstand firms operate in this category and boost the economy in this fashion. The unemployment rate is currently fairly low and steadily decreasing, however there is a growing concern with the lack of available skilled workers filling positions across the country and has resulted in a spike in job vacancies in the country (OECD Economic Outlook, 2017). Germany is very productive, and this has resulted in a year after year export surplus, allowing the European Union to thrive and reap the benefits of the economic boom currently in the country (Simon, 2009, p. 17). This, however, has caused some concern due to its sustainability going forwards, and its overall effects on the other countries in the European Union.

SOCIETAL TRENDS IN GERMANY

Coinciding with an understanding of the German economy, having a strong grasp of the social issues, past and present, are critical in being able to properly adapt in the environment with societal norms in the country and operating cohesively with the local teams. These certainly must be considered when doing business in Germany by any employee or manager of the firm in order to remain sensitive.

Conservatism and “German Angst” is a major concern that is very much prevalent in modern German society (Eley, 2017). Due to historical events like the hyperinflation in the 1920’s after the First World War, as well as the lasting effects from the Third Reich led by Hitler, many Germans to this day are wary of debt and the use of banks. Inflation rates tend to be very low, and many much rather opt for keeping cash in their homes, and putting money in low risk investments (Eley, 2017).

Although Germany’s economy is booming, the country is threatened by the aging population with the baby boomers, many of which work in the Mittelstand firms. In addition to this, Germany has one of the lowest birth rates in the world, and is steadily declining, which is resulting in an increase of the dependency ratio without any interference (OECD Economic Outlook, 2017). Existing efforts to increase this by providing monetary incentives have proved to be unsuccessful thus far. With more and more of the population reaching retirement age, there is not enough people entering the workforce to counteract these numbers. The lack of skilled workers and empty vocational training positions are also a cause for concern, as there are many opportunities that are not being taken advantage of.

Although German reunification occurred in 1990, there is still a major divide between former East and West Germany, in terms of society as well as infrastructure. The economies and communities in the East tend to be less wealthy and most conservative, and therefore most of the Mittelstand firms as well as other major employers reside in the West.

COMPARISON OF CANADA AND GERMANY

Cultural and Historical Differences

Canada and Germany are both highly developed nations in the world today, however the cultural differences remain. As Canada is a relatively new country while Germany is not, and Canada is known for being a country full of diversity, where much of its population are immigrants or settlers from abroad within the last few generations. Germany has more of a homogenous society in contrast, with much of its population having historical roots in small towns across the country where they still may reside or have family. Additionally, through the use of Hofstede's Dimensions of Cultural Differences in Figure 2, it can be seen that the way business and interactions are done is quite different between the two countries particularly due to the difference in individualism and short as well as long term orientation. It can be clearly seen that German people greatly prioritize long term effects over those of short term, therefore preferring stability and consistency. Canadians appear to prefer individualism more than the Germans, which suggest that, when provided with a decision that may benefit themselves alone or shared amongst peers, it would be more likely that Canadians may opt for the result that would benefit and advance themselves more. As the concept of the Mittelstand phenomenon is central to the idea of the betterment of the community, consistency, and stability, it coincides with why it is so prevalent in Germany rather than a country like Canada.

Canadian SMEs compared with German SMEs

Canadian SMEs often also focus on innovation, comprise most of the businesses that exist in Canada, and employ more than half of the nation's work force similar to Germany (OECD, 2017). A primary difference in the operations between the two is that in Canada, the companies generally do not export, and productivity is fairly low (OECD, 2017). This is a major difference, as Germany, with the support of the Mittelstand firms, is the world's strongest exporter. Both contribute highly to their respective country's GDP, and perform a significant part in how the growth of GDP (OECD, 2017). German SMEs maintain a longer term perspective than Canadian firms, and the tradition of maintaining leadership of the company within the family is still fairly significant which is not a factor in management for SMEs in Canada. Mittelstand firms are extremely long term oriented whereas most other firms are not, and may prefer slower yet consistent growth, over sudden periods of growth. The hiring and capital-raising philosophy has allowed the German economy to thrive during periods of economic downturn, while the Canadian economy has not been as resilient.

MITTELSTAND IMPACT ON THE ECONOMY

The proportion of German firms in the Mittelstand category is over 99%, and therefore it may be understood that it is the most significant player in the economy, not only in its outputs, but inputs as well (Federal Ministry of Economics and Technology, 2012). They consume many resources, and employ much of the workforce in the country. Approximately 60% of all the jobs in the nation, 37% of overall turnover (2 trillion EUR), and 52% of the total GDP are affected by these firms collectively (Federal Ministry of Economics and Technology, 2012). Additionally, approximately 82% of apprentices are given opportunities at these companies in order to further develop their skills (Federal Ministry of Economics and Technology, 2012).

IMPORTANCE OF THE MITTELSTAND

Why is it something managers face while doing business in Germany?

There are very few large multinational giants located in Germany. Most of the workforce and GDP are driven by the Mittelstand firms, and without them operating successfully and adapting properly to the ever changing environment in the world, there may be risk for potential halts in growth for the economic power that is Germany

today. It is essential for management to fully grasp the Mittelstand concept, as the ideology behind it is embedded in most aspects of business. Considering all the trends that have been identified already in German society, the economy, as well as understanding the impact of Germany in Europe as well as in the world on a larger scale, these types of businesses may decline in health, and therefore diminish the current strength the German economy has.

Whether if the manager is from abroad, from the EU, or from Germany, it is essential to grasp the Mittelstand phenomenon due to how prevalent and characteristic they are. Operating outside of the mentality and philosophy in which they are run will possibly create friction and internal conflict between employees, and cause existing customers to feel uneasy. As so much of the workforce is employed by the Mittelstand, and how many businesses and families rely on them, the problems that arise with managing a company of this sort must be addressed quickly and effectively.

GOVERNMENT POLICIES AND SUPPORT

Within Germany

The Federal Ministry of Economics and Technology (BMWi) is also a government agency that tracks data and releases information based on its research on the creation, impact, and progress of Mittelstand firms in the country (Federal Ministry of Economics and Technology, 2012). It has helped establish the Central SME Innovation Programme, where firms can apply for generous grants, favouring those firms that focus on ambitious research and development projects, and explore partnerships internationally (Federal Ministry of Economics and Technology, 2012). The BMWi has also developed various financing programmes, start-up funds, methods to access resources more quickly and easily by developing new modern websites, and helping improve access to the German workforce for employment by encouraging entrepreneurship and employment campaigns, and establishing competitions in schools and around the country to increase awareness (Federal Ministry of Economics and Technology, 2012). With the establishment of this bureaucratic body dedicated to assist the SMEs in the country, it helps decrease the red tape as well, speeding up and streamlining processes to finance, look for new talent to hire, and find resources to expand globally. Germany has a bank dedicated to serving the Mittelstand firms, named the KfW Development Bank, which has assisted in loaning 1.3 trillion EUR to many businesses after the Second World War (Federal Ministry of Economics and Technology, 2012).

Many organizations study, research, and provide resources to Mittelstand firms. Most of them are government funded and are organized at universities around the country, named the Institute for Mittelstand Research (ifm).

In the European Union

Although the European Commission (EC) defines SMEs differently than Germany defines its own, stating that only those companies with 249 or less employees belonging the category (European Commission, 2017). There are many EU business support programs that assist in additional financial resources, offering subsidies, and exceptions in EU-wide compliances if needed upon approval (European Commission, 2017). There are many resources available for those Mittelstand firms that are looking for additional funding if required at favourable rates, establishing strong relationships, encourage innovation and entrepreneurship, as well as create a healthy business environment (European Commission, 2017).

ADVANTAGES AND CHALLENGES OF THE MITTELSTAND

Being able to interpret the advantages and challenges will first require a general look at the general state of Mittelstand firms in the industry, and this can be explored through the use of a SWOT analysis at Figure 3, where one can see that there many different factors at play.

Mittelstand Advantages

A loyal workforce results in lower costs overall, as the need for training and employee turnover is much lower. The relationship between the consumer and the employer become very close, and almost dependent on the other.

The abundance of the Mittelstand and their reputation have given Germany a reputation for high quality products, which again assist in encouraging further growth and sales for firms in Germany.

The strong relationship with consumers will allow the company to thrive well into the future, particularly as it has been found that “just over 10% of hidden champions generate more than half their total revenues from the five largest customers” (Simon, 2009, p. 135). Being able to secure businesses allows a company to remain active and generate consistent revenues.

Long term stability in an unpredictable economic environment is a significant factor as well. During the 2008 economic crisis, it was understood that despite many other businesses and economies around the world performing quite poorly, Mittelstand firms and the German economy stayed relatively stable and strong. In fact, “There was a 1.6% employee increase during the economic downturn.” (Buchanan, 2014). This resilience is an incredible advantage for the firm and its employees.

Using Porter’s Five Forces to look carefully at Figure 4, one can identify how a Mittelstand firm may operate in the market and the different forces that affect it. Competitive advantages of Mittelstand firms in general can be further identified in Figure 5.

PRIMARY CHALLENGES

There are many issues to consider for top level management, managers, and every day employees. As this concept of operating a business may be considered by some to be old fashioned, there are a number of external and internal challenges that must be taken into account in order to operate effectively going forwards.

External Challenges

With the world changing quickly, it is critical to quickly identify trends, and adapt in order to stay contemporary and remain competitive on a global scale. Mega trends such as digitalization, globalization, and the growing interest towards green energy have been concerns across the world, affecting many aspects of businesses and daily life for many. The social challenges of the aging population and lack of skilled workers are significant challenges that Mittelstand firms must deal with. The fundamental nature of Mittelstand firms also indicate that they operate in niche markets, which means that there is also possibly an oversaturation in a particular market in which they operate. As it is so highly specialized, the market may be extremely small, and there may not be much room to grow beyond existing partners. Some analysts suggest that a few German SMEs are reaching its limits. Emerging markets may additionally become a concern, as quality of products and services increasingly improves in those regions.

The mega trends have caused the norms and standards of many businesses to change, which may be difficult for certain companies to handle, particular those that do not handle change easily and are rooted in tradition. The speed at which decisions are made, and how drastic the result of the decision will be, can be difficult, but the small sizes of the Mittelstand firms may also speed up the processes for decisions that must be made. With advances in technologies, competitors have slowly been able to keep up with the high quality products of certain Mittelstand firms through imitation, however the relationships that the Mittelstand firms have established with existing firms assists in affirming its position in the market.

As it is the environment in which Mittelstand firms operate, that they cannot be directly influenced or controlled by the firms, and therefore the companies must adapt accordingly to the concerns that they individually find most threatening to their company in order to stay relevant in the long term.

Internal Challenges

While the continued leadership from a particular family is popular characteristic of a Mittelstand firm, it is a trend that is slowly decreasing over time due to possibly either the lack of an heir that is willing to take the position, or the lack of one that is sufficient to perform the job. This is a concern for employees within as it may result in distrust or uncertainty, which causes a change in the amount of confidence one has in a company. Particularly in Mittelstand firms, this trait is very important to have in a company. The family ownership may also result in individuals that perform less effectively than previous, or superior, and if there are many family members, conflict within in regards to direction of the company or major decisions may result in internal conflicts. The personal investment and interest in the company is much higher than in possibly other organizations not managed in a similar way to the Mittelstand, causing a highly biased opinion of many parties.

The lack of sufficient formal infrastructure and resources may also be an issue, as the organizations are typically very small, and working with the government may cause many difficulties with continued bureaucracy despite the dedicated government organization.

The reputation of a Mittelstand firm is greatly dependant on the quality of its products, and therefore the expectations for its products are incredibly high. Another challenge is to constantly meet these expectations, as if a new product or change in production results in lower quality products, the reputation of the company may be damaged.

IMPLICATIONS OF THE CHALLENGES TO MITTELSTAND FIRMS

What needs to be considered going forward

In order to thrive in the long term, Mittelstand firms must carefully consider their next positions and major decisions that may have not been considered when the company was conceived. Mega trends must be addressed eventually as it acts as a point of parity. If the company does not meet the new standards that consumers begin to expect, then it will be unlikely for the firm to succeed later on as the industry moves forwards. Managers who find themselves in a position to make decisions will have to find the correct balance between the Mittelstand values, and modernization.

In regards to the internal issues, the implications of this over time may result in an extremely weak company, as the team that works cohesively and productively together is one that will perform best in the intense Mittelstand environment.

Problems if things do not change

Without the change and adjustments to account for the internal and external challenges, one may expect that the company may eventually fail as it will not have been actively working against the elements that render the company useless and negate all the competitive advantages that it once had.

FUCHS PETROLUB

The Company

Fuchs Petrolub SE is a public company from Germany, and is the global leading independent manufacturer of lubricants (Fuchs Petrolub, 2017). The firm has always focused on those products, and continues to perform research and development to ensure that the product is extremely effective. The variety of different specialized products has resulted in over 10,000 different types of lubrications that the company can offer, however it is a business-to-business model where generally the products are not sold directly to individual consumers but rather in bulk to large organizations (Fuchs Petrolub, 2017). It makes tailor-made blends of lubricants and greases for specialized equipment around the world. The company sells a full line, provides a global presence, and the flexibility as an independent organization allows many businesses to prefer working with Fuchs (Fuchs Petrolub, 2017).

History and Company Philosophy

With its origins in 1931 started by Rudolf Fuchs, the company has been focusing on producing excellent quality products through focus and investment in its people and product in order for the superior product to be created (Fuchs Petrolub, 2017). Fuchs is now traded on the stock exchange and has become a public company, however the company is still owned by the Fuchs family, with Stefan Fuchs being the CEO (Fuchs Petrolub, 2017).

Fuchs refers to three things which are considered to be at the heart of its business model, which is “Lubricants. Technology. People” (Fuchs Petrolub, 2017). There are additionally “five values of our mission statement – trust, creating value, respect, reliability and integrity” (Fuchs Petrolub, 2017). These values and interests at the core of the business will establish itself in all aspects of business, including human resources policy, product quality, and will be reflected in its relationship with consumers and other stakeholders.

Organizational structure

The organizational structure at FUCHS groups the businesses into the three geographic regions of Europe, Asia-Pacific, Africa and North and South America and reflects the control and reporting system (Fuchs Petrolub, 2017). The company is very diverse and spread across the world, with 3800 employees from over 36 countries (Fuchs Petrolub, 2017).

With a significant focus on technological advancement and efficiency, Fuchs says that approximately 10% of the staff work in research and development, and there are over 600 ongoing projects in order to continually meet the changing needs of their clients. The dedication and interest in working towards meeting all the requirements of its customers is unique to Mittelstand firm style that Fuchs follows. In the structure through Figure 6, it can be established that there is a major focus on sales and technical staff (Fuchs Petrolub, 2017). With figure 7, one can tell that Fuchs Petrolub prefers the company to have management split up not only into regions, but also into functional categories (Fuchs Petrolub, 2017). Figure 8 suggests that there is discussion of upper management with local management, and there is a separate supervisory board which may provide independent and possibly less biased decisions made by the executive board (Fuchs Petrolub, 2017).

Fuchs’ successes and challenges for managers

Fuchs has established itself as a world leader in the market of lubricants, and has consistently delivered high quality products to ensure that machinery and equipment perform at an excellent level for consumers around the world (Fuchs Petrolub, 2017). As new technologies develop, Fuchs may also take this in advantage, for example new electric vehicles can act as a new product in which to provide lubrication products for (Fuchs Petrolub, 2017).

The company employs many people in the Mannheim region in which it has its headquarters, but also around the world in order to facilitate and further establish sales connections. Taking advantage of new emerging markets, Fuchs has been able to establish new offices in Singapore in order to geographically position itself better (Fuchs Petrolub, 2017). With the growing middle class in the emerging markets, the possible increase in automated goods which therein result in the purchase of lubricant goods on a large scale. Fuchs has been able to succeed due to its constant innovation and drive to become more effective and efficient, its modifications and proprietary methods to produce its products, and internal research and development teams which keep its competitive advantages away from competitors. The company succeeds by being able to maintain a strong and motivated workforce, maintain a strong global presence, and continue to provide highly specialized and high quality lubricant products.

Challenges that Fuchs are currently facing include having to adjust to possible new regulations through legislation and government, working towards becoming more sustainable, meeting customer requirements, work with retrieving and working with new raw materials to further develop products, and political issues that cause uncertainty in the environment such as Brexit (Fuchs Petrolub, 2017). As some of these issues are out of the control of Fuchs, the company must be aware of any developments and react accordingly. Additionally, market research from Fuchs has suggested that the markets in which it currently operates are mature, North America and Western Europe, and so it must begin looking into other opportunities like Asia and the Middle East if Fuchs wishes to grow (Fuchs Petrolub, 2017).

Implications of the issues

Managers must clearly identify complications and benefits of Fuchs and parallel them with those that come with the standard Mittelstand firm to see possibly where Fuchs may have shortfalls, and to make the correct adjustments if necessary. Awareness must be drastically increased particularly in the modern age where trends change very rapidly.

To further expand its not only depth in product categories, but into breadth, Fuchs has been acquiring companies such as Deutsche Pento-sin Werke and Lubritene in 2014, which allow them to gather more resources and assets from those companies to perform better with their products regarding lubricants for mining and in food industry machinery (Fuchs Petrolub, 2017). This may have been a decision to possibly diversify slightly more in order to protect the company. The company has in the past decade put many investments into modernizing their existing production facilities in order to perform at a more efficient level, which is another reaction and method of staying competitive.

Insight from Dr. Timo Reister, Member of the Executive Board

In an interview via email with Dr. Timo Reister in Figure 9, who acts as a member of the Executive Board at Fuchs Petrolub, he comments on the importance of long term strategy and investment in its employees. Dr. Reister reveals that “every person matters” in terms of employees, and this feature is an element that not only allowed Fuchs to exist in its current state as a world leader, but allow it to survive possible challenges and threats in the internal and external business environment in which it operates. Additionally, Dr. Timo Reister expresses how Fuchs carefully manages its people in terms of human resources, during the hiring process it must be clearly conveyed early on the values of the company, and it is understood that an investment in the employee will be for the long term rather than the short term. Therefore, employees lean more towards the Theory Y of motivation, where the employees are all encouraged to work together to collectively solve a greater problem as a team. Mittelstand firms are known to be unique to German speaking countries, there are many advantages to continue to do so.

REALITY OF WORKING IN A MITTELSTAND FIRM

Companies in Sennheiser, Faber-Castell, and Miele are also firms that many consider to be in the Mittelstand category. These companies excel in the same manner as described with Fuchs, continued ownership by a particular family, extremely close relationships with its customers, a focus on a niche market, and a strong interest in producing an excellent, world-renowned product for its quality. PWM is a company currently run by Max Krawinkel, a descendant of the original founder, and the firm focuses strictly on electronic price signs for gas stations but no other business, which is a prime example of a firm that will not expand beyond its current niche market despite how easily it may possibly do so, just to maintain its targeted strategy (Buchanan, 2014). A managing director of a synthetic rubber surfacing Mittelstand firm has reiterated the preference of security and stability and long term orientation, stating that “if we could decide between 5 percent growth and 100 percent security, we would choose security” (Buchanan, 2014). The overall implications of this furthers the idea that both management and employees are interest in the long term and best interest of the whole company, and this must be taken into account by managers of Mittelstand firms going forwards while also overcoming challenges.

CONCLUSION

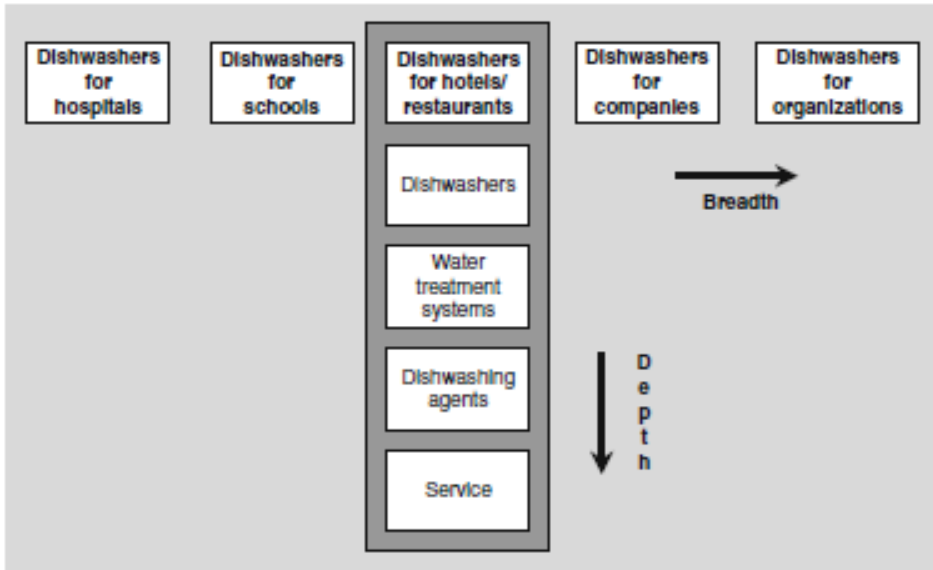
The Mittelstand firms have an immense impact on the German economy and people, and it is understood that although they have been very successful to date and an essential contributor to Germany’s economic strength today, it is very important to address its challenges as well, and consider its possible implications. Through the use of Fuchs Petrolub as an example, one may observe how a manager may view the concerns. The analysis of this phenomenon and its effects are many due to the ever changing environment, and therefore the Mittelstand firms must carefully make decisions in accordance with its existing values and proactively use the strengths that the firm has in order to stay relevant in the future, given all the challenges that have been identified.

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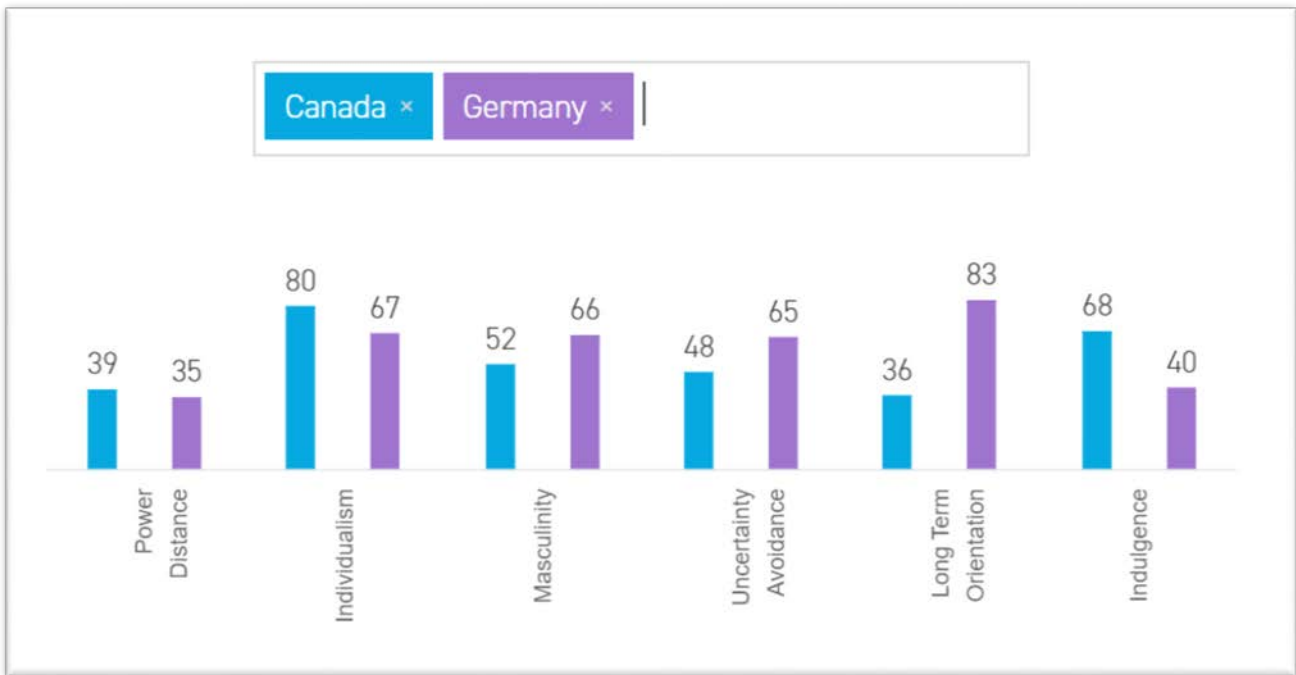
APPENDIX

Figure 1. A company emphasizing depth rather than breadth



(Hidden Champions of the 21st Century, p.201, 2009)

Figure 2. Hofstede Dimension Comparison between Canada and Germany



(Hofstede Insights 2017)

Figure 3. SWOT Analysis of a General Mittelstand Firm in Germany

	Opportunities	Threats
Strengths	Niche markets High quality products	Economic instability in the environment
Weaknesses	Fast development Quicker profits	Ability to compete on price with other companies

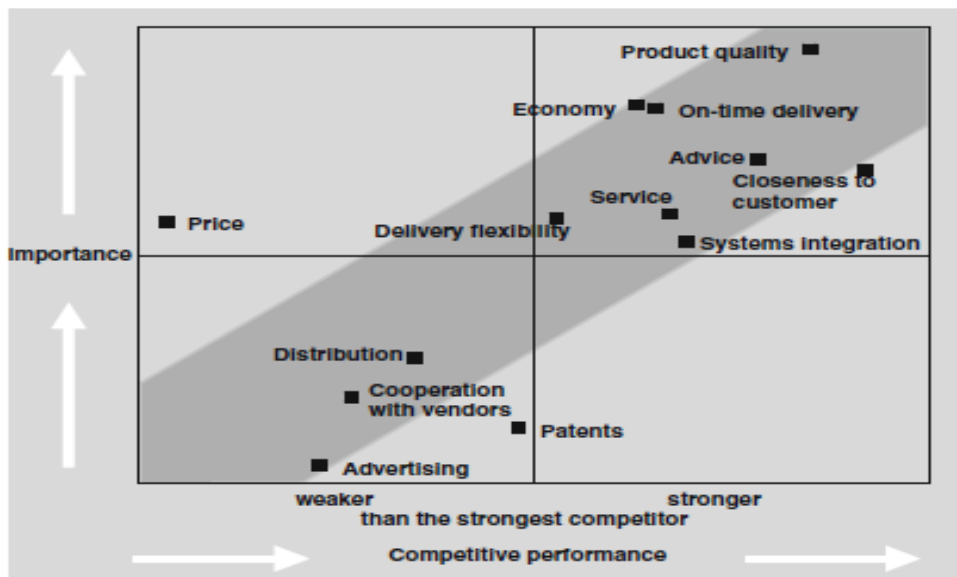
(Amy Chen 2017)

Figure 4. Porter’s Five Forces for Mittelstand Firms.

Industry Rivalry	Extremely high due to competition to excel in performance and innovation
Threat of Entry	Not much of a threat, niche product is very specialized and requires lots of research and development and time to cultivate
Bargaining Power of Suppliers	Not very strong, as the Mittelstand firms often take raw materials and further develop them using proprietary techniques rather than purchase materials pre-developed therefore there is a large selection
Bargaining Power of Buyers	Strong, however the dependance goes both ways due to the long term nature of the business
Threat of Substitutes	Not much of a threat, niche product is very specialized

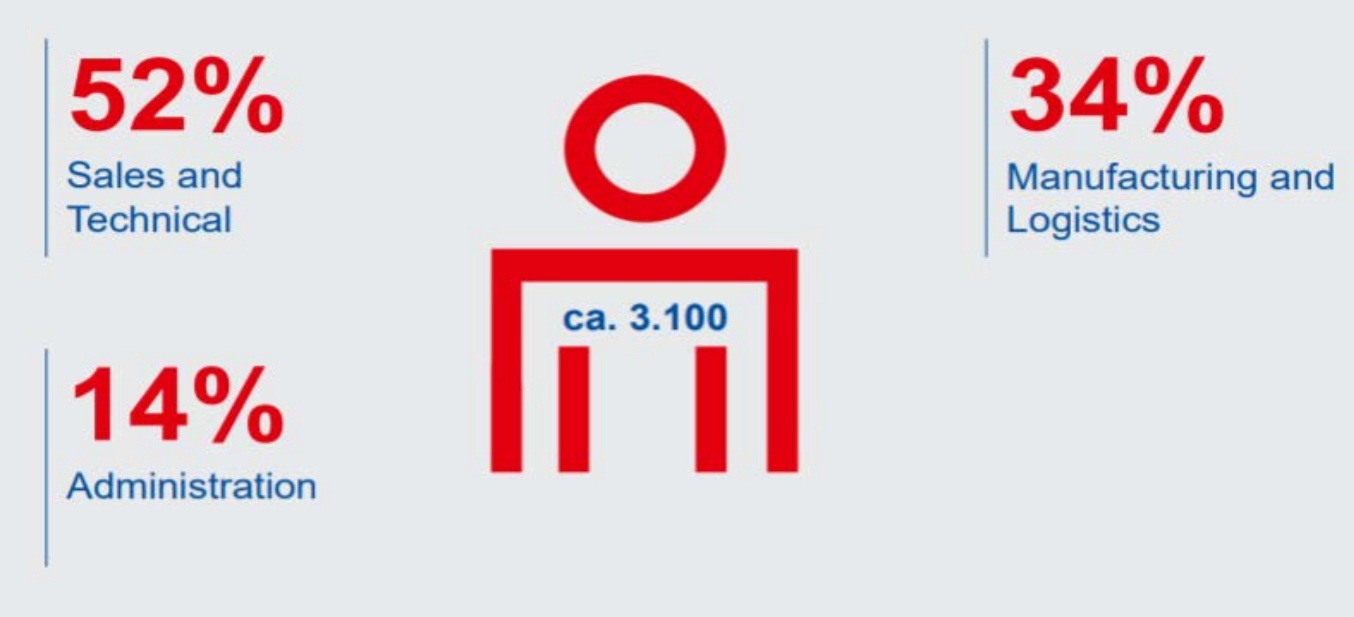
(Amy Chen 2017)

Figure 5. Matrix of competitive advantages for hidden champions



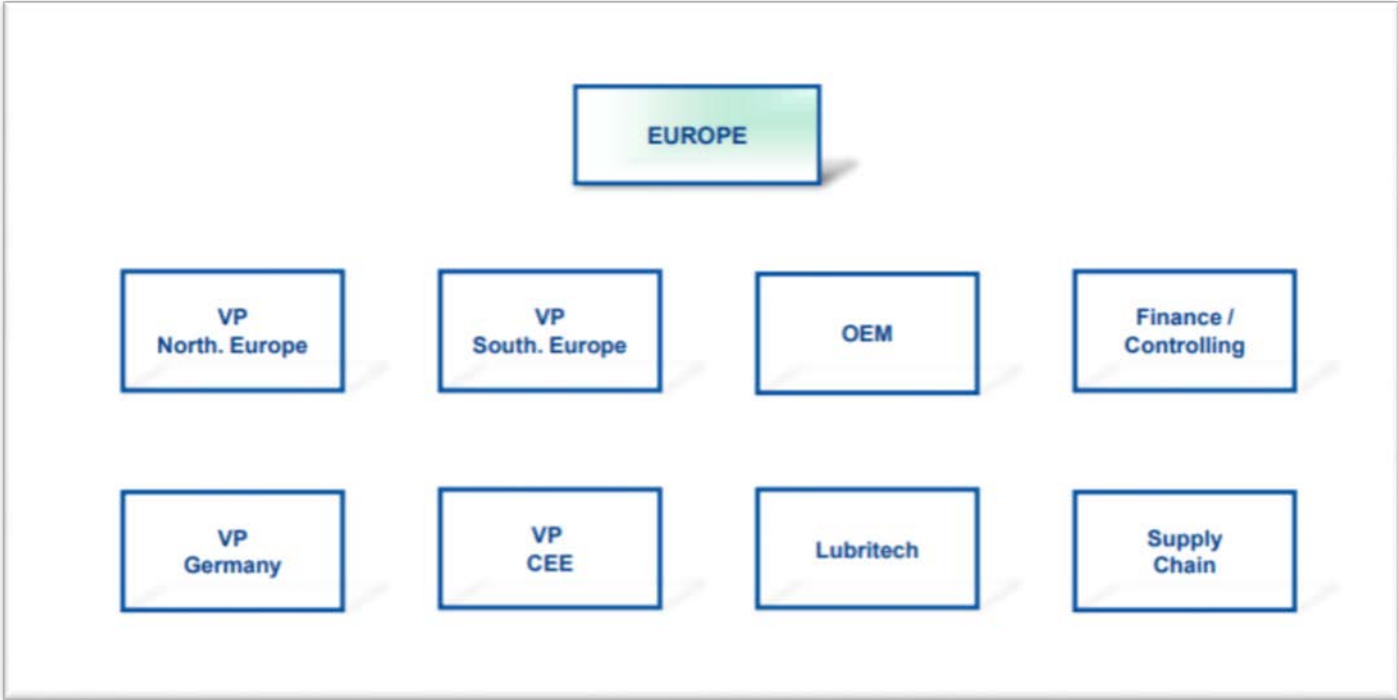
(Hidden Champions of the 21st Century, p.201, 2009)

Figure 6. Fuchs Petrolub Management Structure and Organization



(Fuchs Petrolub 2017)

Figure 7. Fuchs Petrolub Management Structure and Organization



(Fuchs Petrolub 2017)

Figure 8. Fuchs Petrolub Management Structure and Organization

Organization of opportunity and risk management in the FUCHS Group



(Fuchs Petrolub 2017)

Figure 9. Email interview with Dr.Timo Reister, Executive Board of Fuchs Petrolub

Question	Response
1. In what way is the Human Resources policy special in maintaining and managing personnel in Fuchs, compared to firms not structured in the same way?	Selection of employees based on same value understanding as company Profit shares for all employees from the top level to the lowest level Employees: every person matters, support with difficult family situations Hierarchy free direct communication and open feedback culture
2. What in the business environment allows Mittelstand-like firms to thrive more so in Germany than other countries?	Long term thinking, multi-generational family commitment, loyalty, low personal consumption rates of family members (most of the money is reinvested in the businesses which leads to high equity ratios and room for investments).
3. How does decision to specialize in a particular area (ex. lubrications) affect Fuchs' operations and performance in the market, relative to companies that are more horizontally diversified in terms of their product lines?	Deeper understanding of customers, products and technology. Focused market penetration plans.
4. Has Fuchs taken any initiatives to handle the overall skilled worker shortage and the aging workforce, which appears to be an issue across industries in Germany as well as in the world?	Yes: internal education programs, collaborations with universities and schools around the world, push for automation.

(Amy Chen 2017)