

# ENABLING MIDDLE MARKET BUSINESSES TO ACHIEVE SUSTAINABLE SUCCESS

MAZARS-ABIS PANEL SESSION  
AT THE EUROPEAN BUSINESS SUMMIT 2018





*Mazars organised a panel session jointly with The Academy of Business in Society (ABIS) dedicated to “Enabling middle market businesses to achieve sustainable success” at the European Business Summit on 24 May 2018 to mark the launch of their “Middle Market Leaders Lab”.*

The panel members were drawn from a number of countries in Europe representing a diverse range of interests but with a common commitment to recognising the contribution of middle market businesses to their respective economies and wider society.



**Rudi Plettinx**  
Chief Executive Officer  
Academy of Business in Society (ABIS)



**Professor Dr Rene Schmidpeter**  
Dr Jurgen Meyer Endowed Chair for International Business  
Ethics and CSR Cologne Business School



**Darius Movaghar**  
Senior Policy Adviser  
European Family Businesses



**Aleksandra Palinska**  
Senior Policy Adviser  
EuropeanIssuers



**Joe Carr**  
Global Leader Entrepreneurial Business  
Mazars Group



**Professor Benjamin Beeckmans**  
Professor of Entrepreneurship  
Solvay Brussels School of Business and Management



**Anthony Carey (moderator)**  
Head of Board Practice  
Mazars UK



The panel covered the following topics:

1. The challenges that exist at a macro level in promoting the success of middle market businesses in Europe;
2. The range of critical issues that middle market businesses need to address to achieve their full potential;
3. The launch of Mazars/ABIS Middle Market Leaders Lab.





# THE CHALLENGES AT A MACRO LEVEL IN EUROPE

## The increasingly squeezed middle

Neither small nor big and without a well carved-out identity as a business grouping, middle market companies run the risk of being the equivalent of the forgotten middle sibling of the business world. A generally held view among the panellists was the lack of recognition for middle market companies as a grouping with its own particular characteristics. This represents a major challenge for such entities at both EU and national levels.

In light of his experience in advising middle market companies, Joe Carr provided the audience with his practical perspective. Mr. Carr highlighted that most commentators simply divide the market into two categories: SMEs and large listed companies. This analysis fails to identify an extremely important but often overlooked third segment which we call the middle market. The size of enterprises, ranging from large to small companies, is a determining factor, and the players in the middle have a unique role in society, with their own set of challenges and opportunities. The increasing globalisation of businesses and the impact of the Fourth Industrial Revolution has led to the acquisition of many middle-sized businesses by leading global corporates seeking to expand, while middle market companies find it progressively harder than their larger competitors to raise the funds needed for expansion and investment, particularly in areas such as technology.

Today, Germany is the star pupil with its very own Mittelstand being a notable European exception. When it comes to their financial performance, in his practical experience, Mr. Carr found that economies such as Germany and Sweden with a broad balance of both large and middle-sized companies perform much better in times of crisis than those economies that are dominated by only large corporates. Mr. Carr also underlined that though these companies help economies in their resilience during periods of crisis, it is also important to note that only around the top 20% grouping of middle-sized companies by performance are truly sustainable in the current economic climate.

**“Middle market companies run the risk of being the equivalent of the forgotten middle sibling of the business world”**



**Joe Carr**  
Mazars Group



## Made in Germany, made for exporting

Looking into the German exception, Professor Rene Schmidpeter emphasized the specificities of Germany's Mittelstand. With a different logic than listed companies, the Mittelstand are often family-businesses with a strong local imprint, a commitment to passing on the business— in a good state— to the next generation, and with an aim to foster positive economic impact in their area of operation. For instance, during the last financial crisis, these companies were more focused on securing jobs and fostering local activity than creating profits. As for strategy, the Mittelstand tend to be part of the integrated Global Value Chains (GVC) and seem to be gaining global leadership in closely defined niches through strong export performance— a strategy strongly supported by Germany's Ministry of Economy and the Chambers of Commerce with the latter having offices around the world.

Middle-sized businesses with a regional focus face the challenge that markets are becoming increasingly global through, for example, sales on the internet. So if they fail to adapt to this evolution, they could risk losing market share. In addition, middle-sized businesses are also subsidising their smaller and larger counterparts since they tend to pay a reasonable proportion of their profits in taxes, while some international businesses enjoy lower tax rates; and start-ups are given more funding by governments. If successful, these start-ups are then acquired by large corporates. Professor Schmidpeter also pointed out that business schools are keener to work with global businesses rather than middle-sized ones, since the former are more likely to provide financial support for research and development.

## Recognition through regulation?

Elaborating on the importance of the regulatory environment, Aleksandra Palinska called on the EU policy makers to recognise the challenges faced by small and mid-cap listed companies which are no longer SMEs— but which are also not yet large companies. She emphasised that small and mid-cap companies face the most difficulties complying with increasingly burdensome capital market rules. To facilitate healthy and thriving public capital markets, it is important to recognise the diverse nature of such companies and ensure that rules applying to smaller companies are appropriate for their size. Therefore, a legal definition of small and mid-cap is necessary to enable focused and proportionate rules.

Ms. Palinska also underlined that the EC's recent SME listing proposals, which were launched on the very same day of the panel session (24 May) and which are aimed at making it easier for smaller businesses to get financing through capital markets, fail to clearly define the notion of small and mid-cap companies. Ms. Palinska welcomed the proposed regulatory alleviations, although she felt that more ambition is needed to deliver a fully proportional environment for small and mid-cap companies.

**“More ambition is needed to deliver a fully proportional environment for small and mid-cap companies”**



**Aleksandra Palinska**  
EuropeanIssuers



## Recognising the distinctive characteristics of family businesses

As a specialist in family businesses, Darius Movaghar shared his insights on the challenges these entities are facing. Ranking first amongst these challenges is stepping up to the plate and asking for the deserved credit for their job, growth, and value creation. Second on the list is finding the right successor for the passing of the baton. While the third challenge is keeping an eye on regulation to ensure compliance requirements are being met.

Diving into the EU Member States' tax codes, Mr. Movaghar brought to the audience's attention that Belgium is the only EU country that recognises family businesses as an entity per se. In this regard, Mr. Movaghar echoed Ms. Palinska's comments in calling for the EC to recognize family businesses in their own right in light of their major contribution to job and growth creation. However, in order to secure sustainably successful performance in the long-run, attracting talent from the outside of the family ecosystem is vitally important. Though there are some special challenges for family businesses, most of their other challenges are similar to those for middle sized companies generally .

**“Attracting talent from outside of the family ecosystem is vitally important”**



**Darius Movaghar**  
European Family Businesses

## Entrepreneurship needs to think global while being in the middle

**“European countries should create a ‘Mittelstand’ ecosystem”**



**Professor Benjamin Beeckmans**  
Solvay Business School

As a former entrepreneur in Belgium, Professor Benjamin Beeckmans put the focus on entrepreneurship as a key component of middle market businesses. In light of the current appetite for entrepreneurship in business schools, Professor Beeckmans advised countries to capitalise on such a trend by creating a so-called “Mittelstand” ecosystem, which could foster support for both technology and funding. As for regulation, Professor Beeckmans called for a “less-is-more” approach, maintaining that the less regulation there is, the more ambitious entrepreneurs are insofar as their risk aversion is proportionate to the level of compliance requirements.



## A new definition of SMEs: Sustainably Made Enterprises?

Closing the discussion of macro issues, Rudi Plettinx raised the importance of the sustainability challenge—an important issue on the regulators’ agenda, as illustrated by the EC’s Action Plan on Sustainable Finance. In this regard, Mr. Plettinx identified the so-called “ESG” factors (i.e. environmental, social and governance) as a major challenge raising key questions for SMEs and the role they will assume in ensuring ESG. Will they have enough time to devote to such topics? Will they develop a coherent mind-set and the proper leadership on these matters?

The questions raised by Mr. Plettinx led other panellists to elaborate on the notion of sustainability. Professor Beeckmans proposed a definition based on a brand’s long-lasting reputation, highlighting that the brands of many middle-sized businesses and the image of its sustainability are becoming increasingly lost in the supply chain of larger brands.

According to Professor Schmidpeter, since large businesses often define sustainability in a passive way as the absence of harm, which has given middle-sized companies the opportunity to come up with a more proactive vision of sustainability which consists of creating a positive impact on society.

Ms. Palinska, while acknowledging the importance of sustainability, questioned whether small and mid-cap companies have enough resources to comply with any new or upcoming regulatory requirements, which could constitute for companies a distraction from their primary business activities. Companies, both small and large, need the support of public authorities in transitioning to a low-carbon economy. She also emphasized the importance of encouraging the right mind-set and behaviours instead of requiring more compliance.

**“Will SMEs have enough time to devote to sustainability? Will they develop a coherent mind-set and the proper leadership on these matters?”**



**Rudi Plettinx**  
Chief Executive Officer  
ABIS



# CRITICAL ISSUES OF FOCUS FOR MIDDLE-SIZED BUSINESSES

Following the first part of the discussion, Anthony Carey invited the panellists to give their views on how middle market businesses could achieve their full potential.

## Purpose. Position. Performance.

Mr. Carr shared with the audience his core recommendations for enhancing the value creation of middle-sized companies: “Purpose. Position. Performance.” In summary, it is essential, according to Mr. Carr, for those leading middle-sized businesses to focus **on** the business and not just to be **in** the business.

First, middle-market companies should have a clear purpose statement to ensure that all the stakeholders in the business understand its overall vision. Second, they should build a clear business plan to secure their business strategy. Third, they should work on enhancing their reporting mechanisms so that they can build their strategy on tangible indicators.

According to Mr. Carr, these three Ps “on the business issues” are not normally given the attention they require by the management of middle market companies who instead focus exclusively on the day to day issues of trading and operations. The larger corporate sector has demonstrated time and time again that investing resources and effort in formulating well thought-out balanced plans, executed with pragmatism and speed, is by far the best way to achieve long-term sustainable performance and value. Whilst nobody likes spending time on over-elaborate complex business planning, middle market companies need to reflect more on the markets in which they operate or wish to operate, and consider their business in more detail if they are to thrive in today’s changing and disruptive business environment.







## The contribution of diversity is vital in the war for talent

Winning the war for talent was recognised as one of the most important battles for middle-sized businesses—constituting a real challenge as they lack the visibility advantages of being global brands.

In light of recent revelations underlining the added-value of diversity on financial performance, Ms. Palinska advised middle market companies to be as open as possible to all forms of diversity (gender, ethnicity, language skills, etc.) in order to reach their full potential. Supporting this view, Professor Schmidpeter suggested that such an approach could be a source of competitive advantage for middle market companies, helping them reach their full potential, as he argued that these economic actors pursue an approach closest to what society wants to see from businesses. With that in mind, these entities should capitalise on such an image and present themselves as a legitimate voice in the upcoming sustainability discussions.

However, whilst sustainability can provide an opportunity for middle market companies to thrive, Ms. Palinska reminded the audience that it can also create obstacles. On this score, in analysing the EC's Action Plan on Sustainable Finance, Ms. Palinska feared that any new corporate disclosure requirements stemming from such a noble initiative might constitute a hurdle to the small and mid-cap companies' day-to-day business and performance, when considering the burden of compliance.

## SMEs stands for Self-Minded Enterprises

Professor Beeckmans reminded the audience that middle-sized companies tend to be more comfortable with their financial performance and do not worry about their potential in terms of financial indicators unlike many larger companies. SMEs know that their full potential has more to do with their ambition and their mind-set.

## “We need to talk”

Closing the second round, Mr. Movaghar added a decisive element on the role of communication as an engine for enhancing the performance of family businesses, and duplicating the associated best practices from other businesses in this regard is fundamental. Such best practices include decision making meetings, wider internal communication channels, family general assemblies and executive boards.



# LAUNCH OF THE MAZARS & ABIS' MIDDLE MARKET LEADERS LAB

Closing the session, Anthony Carey invited Mazars' Joe Carr and ABIS' Rudi Plettinx to launch officially Mazars/ABIS "Middle Market Leaders Lab", a thought leadership and action-orientated approach to help middle-sized companies achieve their full potential in a manner that promotes sustainably successful and responsible businesses.

Public attention often focuses on global businesses and start-ups while middle-sized businesses are becoming more and more overlooked in many economies. Given their strong impact on regional economies within nations and their potential for employment creation (most of these entities are more labour intensive than their larger global counterparts), middle-sized businesses need to be supported.

## Giving a national and European focus to the Middle Market Leaders Lab

The focus of our Lab is two-fold:

1. ABIS and Mazars will come together with policy makers, academics with expertise relating to middle-sized companies, relevant membership and professional bodies, as well as selected companies (including large corporate members of ABIS) to discuss how policy and support should be developed to help middle-sized companies in the most effective way possible. Mazars and ABIS will do this at a European Union level and initially in selected European countries with the possibility of extending it to other regions.
2. Mazars, ABIS and a selected number of business schools in various jurisdictions will work directly with leading middle-sized companies by hosting roundtables at which we will discuss the critical issues that need to be addressed in order to help middle-sized companies achieve their full potential as sustainable businesses. In addition, the aim will also be to build a sense of community amongst participants and a commitment around this topic.

## Our focus

Our focus will be dedicated to the following issues:

- purpose, culture and strategy;
- leadership, management and governance structures as the business develops;
- stakeholder engagement;
- innovation;
- brand-building;
- and international development.

## Recognising the range of middle-sized businesses while identifying similarities and differences

Middle-sized businesses take many forms: entrepreneur led, family businesses, businesses with private equity involvement, and smaller quoted companies and social enterprises. The aim of our Lab will be to support middle-sized businesses in all their forms and to identify common, as well as specific challenges, faced by these ranging entities.

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