



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN GERMANY 2022

A REPORT FROM TEAM SWEDEN IN GERMANY

KEY CONTRIBUTORS TO THIS REPORT

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FOREWORD

Throughout the turbulence of the past years, the relationship between Germany and Sweden has remained strong, and in 2022 as Europe faces the consequences of the ongoing war in Ukraine and growing economic uncertainty, the importance of this partnership shows no sign of diminishing. Germany, renowned as Europe's economic powerhouse and leading country politically within the EU, continues to be Sweden's most important trading partner, with Swedish exports to Germany increasing at an annualised rate of 1.93% since 1995. The close relationship between the countries is not the least reflected by the German Chancellor Olaf Scholz and the Swedish Prime Minister Magdalena Andersson, who have conducted multiple high level exchanges since taking office in 2021. This commitment of cooperation was also expressed in September 2021 with the German President Frank-Walter Steinmeier's State Visit to Sweden. The Visit had the aim of celebrating relations between Germany and Sweden, summarised by President Steinmeier as follows: "Germany and Sweden look back on a rich, diverse history with ups and downs. Today, we are perhaps more closely connected than ever before."

Forming a key focus of the President's engagements were discussions of innovation and technologies of the future. This is particularly pertinent as the economic links between Germany and Sweden are complemented by additional partnerships, such as the bilateral innovation partnership. First signed in 2017, this has since been renewed and extended, with the goal to foster innovation and cooperation for a sustainable future. Both countries rank highly on the European Commission's Innovation Scoreboard, and through initiatives like the innovation partnership, there is a great opportunity for knowledge sharing and mutually beneficial collaboration, particularly in areas such as battery technology and AI.

This report represents the third Business Climate Survey among Swedish companies in Germany, and its purpose remains to strengthen our understanding of the experience of Swedish companies and deepen our appreciation of both the opportunities and challenges posed by the German market. It illustrates the key factors driving Swedish companies' success in Germany as well as their strategies in response to the current climate of uncertainty. In addition, it will hopefully serve as a reference in bilateral trade dialogues between Sweden and Germany.

Overall, the 2022 Business Climate Survey showcases the positive synergies found by Swedish companies on entering the German market. Respondent firms' perceptions of the current German business climate have improved over the last year and the majority of participants' plan to increase their investments in Germany during the coming year. In addition, questions of sustainability, an area in which Sweden is renowned, are becoming increasingly pressing among German customers. Finally, the value of the Swedish brand and connotations of "Swedishness" continue to positively contribute to firms' business activities in Germany, a particularly heartening finding for Team Sweden in Germany (the Embassy, the Swedish Chamber of Commerce and Business Sweden).

This survey is created for and by the Swedish business community in Germany and so the final word must go to the participating companies and respondents of this report. We would like to extend our sincere gratitude to all those who have contributed to the survey, their commentaries and observations are essential. It is with great joy and pride that Team Sweden continues to work on strengthening the relationship between Germany and Sweden further. As always, we stand ready to support all Swedish companies in Germany through the current times of crisis and far into the future.



Per Thöresson
Ambassador of Sweden
to Germany



Johan Holmlund
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EXECUTIVE SUMMARY

~1,500

Swedish-owned
companies/entities
active in Germany



Business Climate

54%

Good/Very good

Very poor/poor (11%) – Neutral (34%)



Profitability

61%

of respondents
enjoyed a
profitable 2021



Investments

56%

of respondents plan to
increase their investments
compared to last year



Turnover

69%

of respondents expect
their industry's turnover to
increase in 2022



Advantages of the market

- Strong market conditions offered by a stable economy
- Favourable infrastructure
- Access to vast market of 83 million consumers



Disadvantages of the market

- Low level of digitalisation
- Bureaucracy
- Decentralised nature of Germany



ABOUT THE SURVEY

Record number of respondents provide a nuanced view of an improved German business climate

When considering why Swedish companies choose to move to Germany, certain criteria present themselves, such as Germany’s strong and largely stable economy; its central position in Europe; important standing within the EU; and large population of 83 million. However, the Business Climate Survey aims to go beyond these criteria to gain a deeper understanding of the Swedish experience of doing business in Germany.

For the third year in a row, Team Sweden has carried out the Business Climate Survey, calling on Swedish companies active in Germany, regardless of size or industry, to report back on how they perceive economic and market conditions, and to comment on factors such as sustainability and innovation levels. Through the turbulence of the past three years, the Business Climate Survey has given a snapshot of how Swedish companies in Germany are experiencing the consequences of worldwide events such as the COVID-19 pandemic and the resulting extreme global disruption, and, more recently, the war in Ukraine. Responses can also be used to identify trends within industries and differences depending on company size and length of time in Germany, adding nuance to the results and allowing a more detailed picture of the German business to emerge.

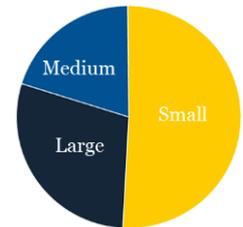
This year, the survey was sent out to 629 company representatives. There are an estimated 1,500 Swedish entities in Germany, however according to our research it is fairly common for large Swedish companies to own multiple entities in Germany. Moreover, German companies privately owned by a Swede will also be classified as Swedish. This leads us to estimate the actual number of operating Swedish companies in Germany to be below 1,000.

The answers were collected during March and April 2022 and with a record 186 respondents providing answers, more than doubling the previous year’s respondents. Looking at the respondents, 51 per cent were small companies, 20 per cent medium and 29 per cent large. Regarding industry 41 per cent of firms were from the industrial sector, 29 per cent from professional services, 12 per cent from consumer goods and the remaining share from other sectors. There was also a range of company age, with 31 per cent newcomer companies founded after 2016 and almost equal numbers of mature and experienced (post 2000) companies at 35 per cent and 34 per cent respectively.

After collating survey results, we conducted a number of in depth interviews with leading representatives from Swedish companies in Germany. These discussions helped provide a more nuanced understanding of the survey results, and enabled a more open-ended discussion of topics such as the impact of the war in Ukraine on company forecasts, or views on government legislation to further Germany’s investment into digital services.

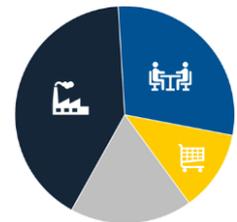
Finally, it should be noted that any statistics presented in this report are solely indicative of our respondents’ experience in the German market. Furthermore, the response period coincides with Russia’s invasion of Ukraine and the subsequent ongoing war, therefore responses should be read in light of these recent developments.

SIZE OF COMPANIES



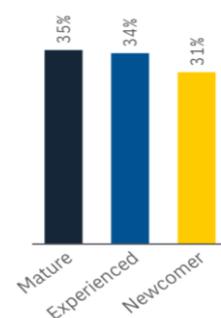
NOTE: Global employees.
Small 0-249
Medium 250-1000
Large >1000

MAIN INDUSTRY



NOTE:
Industrial: 41%
Professional Services: 29%
Consumer Goods: 12%
Other: 18% (included, but not shown in graph)

AGE OF COMPANIES



NOTE:
Mature (-2000)
Experienced (2001-2015)
Newcomer (2016-)

ECONOMIC OUTLOOK

A Swedish vote of confidence in Germany's economic outlook

In keeping with most of Europe, by the beginning of April 2022 most of Germany's COVID-19 restrictions had been lifted. This signals a positive step forward in a country which has navigated the past two years of the global pandemic relatively well, committing EUR 130 billion to its stimulus package and successfully vaccinating 76 per cent of the population. After a decrease in national GDP of 4.6 per cent in 2020, 2021 saw an increase of 2.8 per cent, with the European Commission forecasting growth of 3.6 per cent in 2022, returning Germany to its pre-crisis level during the year. However, Germany continues to suffer from the long-term effects of the pandemic: in total, the Ifo Institute estimates that the pandemic caused EUR 330 billion in economic losses, the equivalent to a 10 per cent loss of 2019's economic output, and resulting in high levels of public debt. The long-term effects of the pandemic were summarised by Chancellor Olaf Scholz, who described the lifting of restrictions in March 2022 as heralding "a new phase of the pandemic," rather than its end.

It is arguable that the war in Ukraine is now presenting a more urgent crisis to Europe's economy and particular uncertainty in Germany where reliance on Russian gas imports has been high. At the time of writing, it is considered likely that the German economic growth could suffer, and that inflation will be worsened, with a surge in food and energy prices and heavy supply chain disruptions, already exacerbated by the shortage of semiconductor chips. In an attempt to mitigate the economic effects of this crisis a EUR 20 billion German scheme has been approved by the European Commission to support companies affected across all sectors. This is in addition to a military support fund of EUR two billion, most of which will go to Ukraine to help purchase weapons, and humanitarian efforts to welcome Ukrainian refugees to Germany.

In light of the uncertainties of the coming year it is reassuring to see the majority of Swedish companies have come through the pandemic with an optimistic outlook for the future. Furthermore, most firms anticipate increasing their investment in Germany, an expression of Swedish commitment to Germany's economic future and a positive indication of continued recovery and growth.



Everyone took a deep breath thinking Corona is finally over and everything will be possible again [...] and then the war happened

Anna Jasper-Martens,
"Be the Best Place to Work" Lead at BA Wind in Vattenfall

PROJECTED GDP GROWTH IN GERMANY



Source: Oxford Economics, GDP, real, annual growth. Last update: 20 April 2022

Swedish companies remain profitable in 2021



Building on the previous years' Business Climate Survey reports, economic results are stable. In terms of financial performance just over 61 per cent of respondents reported a profitable performance and 20 per cent a loss, in comparison to 2020 where 59 per cent reported profitability and 23 per cent loss. This is an indication that on the whole, Swedish companies are continuing their financial recovery and are successfully adapting to the post-lockdown market.

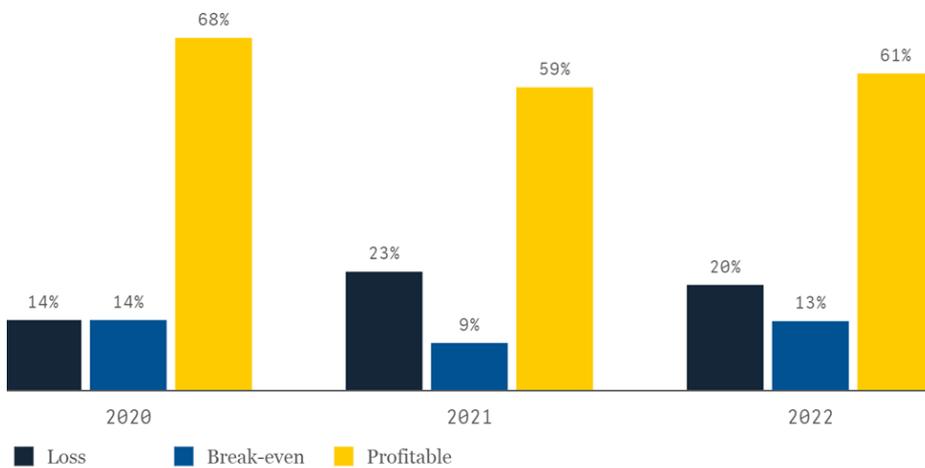
When breaking down results by industry, consumer products have struggled the most with almost one third reporting a loss in the past year. In comparison industrial firms have suffered the least, a finding in keeping with last year's report, and almost 70 per cent reported a profitable year.

As could perhaps be expected, medium and large companies had a reliably high profitability percentage, both scoring 67 per cent, with smaller companies who have fewer resources to fall back onto in times of crisis suffering slightly more with almost 25 per cent recording a loss. Similarly, when analysing the length of time the company has been established in Germany, mature and experienced firms fared the best, with the vast majority reporting profitable results. In comparison, newcomer firms faced with the wide-ranging challenges of entering a new market had a less profitable year, with 44 per cent reporting a loss.

We can see that the industry is opening up again and projects that were postponed are being brought back to life

Markus Karbach,
Managing Director of
Munters Euroform GmbH

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN GERMANY IN 2021?



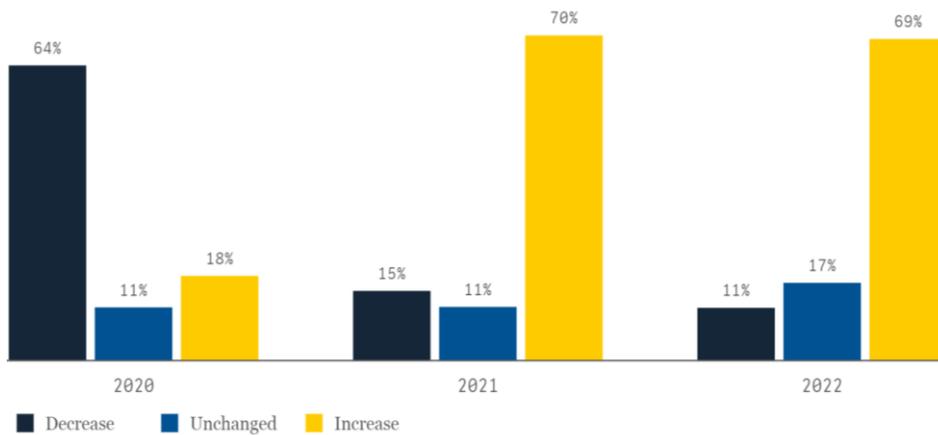
Note: "Don't know/Not applicable" responses are included but not shown in figure
 Source: Business Climate Survey for Swedish Companies in Germany 2020, 2021 & 2022

Turnover expectations tell a story of the past three years

Respondents' answers on turnover expectations for the coming year mirror the overall economic outlook in Germany. 2020 projections, recorded at the beginning of the pandemic where uncertainty was extremely high, were overwhelmingly negative, with 64 per cent of participants anticipating turnover to decrease either significantly or slightly and only 20 per cent expecting it to increase. Since then, as the economic outlook has improved, so have Swedish firms' expectations: in 2021 an overwhelming positive perspective was recorded with 71 per cent of participants expecting turnover to increase slightly or significantly and just over 10 per cent expecting it to decrease. This is echoed in this year's results, where 69 per cent of companies anticipate an increase in turnover and 11 per cent a decrease. The marginal difference between 2022 and 2021 could perhaps be due to uncertainty from the escalating conflict between Ukraine and Russia, or perhaps slightly slower recovery than expected from the pandemic.

These positive expectations are reasonably uniform across company size and sector: while in comparison to professional services and industrial companies consumer goods had the lowest percentage of firms expecting an increase in turnover, this was still high at 60 per cent, with 25 per cent anticipating no change in turnover. More variation can be seen in the differences between firms who are long established in Germany and more recent newcomers. Newer firms were overwhelmingly optimistic with 83 per cent reporting an increase in turnover and only 6 per cent a decrease, whereas among more mature firms around one quarter did not expect turnover to change and a more modest 57 per cent expect an increase.

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN GERMANY REGARDING TURNOVER?



Note: Decrease and increase represent aggregations of slight/significant development changes. "Don't know/Not applicable" responses are included but not shown in figure.

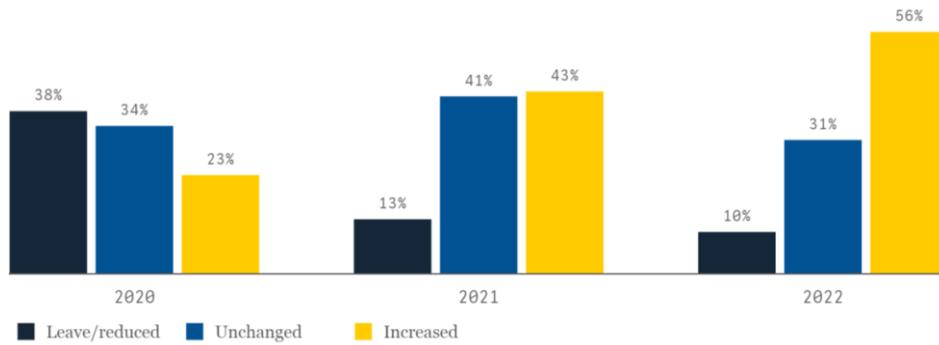
Source: Business Climate Survey for Swedish companies in Germany 2020, 2021 & 2022

Swedish companies plan to increase investments

In keeping with expectations on industry turnover, a relatively high share of participants reflecting on their plans for 2020 (around 40 per cent), reported their intention to reduce investment or even leave the German market altogether. By 2021 Swedish firms' appetite for investments in Germany had improved greatly, with only 13 per cent planning a reduction in investments and 44 per cent anticipating an increase. In 2022 these numbers are even more positive as 56% plan to increase investments in Germany and only 10 per cent reduce investments. This optimistic outlook demonstrates the continued attractiveness of the German market for Swedish firms, and a continuation of the historically close relationship between the two countries.

The professional services sector leads the way in increasing their investments in Germany with 70 per cent responding positively in comparison to 48 per cent for industrial firms, with consumer goods falling in the middle at 57 per cent. Echoing the previous question of anticipated turnover, newcomer firms were again the most optimistic in their investment plans with 83 per cent planning to increase investment whereas mature firms perhaps seeing less new growth potential were more cautious: around 40 per cent plan to increase investments and the same amount again do not anticipate any change in investment.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN GERMANY, COMPARED TO THE PAST 12 MONTHS?



Note: Decrease and increase represent aggregations of slight/significant development changes. "Don't know/Not applicable" responses are included but not shown in figure.

Source: Business Climate Survey for Swedish companies in Germany 2020, 2021 & 2022

THE MARKET

Swedish firms successfully navigate complexities in the German market

Germany's and Sweden's long-standing relationship is valuable for many Swedish companies looking to expand their operations abroad. As the largest economy in Europe and accounting for one quarter of the European Union's GDP, Germany is Sweden's most important trade partner. In 2021 Sweden's exports to Germany totalled EUR 16.4 billion, and with Sweden importing EUR 26.4 billion of goods from Germany.

Germany's stable financial infrastructure and stable economic and political systems, in addition to its central position in Europe, make it attractive for foreign investors, and more than 45,000 foreign companies are doing business in the German market. In turn, Sweden has been described by the German Foreign Office as a role model for gender equality and family policy, and praised for leading the way in digital solutions, particularly in healthcare, an area where Germany has historically been slow to adopt the advantages of digitisation. Despite the attractiveness of expanding to Germany, establishing a business presence there can be complex and costly in terms of both time and money. Although Germany is listed 22nd in the World Bank's 2020 rankings of ease of *doing* business, they are ranked 125th when it comes to ease of *starting* a business. The distinction between these two rankings is especially relevant when considering that many Swedish companies – and a third of our sample – are newcomers to the German market. As a result, analysis of market characteristics as experienced by Swedish firms established in Germany paints a valuable picture of Germany's overall business climate.

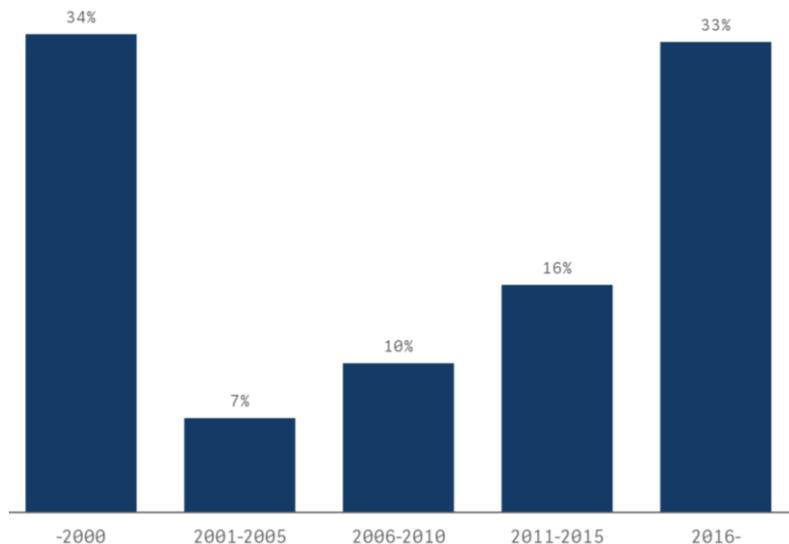
The number of newcomers in our sample not only shows a nuanced picture of the business climate but is also proof of Germany's attractiveness as a location for Swedish firms. The share of companies that entered the German market before 2000 is roughly the same as the share that entered since 2016, which includes the years heavily affected by the pandemic. The lower numbers in the intervening years, in particular between 2001-2015, could be attributed to increased caution among firms and resulting reluctance to commit resources to internationalisation strategies. During these years the financial world was badly affected first by the bursting of the dotcom bubble in the early 2000s, followed by the financial crisis of 2008 and its extensive repercussions.



Maybe things are a little bit bumpy but they aren't stopping the way they did under Covid

Markus Karbach,
Managing Director of
Munters Euroform
GmbH

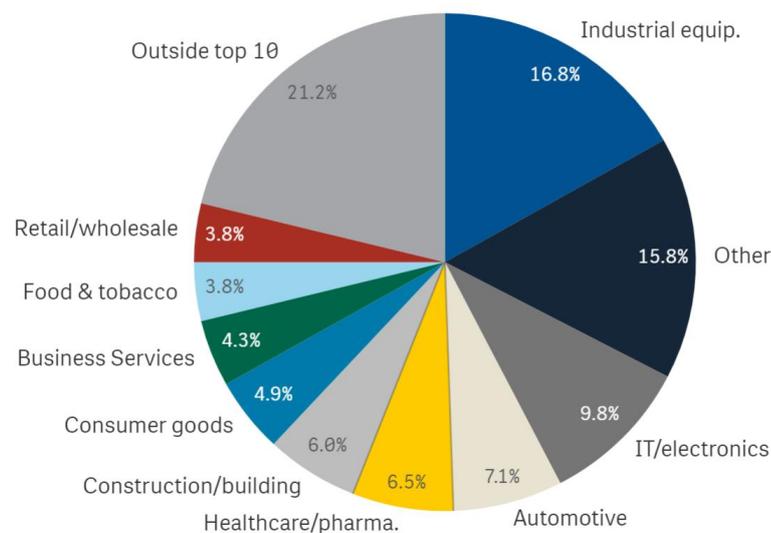
IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN GERMANY?



Note: Don't know/Not applicable" responses are included but not shown in figure.
Source: Business Climate Survey for Swedish companies in Germany 2022

Our survey respondents represent a wide range of industries, showcasing the diversity of Swedish firms within Germany. Perhaps unsurprisingly given Germany's strong industrial infrastructure (in 2021 23.5 per cent of German GDP stemmed from the production industry), the largest sector with almost 17 per cent of respondents was industrial equipment. Other sectors represented in the survey include IT and electronics (10 per cent), automotive (7 per cent), healthcare and pharmaceuticals (6 per cent) and construction (6 per cent), with smaller proportions also representing sectors as wide-ranging as consumer goods (5 per cent), food and beverage (4 per cent) and retail/wholesale (4 per cent). Although these numbers may not be representative of the entire population of Swedish companies in Germany, it is valuable for the results of this survey to have received input from such a variety of sectors.

WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN GERMANY?

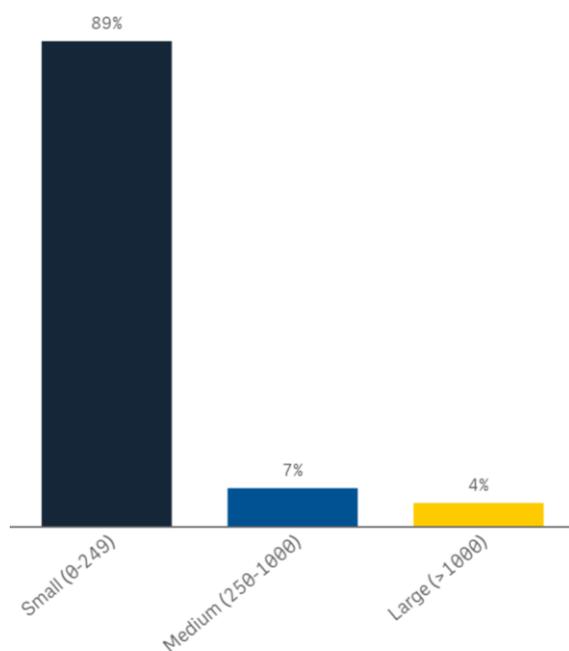


Source: Business Climate Survey for Swedish companies in Germany 2022

Germany's success is driven by its SMEs, with more 99 per cent of firms in Germany being categorised as a small or medium sized businesses, known as Mittelstand. These firms account for more than half of Germany's economic output and around 60 per cent of jobs – being the backbone of the economy. It is therefore unsurprising that such a high proportion of Swedish firms are classed as a small enterprise and employ up to 249 employees, and that only 4 per cent of respondents represent a large company. These results are also similar to those recorded in previous surveys, and there is no noticeable industry difference in employment patterns.

Similarly to Germany, Sweden also benefits from SMEs with these representing a comparable share of the total economy. The high share of SMEs ties Germany and Sweden even closer together and the countries share the challenges and opportunities of creating favourable market conditions for SMEs.

SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN GERMANY IN 2021



Note: "Don't know/Not applicable" responses are included but not shown in figure.
Source: Business Climate Survey for Swedish companies in Germany 2022

An increasingly positive view of the business climate in Germany

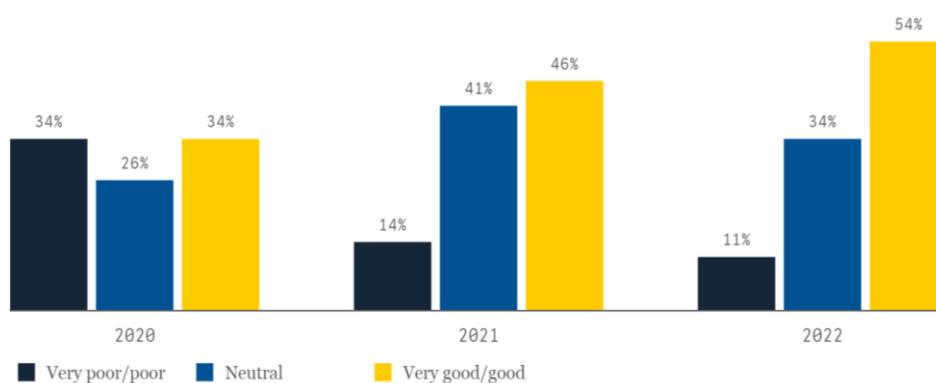
Similarly to 2021, as a whole Swedish respondents perceive the German business climate very positively, with over 50 per cent of companies rating it as good or very good and only 10 per cent as poor. When viewing this in the context of previous years a clear upward trend can be seen: from only 34 per cent considering the business climate positively (and an equal number with a negative impression of it) in 2020, the 12 percentage point increase to 46 per cent in positive evaluations seen in 2021 is continuing this year, albeit on a slightly smaller scale with an eight percentage point increase between 2021 and 2022. When taking into account that the global pandemic was still continuing in 2021 and 2022 these results are impressive, indicating that Germany has been successful in maintaining a strong business climate despite global uncertainty.

Segmenting these results further, professional services and the industrial sector score similarly with around 55 per cent of participants responding positively to the business climate. This is a decrease on 2021's results where 70 per cent of professional services companies perceived the business climate as good or very good. However, when comparing results based on company size the findings are consistent with previous years, with the majority of small, medium and large companies considering the business climate either neutrally or positively.

When asked to comment on the German business climate, however, respondents did have some criticisms, specifying the high levels of bureaucracy in Germany as hindering Swedish businesses, with large amounts of paperwork and high data protection levels making processes ineffective and slow. This was further emphasised during our interviews where participants discussed that in order to remain competitive in the long-term, Germany must become more agile and overcome hinderances of bureaucracy and slow-moving government infrastructure.

Keeping these points in mind, the survey results are positive overall, demonstrating the favourable business conditions found in Germany and shedding some light on why so many foreign firms choose Germany when evaluating their foreign expansion.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN GERMANY?



Note: "Don't know/Not applicable" responses are included but not shown in figure.
Source: Business Climate Survey for Swedish companies in Germany 2020, 2021 & 2022



You must act intelligently with power and force, otherwise you are not going to get far in Germany

Alexander Lutz,
Managing Director
Polestar Germany 2019 –
2022

Germany's level of digitalisation continues to fall behind Swedish standards

When evaluating German market conditions participants' results were broadly positive, with no category receiving an overall negative response, indicating that Swedish companies are on the whole satisfied and that their business needs are broadly met by the German market. The highest scores, following results of the last year's survey, were personal safety and legal security. Additional areas highlighted as meeting business needs were intellectual property protection and physical infrastructure, showing the strong existing systems and frameworks Germany has established.

However, there are persistent findings to be observed in terms of which market conditions Germany is not providing as successfully, such as corporate taxation. The corporate tax rate in Sweden is low by international standards and is also based solely on a company's annual profit; no other license tax or local corporate tax is charged. In Germany however the corporate income tax rate is much higher and is among the highest in Europe which may lead to greater dissatisfaction for especially Swedish companies.

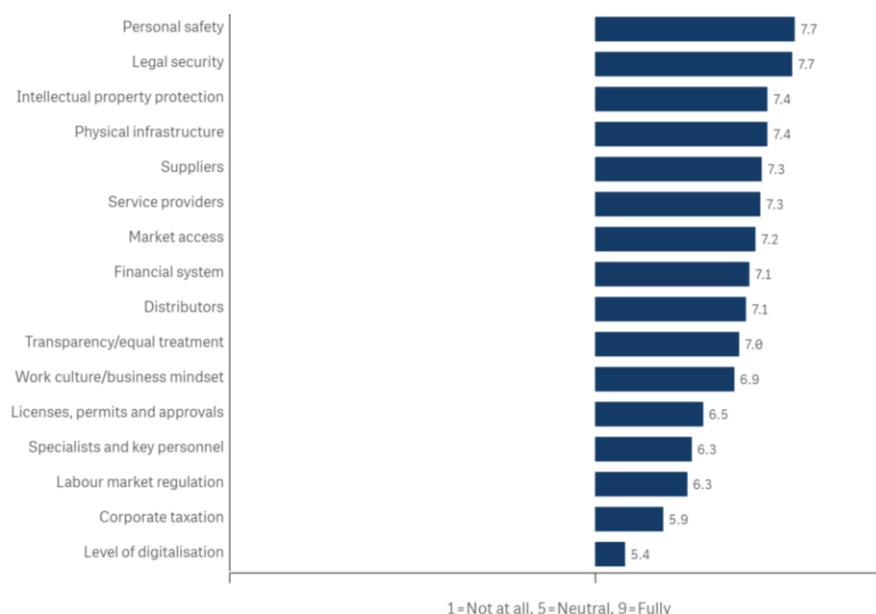
Additionally, for the third year in a row, respondents have ranked the level of digitalisation as the German market condition that meets the needs of their businesses the least. Sweden is a frontrunner in the EU regarding digital connectivity and integration of digital technologies into all areas of life, with a high level of digital maturity within the population, public sector and individual companies. According to the Digital Economy and Social Index (DESI) ranking established by the European Commission, Sweden is third in the EU behind only Denmark and Finland. In comparison, Germany is placed 11th, with the report citing a lack of planning and building capacity affecting broadband connectivity; a shortage of IT specialists; and slow integration of digital technology by businesses. Furthermore, when considering the countries' digital readiness, Sweden far outranks Germany in technology adoption, technology infrastructure and government investment levels. Given Swedish companies' digital expertise it is not surprising that they enter Germany with high expectations of existing digital infrastructure and thus are challenged by the German digital market conditions.



Germany is one of the least digital ready countries [...] systems that have been put in place for digitalisation are disjointed and we are behind Europe

Alexander Lutz,
Managing Director
Polestar Germany 2019 – 2022

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN GERMANY?



Note: "Don't know/Not applicable" responses are included but not shown in figure.
Source: Business Climate Survey for Swedish companies in Germany 2022

Currently, Swedish firms' advanced digital development often give them a first-mover advantage in comparison to local German competitor firms, opening up previously overlooked innovation opportunities and enabling Swedish firms to make an impact on the German business environment. As part of its pandemic recovery plan, Germany is committing significant investments to address its digital challenges, such as improved digitalisation of public services and the development and integration of advanced digital technologies for businesses. How this develops will be interesting: as respondents stressed that in order to make meaningful progress in areas such as digital readiness, rapid and ambitious improvements are needed in not only digital infrastructure but in investment levels and political focus. During interviews business leaders cited the decentralised nature of the German government as creating an incoherent approach to digitalisation, and emphasised that among German customers there is a lack of experience of digital solutions. One example of this is the slow take-up of digital payment solutions in Germany, which creates huge issues for online companies trying to establish themselves and operate in the country.

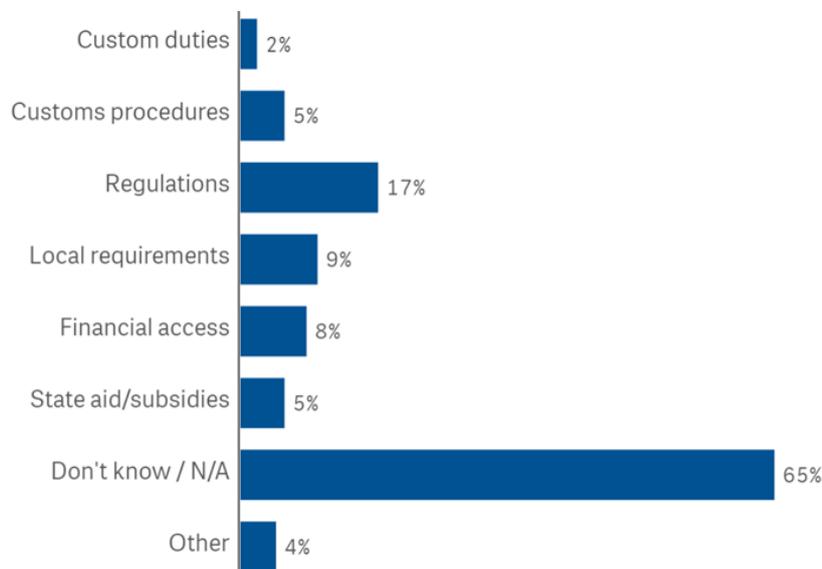
Obstacles to doing business in Germany are perceived as few and manageable

In general, trade between Sweden and Germany and within Germany is going well and insurmountable barriers are rarely reported. While a number of barriers experienced in many countries currently were noted, such as rising costs of energy, supply chain disruptions and shortages of raw materials, the majority of survey participants responded that discussion of trade barriers was not raised as an issue.

However, doing business Germany is not exempt from challenges. The most significant area of difficulty reported was regulations: Swedish companies struggle with the high levels of bureaucracy and administrative complexities. Within certain sectors, companies are hindered by differing local regulations between the different states (highlighted by the construction industry in our sample). Regarding financial access Swedish companies also experienced difficulties in gaining a sufficient overview of upcoming tenders due to the large number of platforms. Furthermore, the lower level of digital infrastructure makes forming a company or entity in Germany time-consuming for Swedish firms, also a result of Germany's rather bureaucratic system.

Further, building on issues resulting from the high levels of bureaucracy, respondents also noted that data protection regulations in Germany require a high level of administration, further hindering digitalisation possibilities. In some cases, respondents experience that German legislation ("Datenschutz") is more onerous than GDPR. Similar barriers resulted from the German technical regulations were identified. For instance, a Swedish company in our sample within e-mobility reported that the process to get equipment tested and approved by the relevant German authority is lengthy and costly.

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN GERMANY WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS IN ANY OF THE FOLLOWING AREAS?



Source: Business Climate Survey for Swedish companies in Germany 2022

Innovation is at the core of both German and Swedish ecosystems

Building on our previous analysis of Germany's levels of digitalisation, participants were also asked to comment on their experiences with the German innovation ecosystem. As the graph below shows, the results received did not show a clear consensus on whether firms' innovation capacity was supported or unsupported by German infrastructure. Industry results are also mixed, with no one sector in particular benefitting more than others from the German innovation ecosystem.

Despite this seeming lack of a clear finding, both Germany and Sweden have renowned innovation systems which merit some exploration within this survey. Both countries commit around 3 per cent of their GDP to research and development, with Sweden placing a particularly strong focus on green technology and life sciences. Named an *Innovation Leader* by the European Commission's 2021 European Innovation Scoreboard, Sweden is also home to foundations and agencies such as *Vinnova* (Sweden's innovation agency) and *Tillväxtverket* (the Swedish Agency for Economic and Regional Growth) which aim to strengthen competitiveness and facilitate Swedish entrepreneurship. These investments in innovation have clearly paid off, particularly in Stockholm which, after Silicon Valley, produces the highest number of unicorns (startup firms with a valuation above \$ 1 billion) per capita, with the amount of Venture Capital investment more than doubling between 2020 and 2021, reaching a record EUR 7.8 billion.

Berlin has a similar reputation to Stockholm as a hub for innovation and entrepreneurship. Around 500 new startups are founded there each year and in 2021 EUR 10.5 billion was invested in the city, 60% of all venture capital invested throughout Germany. Collaboration between Germany and Sweden is also strong in this area, evidenced by the German-Swedish Innovation Partnership.



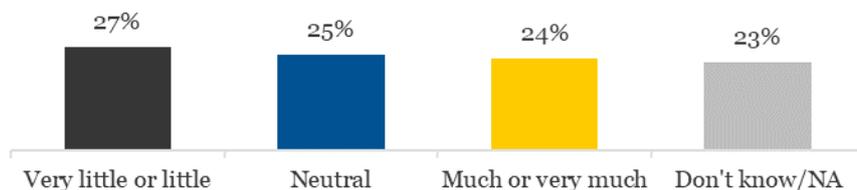
Germany is a country that has innovation in its roots. We used to be doers, innovators, we must return to that

Alexander Lutz,
Managing Director
Polestar Germany 2019 –
2022

Active since 2017, the partnership aims to facilitate knowledge sharing and cooperation. Example areas of focus include improved technical infrastructure within e-health; research into next generation battery development and their sustainable production; strategies to improve artificial intelligence ecosystems in Germany; and advance Industry 4.0 and Smart Industry through joint work on test bed structures in Sweden and Germany.

Moreover, Business Sweden together with Vinnova is proud to have launched a trilateral innovation platform during 2021. The platform aims to foster long-term strategic partnerships for a competitive Europe with collaboration between Sweden, Germany and also France. By pooling the innovation power of these three countries, new and more innovative solutions addressing global societal and climate challenges can be developed faster.

TO WHAT EXTENT DOES THE GERMAN INNOVATION ECOSYSTEM SUPPORT YOUR INNOVATION AGENDA AND STRENGTHEN YOUR INNOVATION CAPACITY?



Source: Business Sweden Climate Survey for Swedish Companies in Germany 2022

HOW SWEDISH COMPANIES SUCCEED IN GERMANY

Sales and marketing remain a focus in local operations

For over 80 per cent of respondents marketing and sales form a key focus of their local operations in Germany, other target areas include after sales and support (50 per cent) and provision of services (40 per cent). Scoring much lower are research and development; sourcing and trading; and manufacturing and assembly at around 20 per cent each, indicating that on the whole Swedish companies are not committing resources to setting up design centres and manufacturing plants or in Germany, but prioritising other activities. This is understandable when taking into account the high proportion of newcomers in our sample, whose focus naturally is on marketing and sales.

Exploring the low score of R&D activities in more detail, there are potential links to be drawn with the mixed answers concerning Germany's innovation ecosystem, perhaps indicating a lack of support for R&D activities. R&D can be seen as a company's innovation engine; thus, it is important for both the company itself and for the country of operation, that R&D activities are prioritised. In this way the innovation ecosystem of the country as a whole can be further strengthened.

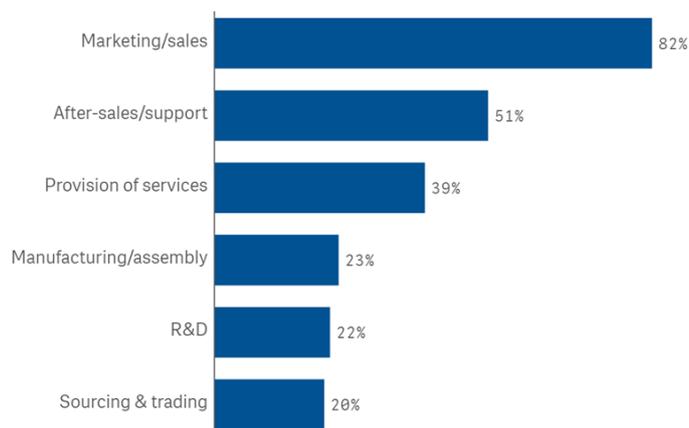
Lastly, these results are similar to the previous year's survey, with similar amounts recorded in every category, illustrating that despite global uncertainty, companies are not altering their operational focus.



If you don't invest in R&D now then you won't have anything new in the next 5-10 years

Markus Karbach,
Managing Director of
Munters Euroform
GmbH

OPERATIONS OF SWEDISH FIRMS IN THE MARKET



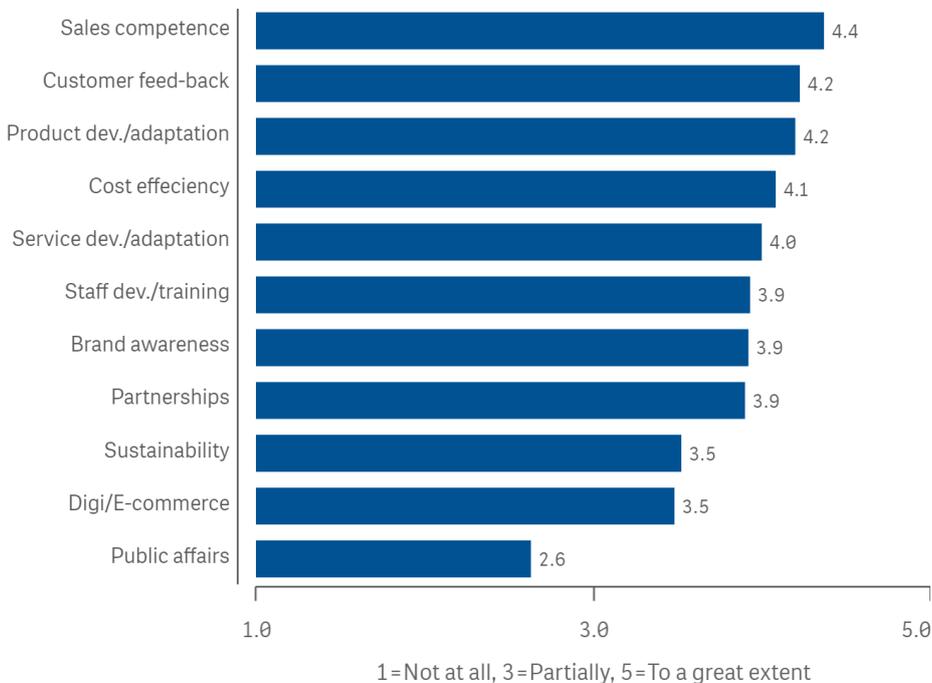
Note: "Don't know/Not applicable" responses are included but not shown in figure.
Source: Business Climate Survey for Swedish companies in Germany 2022

Sales competence is vital when entering the German market

In keeping with the importance of sales and marketing for firms operationally, and mirroring previous years findings', unsurprisingly, sales competence was ranked as the most important area for firms in maintaining their competitiveness. Additionally, as previously discussed, sales competence is key for small firms and newcomer firms looking to establish themselves in a new market.

Interestingly, both product and service development and adaptation also ranked highly, indicating that adaptation of products and services for the German market is often necessary, perhaps signifying differences between Swedish and German consumers and market conditions. The least important factor for maintaining competitiveness was public affairs and relations with government, a finding also observed in both 2021 and 2020 results.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN GERMANY?



Note: "Don't know/Not applicable" responses are included but not shown in figure.

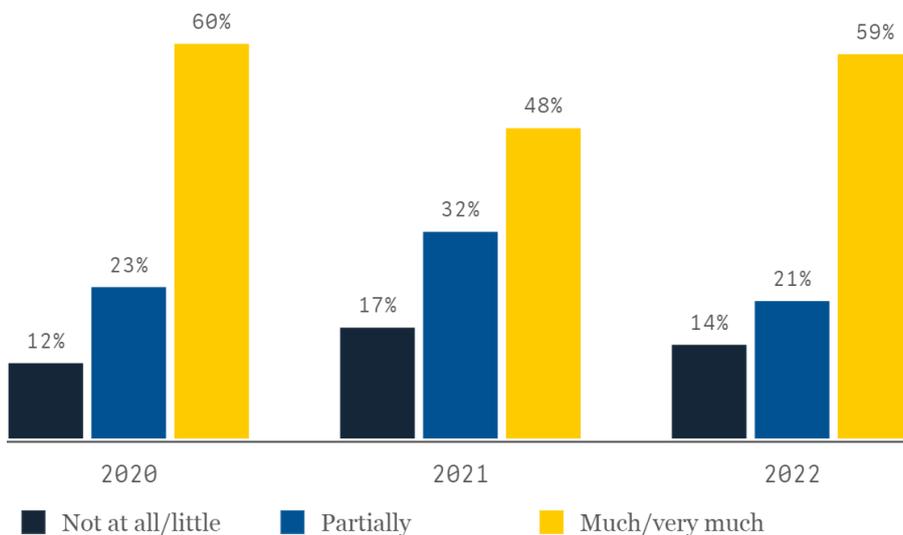
Source: Business Climate Survey for Swedish companies in Germany 2022

Being Swedish is a great advantage for firms in Germany

Sweden's image abroad as a democratic, open-minded and progressive society, with a high-quality welfare system and innovative technological infrastructure, is reflected in this survey's results. 80 per cent of respondents estimate that the "Swedish brand" positively contributes to their business in Germany, and of this share an impressive 59 per cent believe it contributes greatly. Even firms that do not market themselves on their Swedish origins and present themselves more as a European firm acknowledged that their Swedish background gives them an advantage over competitors, and connects them with positive assumptions in the minds of customers. Furthermore, respondents' positive impression of Sweden is echoed internationally: according to the Good Country Index (recently shared by the Swedish Institute), Sweden is ranked first, taking into account categories such as health and wellbeing, prosperity and equality and the planet and climate.

Analysing the results there are some variations to be seen: small businesses tend to value the Swedish brand over larger ones, with 67 per cent of small companies estimating that it contributes to their business over 49 per cent of larger firms. Furthermore, the consumer goods sector regards the Swedish brand most highly, with 73 per cent of respondents responding positively, as opposed to 49 per cent of industrial firms and 62 per cent of those within professional services. Finally, this year's results show an 11 percentage point increase on last year, a dip in 2021 which potentially was due to criticism Sweden received following their decision not to follow the majority of European countries and implement nationwide lockdowns during the COVID-19 pandemic.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE "SWEDISH BRAND" CONTRIBUTES TO YOUR BUSINESS IN GERMANY?



Note: "Don't know/Not applicable" responses are included but not shown in figure.
Source: Business Climate Survey for Swedish companies in Germany 2022



A Swedish product has connotations of good quality, great design, innovation [...] inclusion, diversity

Manager, large Swedish firm



The German public appreciates a sustainable brand that comes from Sweden

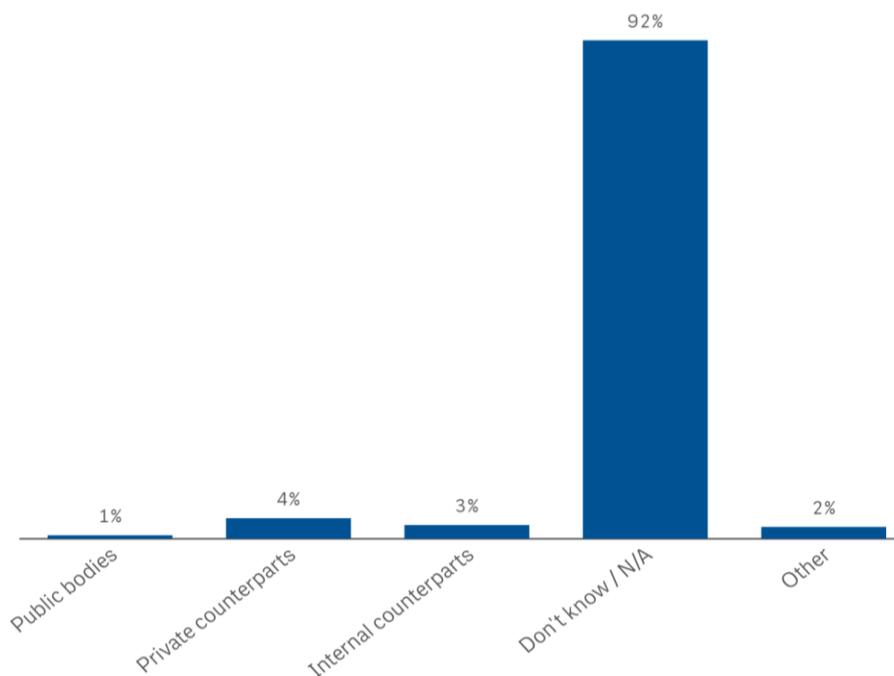
Alexander Lutz,
Managing Director
Polestar Germany 2019 – 2022

ACTING SUSTAINABLY

Exposure to corruption not a concern in Germany

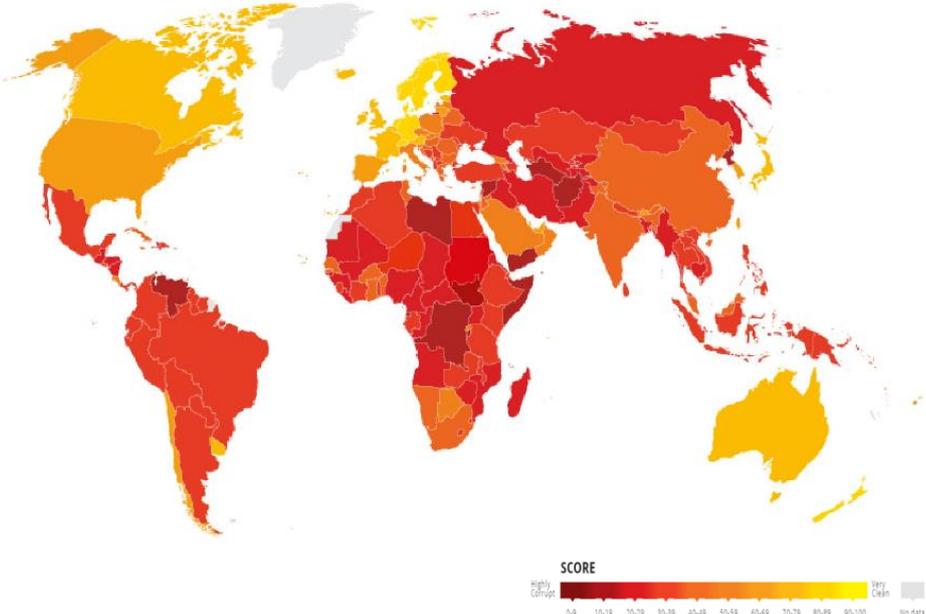
Survey respondents regardless of company size, industry and length of time in Germany reported almost unanimously that they are not exposed to corruption such as attempts of bribery or fraud. That 92 per cent of participants answered in this way is not surprising when considering the global Corruption Perception Index (CPI), where Germany ranks 10th out of 180 countries, not far behind Sweden who sit at 4th alongside Singapore and Norway. Published by Transparency International, the CPI was first launched in 1995 and its ratings are published annually, ranking countries worldwide based on their perceived levels of public sector corruption. Germany and Sweden have both remained consistent in their results since 2018, a state of affairs which is not anticipated to change in the future.

HAS YOUR COMPANY IN GERMANY BEEN EXPOSED TO CORRUPTION SUCH AS, BUT NOT LIMITED TO, ATTEMPTS OF BRIBERY OR FRAUD IN CONTACTS WITH ANY OF THE FOLLOWING AREAS?



Source: Business Climate Survey for Swedish companies in Germany 2022

CORRUPTION PERCEPTION INDEX 2021

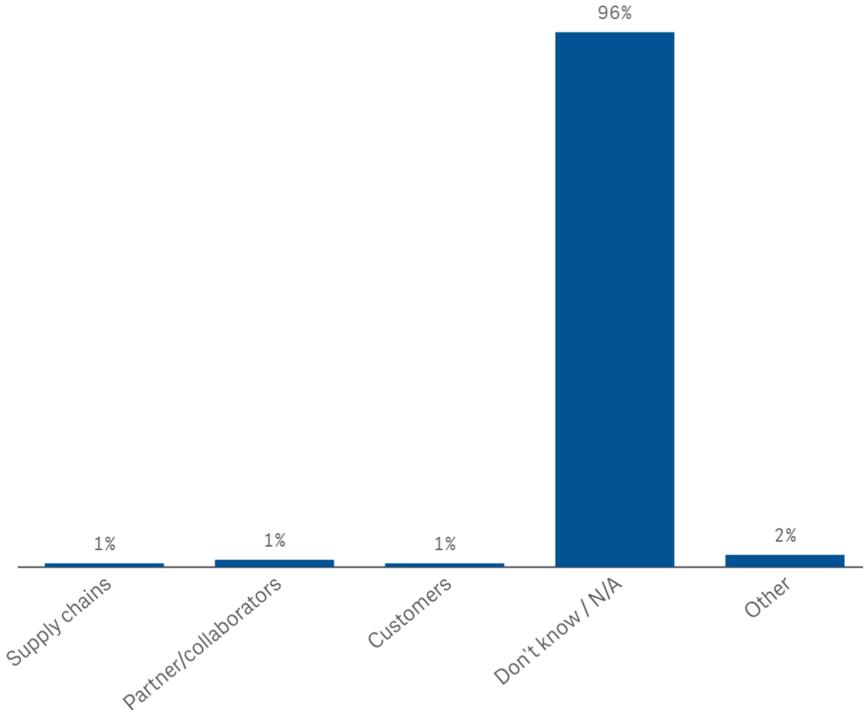


SOURCE: Transparency International

Low perceived risk of human rights abuses

Considering the overall positive German business climate, it is unsurprising that the risk of encountering human rights violations in Germany was considered to be low. This figure is consistent across sector, firm size and length of time in Germany. In comparison to previous years this number has shown a positive trend, increasing from 85 per cent in 2019 and 93 per cent in 2020 to this year's result of 96 per cent of respondents perceiving the risk of human rights violations as very small.

HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN GERMANY?



Source: Business Climate Survey for Swedish companies in Germany 2022

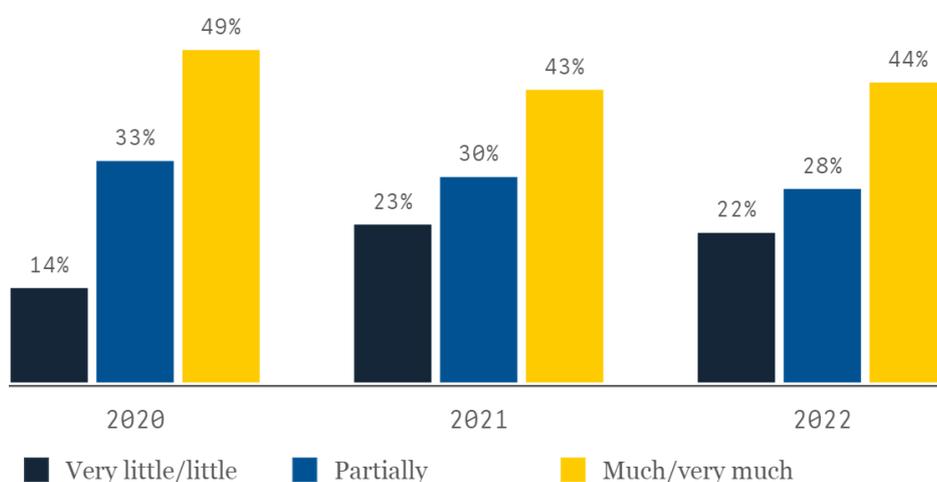
Sustainability considerations remain at the front of customers' minds

In very similar findings to last year's survey, 72 per cent of respondents reported that their customers take environmental considerations into account, with 44 per cent deeming the environment to have a high impact on customers when making purchasing decisions. Although it is promising that almost three quarters of respondents recognise environmental factors as playing a part in this decision making, it is surprising that over the past two years estimations of the environmental impact on consumer choices has not increased in line with growing public awareness (and that the share of those who do not see any impact has increased by 8 per cent since 2020). In the past years discussions around sustainability and the impact of climate change have become an increasingly accepted and mainstream part of public discourse, highlighted by global events such as the COP26 in 2021 and extensive media coverage.

Breaking down responses, 50 per cent of larger companies and nearly half of the mature companies reported that their customers considered environmental aspects, in comparison to 40 per cent of smaller and newcomer companies. Looking at the results by sector, 48 per cent of both consumer goods and industrial respondents also reported that environmental considerations have a considerable effect on their consumers, with 30 per cent professional services companies stating that they do not see any environmental impact on purchasing decisions.

To help understand these results, some participants offered an explanation on sustainability related challenges in Germany. Although most participants acknowledged the growing pressure on companies to minimise carbon emissions and move away from fossil fuels, several explained that the increased price of purchasing more sustainably produced products prevents customers from changing their behaviour. Respondents also emphasised the risk of greenwashing in this field, where companies with strong messages of sustainability fail to back up their words with concrete actions. It was also highlighted that there is a lack of government incentives or guidelines to help companies do business more sustainably and to support customers, especially in the current climate where inflation and in particular rising energy prices are of a great concern to many.

TO WHAT EXTENT DO CUSTOMERS IN YOUR INDUSTRY IN GERMANY CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION



Note: "Don't know/Not applicable" responses are included but not shown in figure.
 Source: Business Climate Survey for Swedish companies in Germany 2020, 2021 & 2022



[Sustainability] is not only a trend, it is mainstream

Manager, large Swedish firm



Now more than ever we need to accelerate the decarbonisation of the energy business

Anna Jasper-Martens, "Be the Best Place to Work" Lead at BA Wind in Vattenfall

CONCLUSION

The 2022 Business Climate Survey, published by Team Sweden in Germany (the Embassy, the Swedish Chamber of Commerce and Business Sweden), aims to strengthen our understanding of the Swedish experience of doing business in Germany. As mentioned at the beginning of this report, this survey is created for and by the Swedish business community in Germany, and we as Team Sweden hope to have shed some light on the practices and experiences of Swedish firms operating within the so-called 'engine of Europe'. Through the answers of our sample of respondents and in depth interviews, we have gained a nuanced picture of the key factors driving Swedish companies' success in Germany, as well as increased appreciation for the challenges brought by the current business climate.

Last year's survey was conducted in the midst of the COVID-19 pandemic. There was extreme uncertainty globally about how countries would recover both economically, for example due to extreme supply chain disruptions which continue to cause difficulties, but also culturally as people adjusted to new styles of working and living. In 2022, although it would be an exaggeration to describe the pandemic as over, both Sweden and Germany are better prepared to meet its challenges following widespread vaccination programmes and the gradual opening up of society.

However, despite optimism as COVID-19 recedes, Europe is currently experiencing added uncertainty and tension due to the war in Ukraine. Currently it is unclear how this will progress and how it will affect the business climate in Germany, but the overall positive results of this survey suggest that Swedish firms are well-placed to adapt to changing circumstances. The majority of respondents reported a profitable 2021, and expect both industry turnover and their investment in Germany to increase in the coming year. In addition, the share of participants who perceive the German business climate positively has increased year on year since this survey began in 2020. Even within areas which present challenges, such as the levels of digitalisation, there are also opportunities for Swedish firms renowned for their high levels of innovation, to create new business niches and disrupt existing markets.

Perhaps the most important takeaway from this report is the enduring strength of the relationship between Sweden and Germany. The positive associations of the Swedish brand continue to bring advantages to Swedish firms abroad, and we are certain that the valuable cooperation between the two countries will continue to grow in strength for many years to come.

Team Sweden

