



Eurofound

Restructuring in SMEs: Germany

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About the project

In 2011–2012, the European Foundation for the Improvement of Living and Working Conditions (Eurofound) conducted a research project on restructuring in small and medium-sized enterprises (SMEs). The aim of this project was to learn more about:

- the relevance of various restructuring types for SMEs;
- the drivers of SME restructuring;
- how restructuring is anticipated and managed in SMEs;
- the organisational and employment effects;
- factors that favour or hinder successful restructuring.

The amount of external support available (or required) for employers and employees in SME restructuring was also investigated to identify potential ways of improving policy.

This research project was conducted in all the EU27 Member States. This, the national background report for Germany, aims to summarise previous research and relevant available standardised data, to map what information is already available and to identify knowledge gaps. The literature and data review showed that there are hardly any standardised structural business statistics in Germany that allow for analysing SMEs' restructuring activities. Similarly, regularly conducted surveys that cover restructuring topics could only be partly used here, as they seldom differentiate their findings by company size.

There are several manuals for SMEs, published by public actors, employers' organisations or private consultants. However, while they give guidelines and recommendations on restructuring, they do not provide information about how it is actually done. Research covering this topic is comparatively widespread as regards specific restructuring types (for example, innovation and internationalisation while there is little research on outsourcing, relocation or mergers/acquisition. In general, explicit focus on SMEs is rare. Consequently, the information in this report is not equally comprehensive for the individual restructuring types and topics dealt with here. Information is particularly scarce on the processes followed by SMEs in the anticipation and management of change.

Apart from the literature review here, there are also three German company case studies, available in Eurofound's database at <http://www.eurofound.europa.eu/emcc/labourmarket/restructuringsme.htm>. Even if they are merely illustrative, these do shed some light on the characteristics of restructuring in German SMEs.

SMEs in Germany

In Germany, SMEs are considered to have contributed considerably to the economy's recent dynamic growth.¹ German SMEs are generally referred to as *Mittelstand*. In research, such as that of the Institute for SME Research in Bonn (IfM Bonn), enterprises with fewer than 500 employees and annual sales of up to €50 million are often considered as SMEs. Hence, the German understanding of SMEs (*Mittelstand*) is broader than the European Commission's SME definition –

¹ <http://www.bmwi.de/DE/Service/suche,did=511410.html>

an enterprise that employs fewer than 250 persons and has an annual turnover not exceeding €50 million. The concept lacks legal definition due to the importance of qualitative indicators related to it (such as entrepreneurial culture or spirit) rather than an exclusive focus on employment numbers and sales figures. The German *Mittelstand* refers to businesses in which the entrepreneur is so deeply involved that the firm and the entrepreneur can be described as one and the same (Linnemann, 2007). *Mittelstand* entrepreneurs are seen to take on private business risk and personal responsibility for their actions and assume management and ownership of their business, following a long-term entrepreneurial strategy oriented on the principles of economic efficiency. There is a huge diversity among the *Mittelstand*, including:

- young start-ups;
- family businesses;
- ethnic entrepreneurs;
- traditional product and service providers;
- visionary creatives.²

At the same time, craft businesses (*Handwerk*) play an important role for the German economy.

The importance of SMEs for the economic and labour market is actively supported and fostered through numerous targeted initiatives to improve further this sector's framework conditions (see below). Nevertheless, it is still medium-sized and large enterprises, rather than micro and small firms, that are in the focus of public and scientific interest, which at least partly explains the paucity of information about smaller firms in the majority of available data sources (Bechmann et al, 2011).

In Germany, there are about 3.6 million companies, out of which 99.3% are SMEs (having up to 249 workers). Germany's SME sector is seen as one of the fastest growing within the EU (European Commission, 2012).

More than 80% of the firms are micro enterprises employing less than 10 workers. Compared with other EU countries, in Germany there is a larger share of small (10–49 employees) and medium-sized firms (50–249 workers) (European Commission, 2011 and 2012). German SMEs employ about 61% of the workforce and have, on average, three employees more than the average EU SME. In almost 80% of companies with fewer than five employees the owner and family members work in the firm (Bechmann et al, 2011). With increasing company size the share of occupations requiring specific education or training decreases (from 70% in micro to 59% in large firms), while the share of occupations requiring a university degree increases (about three times as high in large companies than in those with less than five workers) (Bechmann et al, 2011). This implies that the provision of products and services in large companies is more capital and knowledge-intensive than in smaller firms. On average, gross wages in large companies are about twice as high as those in enterprises with less than five employees, and contractually agreed working time decreases with company size (Bechmann et al, 2011).

² <http://www.bmwi.de/DE/Service/suche,did=511410.html>

SMEs account for about 47% of gross value added. They are responsible for 34% of realised turnover and 46% of gross investment. However, productivity (sales achieved per full-time equivalent) of micro enterprises amounts to only about 40% of that of large firms, which is attributed to cost advantages of large-scale production, company internal work organisation, technical equipment and the qualification structure of employees (Bechmann et al, 2011).

Table 1: *Main structural business indicators by size class, 2010 (%)*

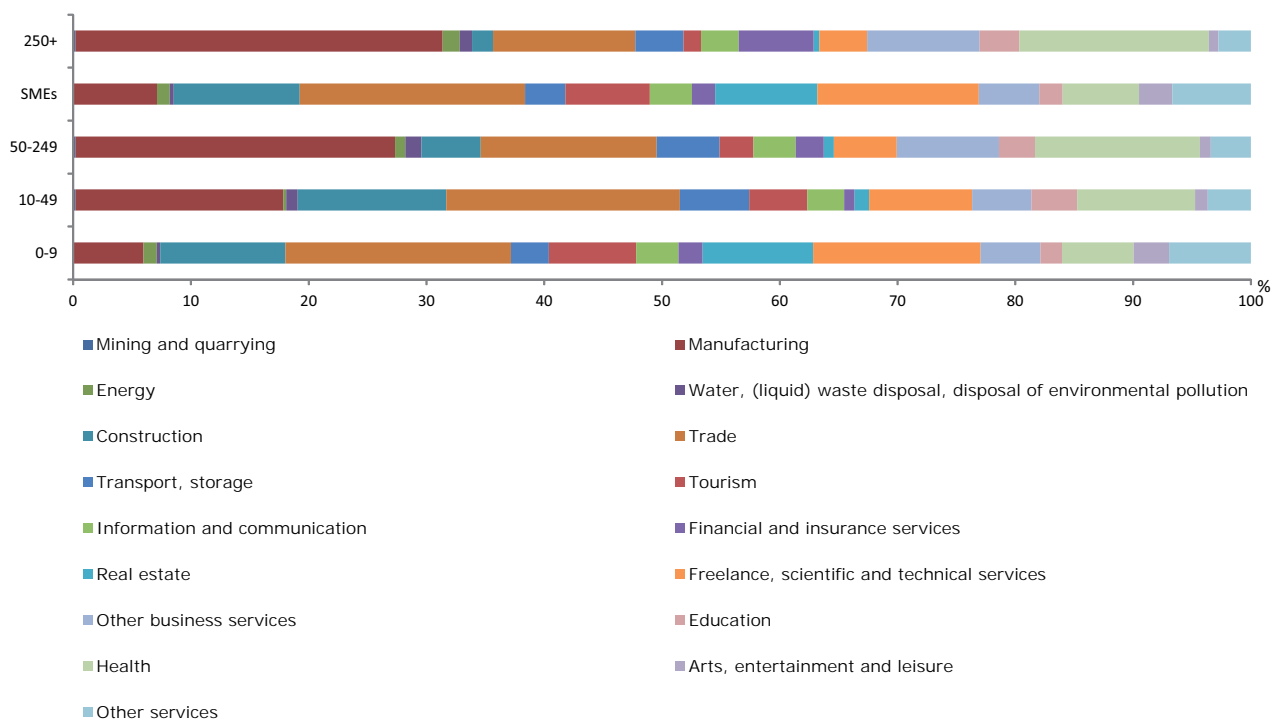
	Share of enterprises	Share of persons employed	Share of gross value added at factor costs	Share of turnover	Share of gross investment in tangible goods
0-9	80.9	18.7	11.4	6.7	14.6
10-49	15.3	22.3	16.5	11.5	15.0
50-249	3.1	19.9	18.8	16.1	16.2
SMEs	99.3	60.9	46.7	34.3	45.8
250+	0.7	39.1	53.3	65.7	54.2

N.B. sections B-N (without K) of the national classification of industries (WZ 2008)

Source: *Statistisches Bundesamt*

About 20% of German SMEs (particularly micro and small businesses) are active in the trade sector. About 14% (mainly micro) are freelancers or provide scientific and technical services. Construction and real estate companies account for about 10% of SMEs. Manufacturing is responsible for more than 25% of medium-sized firms and almost 20% of small enterprises, while at the same time accounting for more than 30% of large companies. The health sector has 14% of medium-sized companies, 10% of small ones and 16% of large firms.

Figure 1: *Sector distribution among size classes, 2010*



Source: *Statistisches Bundesamt*

When focusing on sectors, an above-average share of micro enterprises can be found in real estate (99%), energy and arts (97% each), tourism, scientific/technical services, financial/insurance services (about 95% each). The lowest shares of micro enterprises are in mining, manufacturing and water/disposal (about 75% each). These industries have the highest shares of small and medium-sized firms. In the transport and education sectors the share of small firms is about twice the average.

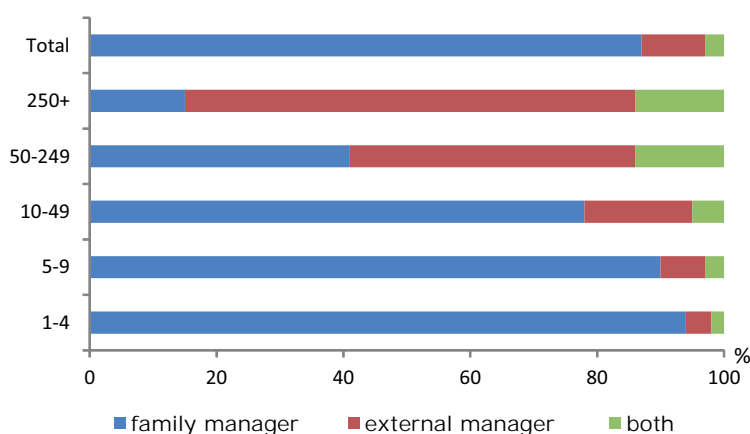
While between 2005 and 2012 it is estimated that the number of SMEs has been increasing, their share among all businesses remained stable. However, while the share of micro enterprises increased by about one percentage point during this period, the share of small enterprises decreased by the same level (Source: European Commission, SME performance review).

Similarly, the number of people employed in SMEs increased, resulting in a slightly increased employment share between 2005 and 2012 (Source: European Commission, SME performance review). Bechmann et al (2011) find that the employment growth Germany experienced in 2010 is mainly due to micro enterprises and resulted in an increasing demand for skilled labour, which micro enterprises have difficulty in recruiting.

The share of value-added and turnover generated by SMEs rose between 2005 and 2012, mainly due to medium-sized companies (Source: European Commission, SME performance review).

About 90% of micro firms as well as 75% of small companies are managed by owners, while external managers are more common in medium-sized and large companies. This can be explained by the dominant legal forms: smaller companies are often sole proprietorships or partnerships while larger ones are corporations, which explicitly require a CEO or board of directors to run the business. Although manager-led companies constitute only 10% of the firms, they employ about 40% of all workforce, resulting in a considerably larger average company size (56 employees) compared to owner-managed firms (nine employees).

Figure 2: Management structure by size class



Source: *Bechmann et al, 2011*

Restructuring in SMEs as a public and policy issue

Restructuring is a prominent topic in public and policy debate in Germany, especially since the German reunification and its effect on the German economy (Dornelas, 2009). Consequently, restructuring is not a new phenomenon, but the speed of change accelerated in the last few decades, and often more comprehensive restructurings are needed – of the organisation as a whole rather than of individual activities (Köper and Richter, 2012). Change brings about the need to improve processes and jobs, fostering the development of the company. However, restructuring is also linked to the risk of failure and negative consequences for employees.

SMEs have also traditionally been subject to public and policy debate due to their great importance for the German economy. Many initiatives have been launched to help the sector, such as the 2011 government initiative ‘Mittelstandsinitiative der Bundesregierung’, identifying seven policy areas of major relevance for SMEs³:

- increasing the innovation capacity of SMEs;
- guaranteeing the supply of skilled labour;
- supporting start-ups and business transfers;
- improving internationalisation possibilities;
- enhancing the financial basis of SMEs;
- fostering renewable energy and energy efficiency;
- reducing bureaucracy and expanding entrepreneurial freedom.

This list shows, even if not explicitly mentioned, restructuring in SMEs is considered at political level. Policymakers recognise that SMEs have specific characteristics, and therefore specific support is needed to foster these companies’ economic and employment potential.

The global economic and financial crisis has obviously affected restructuring. However, in Germany, the effects on the labour market were less severe than anticipated. In spite of a decrease in GDP of 4.7% in 2009, the employment level did not decrease compared with the previous year (Bechmann et al, 2011). In 2010, GDP increased by 3.6%, resulting in an increase of employment by 1%, leading to the highest employment level since the German reunification. Nevertheless, in a survey in mid-2010, 42% of German companies reported that the crisis had affected their business in the two years preceding the survey (Bechmann et al, 2011).

More generally, there are some topics related to SMEs’ restructuring that are high on the political agenda.

- Innovation and high-tech businesses are considered as crucial to German competitiveness and economic growth (Blaeser-Benfer, 2009). Consequently, encouraging the growth of innovative ideas, technological developments, innovative products and production processes is seen as a micro and macro economic task.

³ <http://www.bmwi.de/DE/Service/suche,did=511414.html>

- There are intensive discussions on how German SMEs can be supported in their efforts to enter foreign markets and expand their business there, particularly as regards multilateral regulations and the reduction of barriers to market entry.⁴
- The issue of business transfer and succession is on the political agenda, driven by the demographic change and the realisation that measures are needed to guarantee the retention of enterprise stock and employment levels (KfW Bankengruppe, 2010).

There is a good range of research on these topics as they are prominent on the political agenda. However, other topics relevant to restructuring (such as mergers/acquisitions, relocation or internal reorganisations) are less frequently or seldom covered.

⁴ <http://www.bmwi.de/DE/Themen/Aussenwirtschaft/aussenwirtschaftsfoerderung.html>

Relevance of different types of restructuring for SMEs

Overview

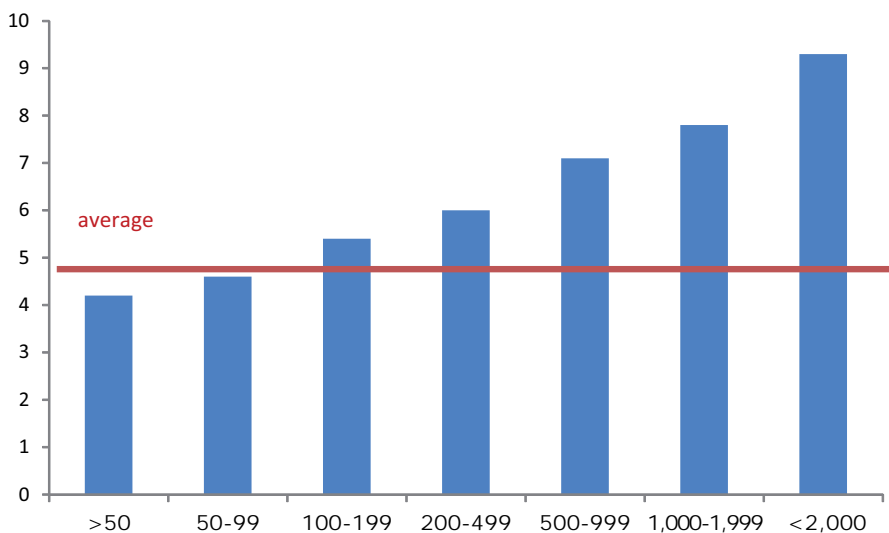
Restructuring involves a considerable and often selective interference in existing structures and procedures and aims at changing current situations in a short time (Köper and Richter, 2012). Restructuring processes can be very heterogeneous and mainly cover activities to reduce costs and increase productivity.

A survey of 20,000 employees in 2005–2006 showed that about 44% of German workers had been affected by restructuring in the previous two years. It affected:

- 53% of workers in industry and public sectors;
- 40.5% of workers in trade;
- 27% of workers in the craft sector (Köper and Richter, 2012).

About 66% of the employees in companies with more than 1,000 workers reported restructuring, compared with about 27% in micro enterprises. Furthermore, according to Behrens and Kädler (2008), the number of restructuring activities carried out within the last 10 years increases with firm size.

Figure 3: *Number of restructuring events within the last 10 years by company size*



Source: *Behrens and Kädler, 2008*

In the following, the classification of the European Restructuring Monitor⁵ is applied to analyse the occurrence of individual forms of restructuring in SMEs⁶:

- Relocation: when the activity stays within the same company, but is moved elsewhere in the same country.
- Outsourcing: when the activity is subcontracted to another company in the same country. For this study we focus on SMEs' outsourcing activities rather than on SMEs benefiting, as suppliers, from the outsourcing activities of other companies.
- Offshoring/delocalisation: when the activity is relocated or outsourced abroad.
- Bankruptcy/closure: when a business is closed or a company goes bankrupt for economic reasons, or if there is the threat of bankruptcy/closure which can be prevented.
- Internal restructuring: reorganisation which is not covered by the other types of restructuring defined here, for example a business transfer/succession, diversification, change of organisational structures.
- Business expansion: This includes insourcing, development of new products or services, addressing new markets or client groups, including internationalisation. Expansion needs to be linked to a specific event (for example, establishment of new premises, introduction of new products, entering new markets) as continuous growth is not considered as restructuring in this study.

Relocation

A survey among German works councils (Ziegler, 2008) shows that, between 2005 and 2007, about 6% of companies with 20–99 employees relocated or offshored their business.⁷ Among firms with 100–499 workers the share amounts to 8% while in larger enterprises it is as high as 14%.

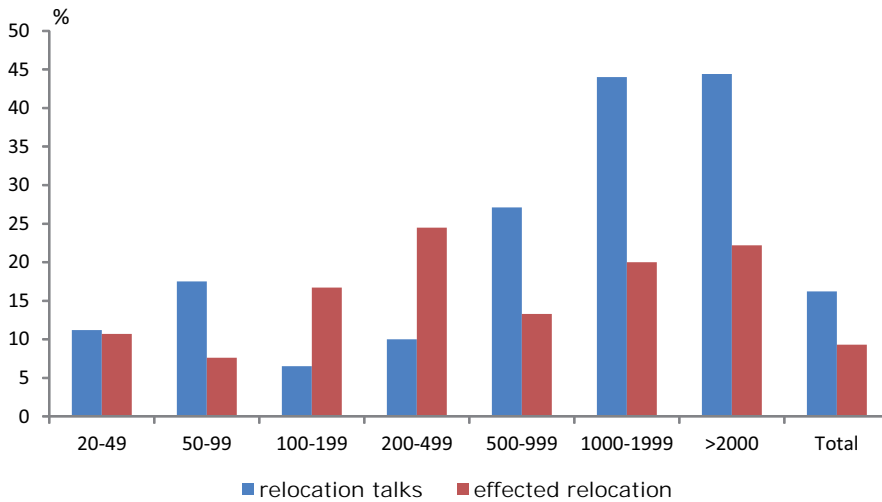
Interestingly, the previous wave of this survey covering 2003–2005 brought about slightly different results. The share of relocating/offshoring by small companies (up to 49 employees) is slightly higher (about 11%), and medium-sized companies were also more active here (17% of firms with 100–199 employees, 25% of those with 200–499 workers). Furthermore, talks about this kind of restructuring are particularly prevalent in SMEs with 50–99 employees.

⁵ <http://www.eurofound.europa.eu/emcc/erm/index.htm>

⁶ No SME specific information on mergers/acquisitions could be identified.

⁷ In the survey, no differentiation is made between change of location within Germany or to a foreign country. However, when asked about the target destination, about 70% indicated relocation within Germany.

Figure 4: Relocation talks and effected relocations, 2003–2005



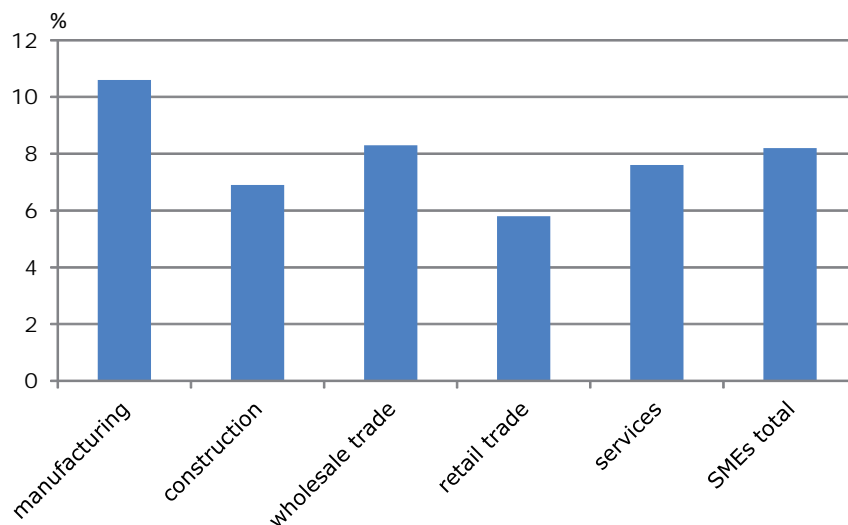
N.B. Relocation is understood as taking place within Germany or a move abroad; 90-100% of companies with up to 99 workers, 44% of those with 100-199 workers and 57% of those with 200-499 workers were relocating within Germany.
 Source: Ahlers et al, 2007

These higher results are in line with a survey by the German statistical office (Statistisches Bundesamt, 2008) finding that, up to 2006, 13.5% of the companies with 100–250 employees had carried out a relocation/offshoring (compared with about 20% of the firms with 250–1,000 workers and almost 25% of larger firms) with 8.2% planning to do so (12%–15% for larger firms).

Outsourcing

Almost one tenth of German SMEs outsource activities previously conducted in house. This is considerably more prevalent in manufacturing than in the retail or service sector.

Figure 5: Outsourcing during the last two years, by sector, 2009



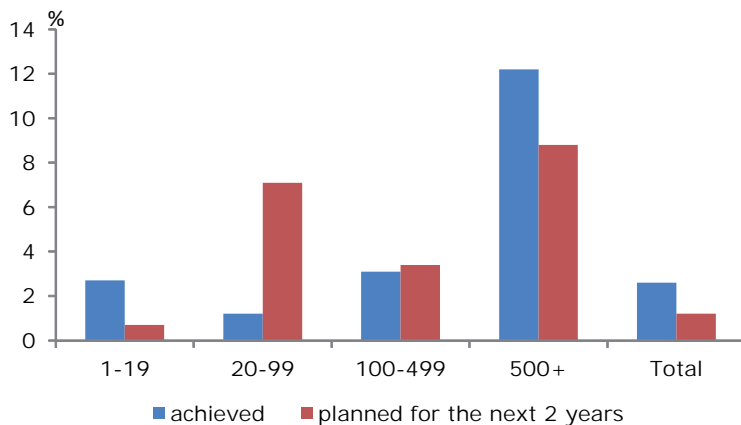
Source: Creditreform, 2010

A 2007 survey among German works councils shows that outsourcing activities increase with company size (Ziegler, 2008). While about 8% of firms with less than 100 workers outsourced work between 2005 and 2007, the share amounted to 13% in companies with 100–499 workers and 23% in larger enterprises.

Offshoring/delocalisation

In a 2004 survey, only 0.7% of SMEs (with less than 500 employees) planned to offshore/delocalise parts or all of their production to central and eastern Europe within the next two years (Haunschild et al, 2007). Generally, companies planning to do so are larger manufacturing firms. Another survey, analysed in the report by Haunschild et al, showed that about 2.6% of SMEs (less than 500 employees) had moved establishments (mainly sales and service) abroad and a further 1.2% planned to do so in the next two years (mainly production). In another survey in 2005 (again covering firms with less than 500 employees), about one-fifth of firms planned delocalisation abroad (Haunschild et al, 2007).

Figure 6: *Delocalisation of establishments abroad by company size class, 2004*



Source: *Haunschild et al, 2007*

A more recent survey (Statistisches Bundesamt, 2009) confirms that smaller companies are less engaged in offshoring/delocalisation than larger enterprises. SMEs (100–249 employees) constituted 56% of the non-financial craft businesses offshoring/delocating (parts of) their business activities abroad, which is a considerably lower share than in the total enterprise population. About 25% of the offshoring enterprises employed 250–499 workers and about 10% had 1,000 or more staff.

Bankruptcy/closure

Almost 80% of the companies which became insolvent in 2011 had employed up to five workers, a slight increase on the previous year. Only 0.7% of the insolvent firms employed more than 100 staff. About 25% of the insolvent companies had a turnover of less than €100,000, with another 22% turning over €100,000–€250,000. In total, about 66% of the insolvent companies had a turnover of up to €500,000. In the first half of 2012, the number of medium-sized and large company insolvencies increased compared with the same period of 2011, resulting in a decrease of the relative importance of small insolvencies (Creditreform, 2012). However, in line with the SME dominated economic structure of the German economy, large insolvencies are still rare. There is an increasing tendency for younger companies to face insolvency.

Table 2: *Company insolvencies in 2010–2011 by employment size (including owner) (%)*

	2010		2011	
	Share of insolvencies	Share of company population	Share of insolvencies	Share of company population
1–5 employees	79.0	85.1	79.6	85.2
6–10 employees	9.5	7.0	9.2	6.9
11–20 employees	5.9	3.8	5.6	3.8
21–50 employees	3.8	2.4	3.7	2.4
51–100 employees	1.1	0.9	1.2	0.9
> 100 employees	0.6	0.9	0.7	0.9

Source: *Creditreform, 2011*

The share of companies with up to five employees among the insolvent firms is particularly high in the services and trade sector (about 83%) while it is much lower in manufacturing (57.1%). More than 25% of insolvent manufacturing companies employ 6–20 workers, and this sector also accounts for the highest share of larger insolvencies.

Table 3: *Company insolvencies in 2011 by employment size (including owner) and sector (%)*

	Manufacturing	Construction	Trade	Services
1–5 employees	57.1	75.3	83.0	82.8
6–10 employees	13.8	12.4	8.9	7.9
11–20 employees	11.0	7.6	4.5	4.6
21–50 employees	11.1	3.6	2.4	3.1
51–100 employees	4.3	0.9	0.8	1.0
> 100 employees	2.7	0.3	0.4	0.6

Source: *Creditreform, 2011 Internal restructuring*

Internal restructuring is a very heterogeneous category, including everything not covered by the other types. Consequently, it is impossible to give a comprehensive overview about the relevance of all internal restructuring forms in SMEs especially as, in many cases, internal restructuring in SMEs takes place without public attention and hence is not covered by official statistics or research. Below are some examples of internal restructuring for which there are SME-specific data for Germany.

The growth of employment during and after the global economic and financial crisis in Germany is, to a large extent, attributable to the broad spectrum of available HR policies that could be used by companies, such as taking time off for accrued overtime or holiday entitlements, short-time working, or use of working time accounts. (Bechmann et al, 2011). Even if, in this case, this can only be considered as temporary restructuring, it gives some indication of what HR restructuring SMEs apply in a crisis.

Some 60% of German firms that were negatively affected by the crisis applied at least one HR measure to cope with the situation, and the use of these measures increases with company size (about half of the micro enterprises compared to almost all larger firms). One reason for this is that relevant HR measures are generally less widespread among SMEs than among large companies, making it easier for large firms to choose the appropriate tool in a crisis. Across all size classes, the most prominent measure was the reduction of accrued overtime. In medium-sized and large enterprises this was followed by short-time working, while in micro and small companies taking holidays was more important.

Table 4: Application of HR instruments to retain employment in companies negatively affected by global crisis (%)

	Reduction of accrued overtime	Holidays	Short-time working	Reduction of working time
1–4 employees	11	8	9	12
5–9 employees	19	16	14	11
10–49 employees	42	30	23	12
50–249 employees	59	32	38	12
250+ employees	69	43	50	21
Total	23	17	15	12

Source: *Bechmann et al, 2011*

Dieckhoff et al (2000) show that innovation, which in some cases, is related to the internal reorganisation of processes and organisational structures, is positively related to a company’s size. This would seem to be because larger companies tend to have more units, production branches and work areas, implying a greater potential than smaller firms to innovate. In 2000, companies with up to 99 employees, on average, carried out 7.53 innovations, compared to 8.52 innovations in firms with 100–199 staff and 9.63 innovations in enterprises with 200 or more workers.

Lohmann and Blaeser-Benfer (2011) also find considerably fewer SMEs engaged in innovation, compared with large companies, as regards their research and development, the share of investment in innovation and its output for the firm.

Table 5: Innovation indicators in manufacturing crafts and mining, 2007 (%)

	SMEs (5–500 employees)	Large companies (> 500 employees)
Companies with continuous R & D activities in the last three years	22	76
Investment in innovation as % of turnover	3.3	5.7
Turnover realised by products launched within the last three years	13	36

Source: *Lohmann and Blaeser-Benfer (2011)*

Similar results, showing that product and process innovation is positively related to company size, are also found by Bechmann et al (2011).

Table 6: Companies having innovations in 2009, by type of innovation and company size (%)

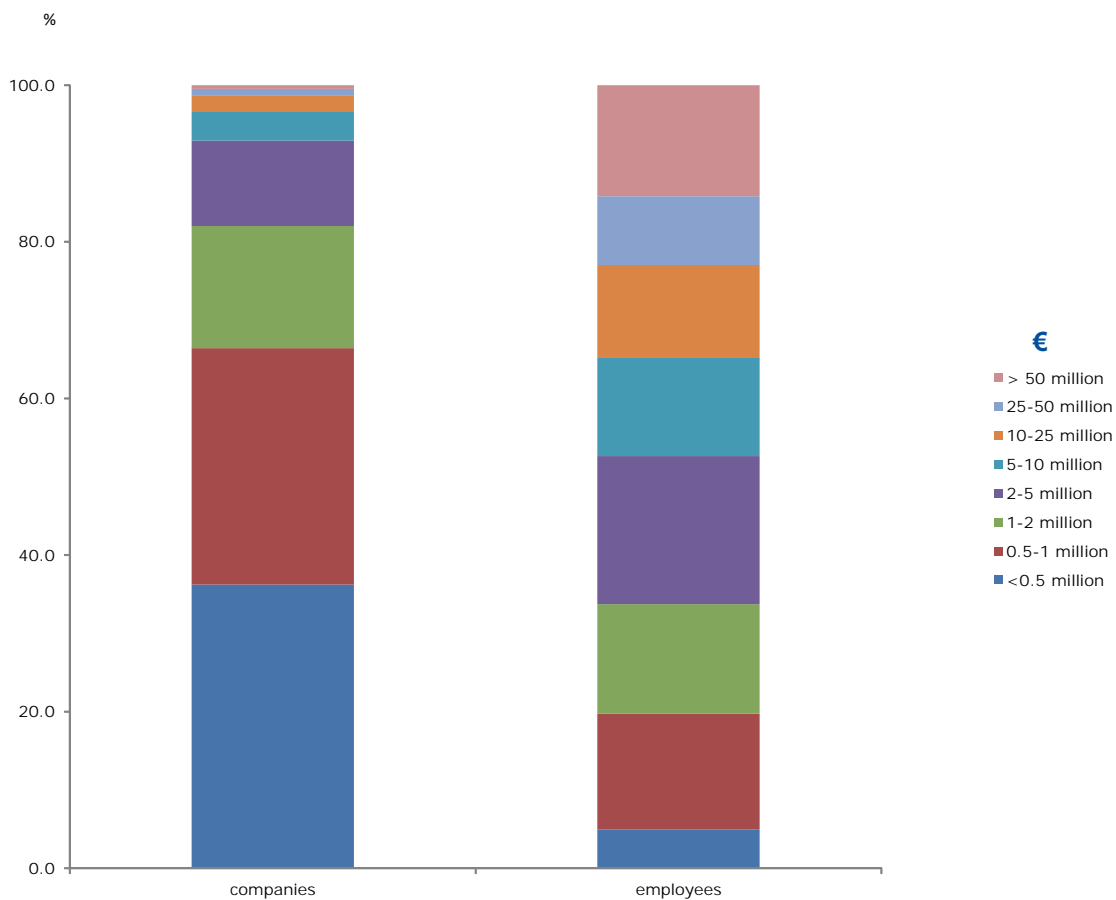
	Product innovation	Process innovation
1–4 employees	33	9
5–9 employees	38	11
10–49 employees	46	15
50–249 employees	55	22
250+ employees	67	39
Total	39	12

Source: *Bechmann et al, 2011*

Nevertheless, in their survey among companies making innovations, DIHK (2011) found that slightly more SMEs than large companies (51.2% vs. 50.4%) plan to expand their innovation activities in the next 12 months.

Between 2010 and 2014 it was estimated that 66% of the companies (with about 20% of the affected workforce) facing a business transfer have an annual turnover of less than €1 million, and only 7% have a turnover of more than €5 million (but employ almost 50% of the affected workforce) (Hauser et al, 2010).

Figure 7: Share of potential business transfers and affected employees 2010–2014 by company size class (annual turnover)



Source: Hauser et al, 2010

Business expansion

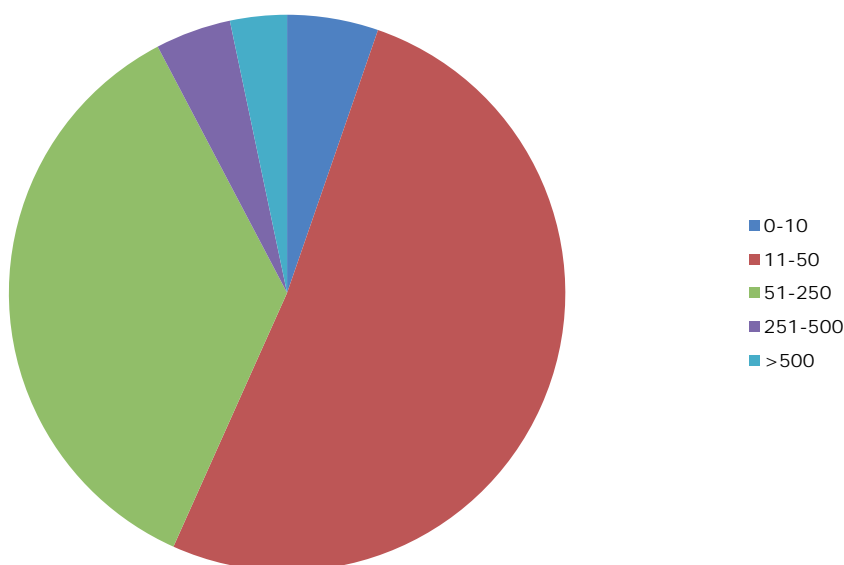
The creation of new jobs is considered to be a central economic and social challenge in Germany and hence has high priority on the political agenda (Sternberg et al, 2006). However, according to Creditreform (2010) the majority of German SMEs are barely growing even though they are characterised by long-term stable employment numbers. Less than 25% of the companies (23.1%) showed an increase in staff numbers between 2000 and 2008, while there was a decrease in about 18.4%. Similarly, Bauer et al (2008) as well as Ahlers and Ziegler (2004) find that the widely held belief that SMEs, in particular, contribute to employment growth in Germany cannot be empirically verified. While there is some indication for growth dynamics, there are also many job losses due to SMEs closing, which throws into doubt the net employment effect.

Furthermore, as continuous and steady growth cannot necessarily be considered as restructuring, only data for fast-growing enterprises are analysed here as it can be assumed that sudden and intensive growth is related to restructuring events.

Data, from the Global Entrepreneurship Monitor (GEM) for 2005, show that 18.9% of early-stage entrepreneurs (or 1.02% of the total adult population) are ‘potentially growth intensive companies’ that expect to employ 20 or more employees or to reach a certain market share within five years (Sternberg et al, 2006).⁸ These enterprises can mainly be found in business-related services, wholesale and retail trade, and tourism.

Dautzenberg et al (2012) find that, among the start-ups of 1995–2006, about 0.4% are gazelles. These are firms which, in their first year, employ at least 10 workers, and then experience an average employment growth of more than 20% over three years with, at the end of this time, an employment level which is at least 72.8% greater than when they started. However, the number of fast-growing young enterprises has been decreasing since 2000. About 50% of the gazelles employ 11–50 workers, and about 33% have 51–250 employees.

Figure 8: *Gazelles by company size class*



Source: *Dautzenberg et al, 2012*

Business growth is not restricted to national markets, but can also take place internationally. Exporting for the first time, as well as business expansion through foreign direct investment or international joint ventures are all activities related to restructuring.

According to the German VAT statistics, about 11% of German SMEs are exporters, which shows a positive correlation between firm size and international activity. SME surveys imply, however, that the share of SMEs concluding sales abroad is about 20%–25% as VAT statistics do not count exporters, companies with low sales or sales to private

⁸ Although the data are about expectations rather than realised growth, previous surveys showed that this is a good proxy for the real company development.

customers (Creditreform et al, 2007; Brutscher et al, 2012). While among micro enterprises (with a turnover of up to €2 million) the share of exporters ranges from 3% to 32%, it amounts to 45%–58% among small firms (turnover of €2 million–€10 million) and reaches around 70% for medium-sized firms (turnover of €10 million–€50 million). Between 2000 and 2007, the shares have been increasing in all size classes, but again more dynamically among the larger firms within the SME population. In 2008, however, the share of exporters dropped among all SME size classes, but with a larger decrease in larger SMEs.

Table 7: Share of exporters among all companies, by turnover size (%)

Amount in €	2000	2001	2002	2003	2004	2005	2006	2007	2008
17,500–50,000	2.3	2.3	2.4	2.6	2.7	2.7	2.7	2.7	2.6
50,000–100,000	4.2	4.1	4.4	4.6	4.8	4.8	4.7	4.7	4.6
100,000–250,000	7.5	7.5	7.8	8.0	8.5	8.5	8.3	8.5	8.2
250,000–500,000	13.5	13.5	14.0	14.3	15.1	15.0	14.6	14.8	14.4
500,000–1 million	20.9	21.2	21.9	22.2	23.3	23.2	22.5	22.8	22.0
1 million–2 million	30.5	31.0	31.3	31.7	33.3	33.1	32.2	33.1	31.8
2 million–5 million	43.3	43.5	44.2	44.5	46.4	46.1	45.1	45.8	44.6
5 million–10 million	56.5	56.8	57.4	57.5	59.7	59.3	58.9	59.1	57.5
10 million–25 million	65.7	65.6	66.0	67.2	68.7	68.1	67.8	68.5	67.2
25 million–50 million	72.4	72.4	72.7	72.7	74.8	74.4	74.2	75.3	74.8
SMEs	10.8	10.8	10.9	11.0	11.4	11.3	11.2	11.4	11.1
50 million and more	79.3	79.1	78.9	79.5	80.5	81.0	80.3	80.8	79.8
Total	11.0	11.0	11.1	11.2	11.6	11.5	11.4	11.6	11.3

N.B. Only companies above VAT thresholds

Source: IfM Bonn, analysis of the VAT statistics

In spring 2012, DIHK (2012a) observed that the share of industry companies investing abroad was much lower in companies with up to 500 employees (34%) than in firms with 1,000 or more staff (71%), and Brutscher et al (2012) reported that 5% of German SMEs had direct investment abroad. However, foreign direct investment by German industry is slowing down, and this is more pronounced in larger companies.

Drivers of restructuring

The main reasons for restructuring are to decrease costs, adapt business planning, improve financial management and increase turnover or growth (Köper and Richter, 2012).

Traditionally, globalisation is an important driver for restructuring. While it is often related to activities of large companies, it also affects SMEs (Creditreform et al, 2007). The increasing interlinking of national markets not only gives German SMEs new opportunities but also new competition. The opening of markets in central and eastern Europe provides additional target markets and cheaper locations that are relatively close, hence driving business expansion and offshoring/delocalisation.

- Competitive pressure, from SME clients also wanting to order their goods from cheaper foreign suppliers, forces German SMEs to consider internal restructuring.
- German SMEs acting as suppliers for larger companies are increasingly forced to follow their clients that move abroad.
- Changes in international value-chains provide opportunities for SMEs, allowing them to specialise and focus on core competences (internal restructuring, business expansion), accompanied by outsourcing of cost-intensive processes.

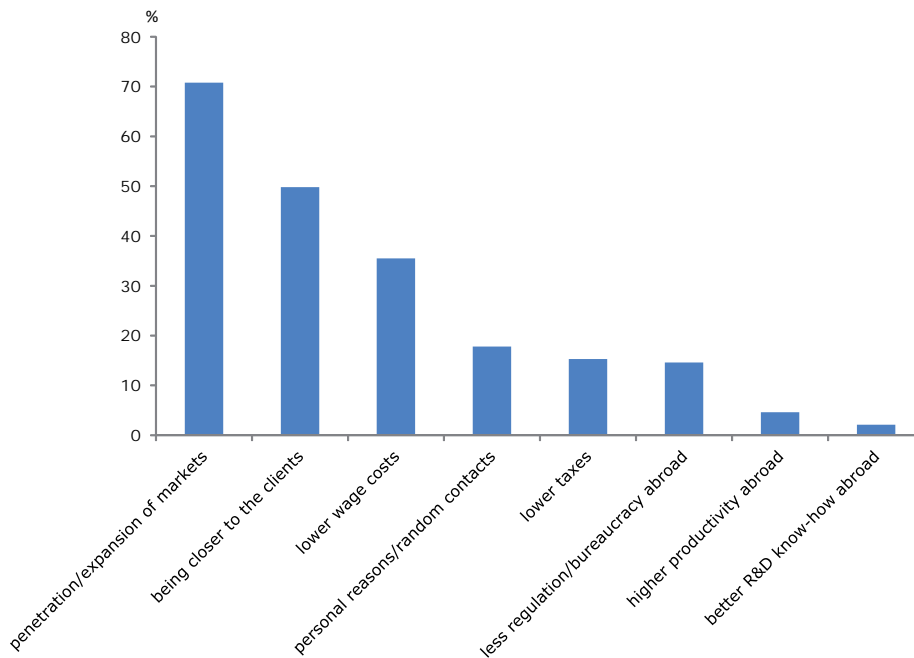
Globalisation is also seen to have several other effects on German SMEs.

- It drives them to outsource IT services (Avinway Consultants, 2008).
- They have difficulty, due to limited HR resources, in being available at all hours to deal with issues arising abroad.
- In sparsely populated areas it is difficult to find and retain skilled labour.
- New applications and technologies must be quickly implemented.
- Cost pressure implies the use of all rationalisation potentials.

The global economic and financial crisis was certainly an important driver for restructuring in German SMEs. Interestingly, however, while a mid-2010 survey showed that companies of all sizes had been affected by the recession, medium-sized and large firms seem to have been affected more severely. This can be attributed to their higher dependency on international trade. About 40% of micro enterprises, but about 50% of the medium-sized and large ones, felt the effects of the crisis during the two years preceding the survey; however not all of these effects were negative. Nevertheless, larger firms tend to recover quicker from difficulties. In 2010, about 85% of the medium-sized and large firms that had been affected by the crisis reported recovery, while only 70% of micro enterprises and 75% of small firms reported recovery.

The wish to penetrate or to expand markets, to be closer to the clients or suppliers, as well as high labour costs in Germany are important drivers for internationalisation of German SMEs (Haunschild et al, 2007). However, while in larger companies the cost motive is the greatest impetus for internationalisation, for smaller firms it is more likely to be market diversification (penetrating new markets or retaining foreign markets). Other relevant factors are personal reasons and random contacts, lower taxes, and less bureaucracy and regulation abroad. Higher productivity and better research and development know-how abroad are of less importance.

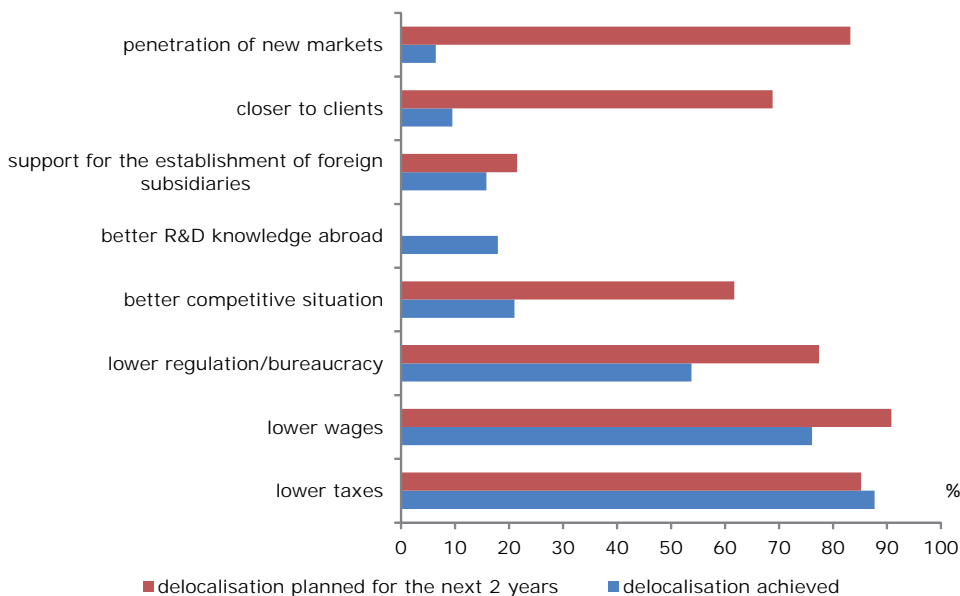
Figure 9: Motives for international activities, autumn 2010



Source: IfM Bonn/BDI, 2010

Similarly, cost motives (lower taxes, wages and administrative costs) are the main reasons for the delocalisation of German SMEs (with less than 500 employees). In contrast to internationalisation, however, the penetration of new markets, being closer to clients and a better competitive situation are of less importance to those companies that already have delocalised abroad than for those planning to do so.

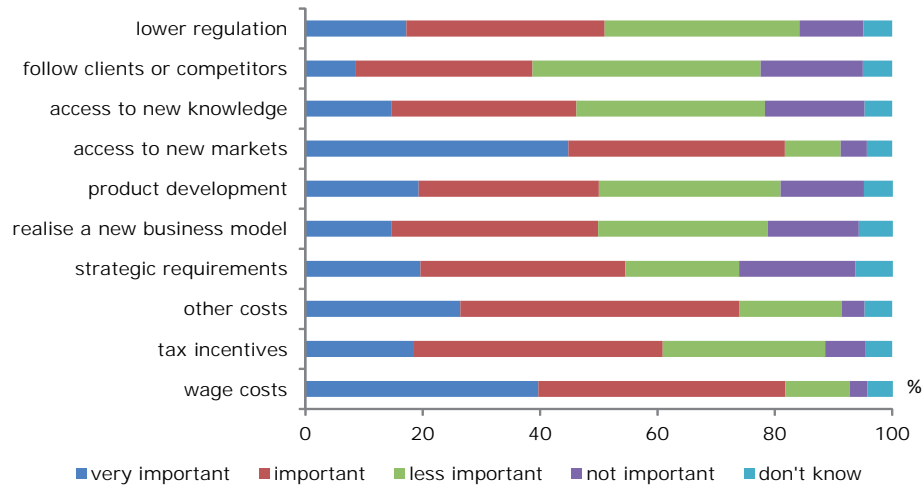
Figure 10: Reasons for delocalisation (companies with less than 500 employees)



Source: Haunschild et al, 2007

A similar relevance of drivers is found in Statistisches Bundesamt (2008), covering relocation and offshoring/delocalisation. However, a comparatively lower relevance of taxation and a higher relevance of access to knowledge and customers is observed. This could be explained by the fact that moving within a country might not mean such a great difference in taxation, and SMEs being more mobile within their country than across countries to follow their clients and resources.

Figure 11: *Motives for relocation/offshoring (enterprises with 100–249 employees)*



Source: *Statistisches Bundesamt, 2008*

Distinctive characteristics of restructuring in SMEs

Anticipation, planning and preparation of restructuring events

The literature review found almost no information about how SMEs plan restructuring. This could lead to the assumption that restructuring is generally carried out in an unplanned, reactive manner as SME owner-managers are so intensively involved in daily business activities that they have little time for anticipating restructuring. However, this knowledge gap is important to address in order to understand better how SMEs plan restructuring, and to draw up policies to assist in this process.

The only information on anticipation, planning and preparation of restructuring in SMEs that could be found in the analysed literature deals with business transfers. DIHK (2012b) identifies a lack of awareness of the necessity of timely planning. It is observed that many entrepreneurs delay dealing with the issue, resulting in more limited options. In 2010, particularly, it was observed that planning for succession was of minor priority for entrepreneurs, as the effects of the financial crisis meant the entrepreneurs' full attention was devoted to daily business activities. According to the available data, about 50% of ageing entrepreneurs are not prepared well in time for their transfer. Some 80% start preparing the transfer less than two years before the intended transfer date, resulting in the danger that decisions and actions have to be speeded up, increasing the likelihood of mistakes in tax or legal issues. Reasons for this include:

- they are not emotionally prepared to leave their business;
- they want to wait to improve their retirement income;
- about 40% do not find a suitable successor;
- about the same share ask for a too high selling price.

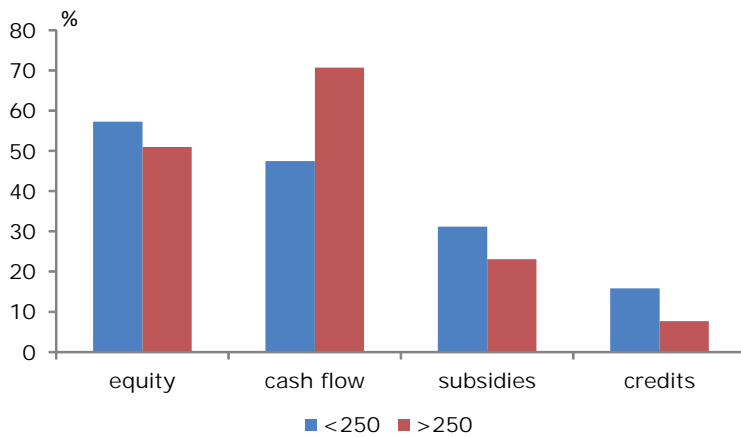
Moog et al (2012) find that 40% of those entrepreneurs that plan a business transfer foresee the transfer not taking place for at least 11 years. About 26% plan the transfer to take place in 6–10 years and about 22% in 3–5 years. About 10% want to transfer within one or two years.

Managing restructuring

There is also no previous research on the management of restructuring in SMEs; what processes and steps the firm takes to handle the event. However there are examples of this in the case studies conducted for this project (see <http://www.eurofound.europa.eu/emcc/labourmarket/restructuringsme.htm>). Nevertheless, available studies and data do give details about how restructuring affects certain areas of business areas and what measures are used.

In the field of innovation, DIHK (2011) finds that among SMEs only 24% have comprehensive and systematic innovation management (compared to 44% of large firms), 44% partly follow innovation management approaches and 29% do nothing (10% of large firms). Lohmann and Blaeser-Benfer (2011) find improvement potential particularly in the areas of the innovation process, creating ideas and the launch of the innovation. While in SMEs equity and subsidies, as well as credits, are of greater importance in financing innovation compared with large enterprises, the latter importantly rely on their cash flow to carry out innovation (DIHK, 2011).

Figure 12: Investment in innovation by size class



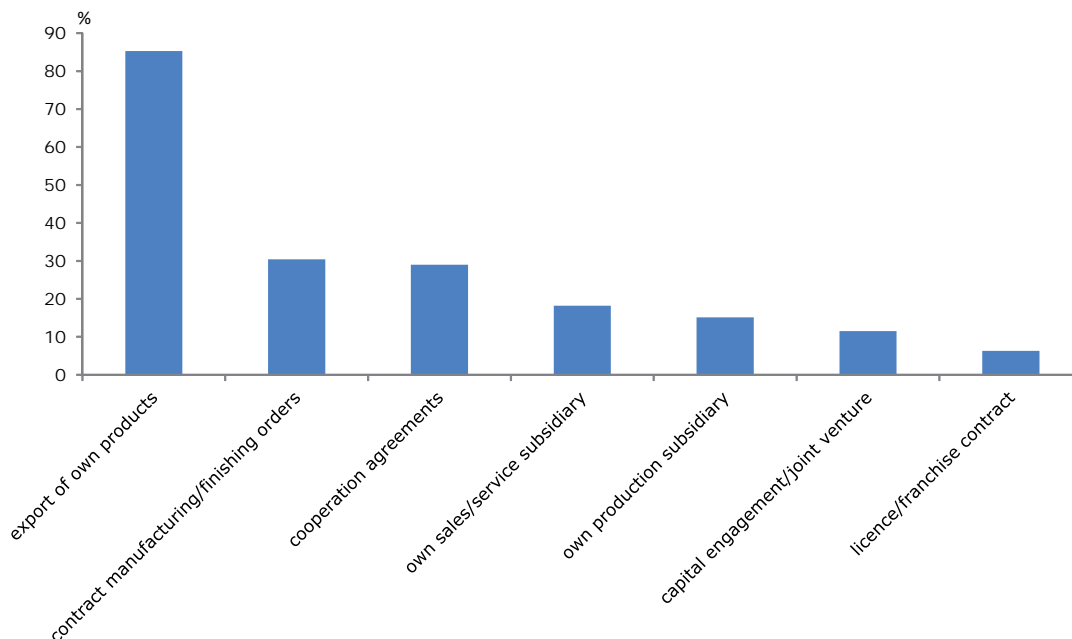
N.B. Two answers possible
 Source: DIHK, 2011

Research shows that, due to the heterogeneity of the SME sector, SMEs have various ways of carrying out internationalisation. They include:

- exports;
- the shifting of production plants to cheaper foreign locations and the targeted establishment;
- expansion of foreign subsidiaries close to large clients (Haunschild et al, 2007).

Exporting is very common as, in many cases, it is the first step towards gaining experience in foreign trade. Among those German SMEs that had international business relationships in autumn 2010, about 85% were exporters, 30% had cooperations and about 15%–20% had subsidiaries. Joint ventures and other forms of capital relationships, as well as license or franchise agreements, were less prominent.

Figure 13: International relationships, autumn 2010

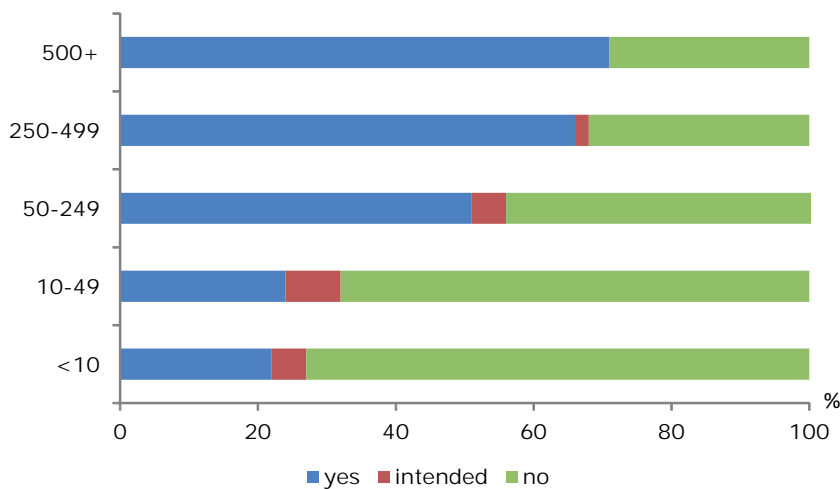


Source: IfM Bonn/BDI, 2010

In their survey of German SMEs with at least 30 employees, Brutscher et al (2012) found that, among active exporters, 97% use direct exports (with half of them selling to large foreign companies, 25% selling over the phone and 10% being active in e-commerce) and 32% conduct indirect exports.

There is a statistically significant correlation between company size and the existence of a department specifically dealing with foreign trade issues. While about 20%–25% of small enterprises had established such departments in 2006, about 50% of the medium-sized had done so. Among large enterprises, the share was 66% or higher.

Figure 14: Existence of a foreign sales department by company size, 2006



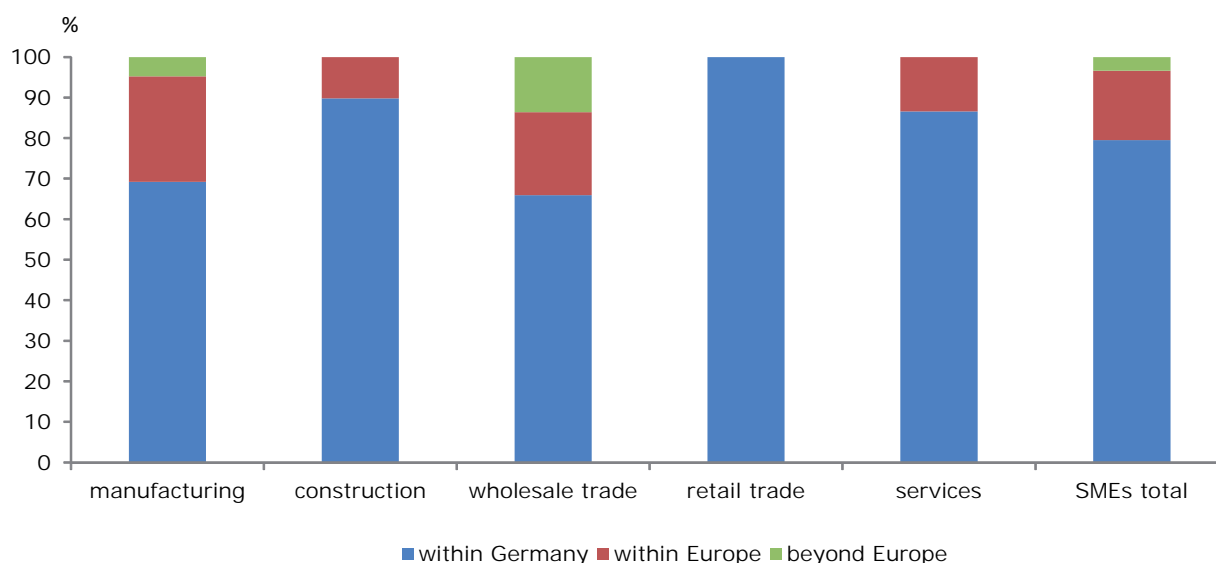
Source: Hauser, 2006

As regards target markets, various studies show that German SMEs focus their foreign trade on well developed, geographically close and culturally comparable markets in the EU neighbouring countries (Haunschild et al, 2007; Brutscher et al, 2012). Consequently, France, the Netherlands, Austria, Italy and Switzerland are the preferred target countries. Central and eastern European countries are also targeted. Among those SMEs exporting to western Europe, almost 50% are serving up to three markets while 25% deal with four to six countries and 25% deal with more than six countries, each (Brutscher et al, 2012). There is a correlation between company size and the number of different markets served, which is explained by the availability of financial and HR resources and the related opportunities of becoming more efficient, specialising and benefiting from cost advantages.

Among those German SMEs with direct investment abroad, almost 80% have established a daughter company, about 33% set up a subsidiary and 25% are engaged in joint ventures (Brutscher et al, 2012). While the establishment of daughter companies and subsidiaries increases with size class, joint ventures are of almost equal relevance for all SMEs. As with the exports, western Europe is the main target for SMEs’ direct investments, followed by central and eastern Europe. Direct investors are found to be more often active in those regions in which they have already established export relationships.

SMEs’ outsourcing activities are mainly targeted at German partners (about 80%). Among manufacturing companies, about 25% use European subcontractors. This also occurs in wholesale trade with outsourcing within Europe at about 20%, but outsourcing beyond Europe at about 14%.

Figure 15: Target market for SMEs' outsourcing activities during the last two years, by sector, 2009



Source: Creditreform, 2010

About 66% of SMEs relocating/offshoring their activities up to 2006 were looking for a new location for support activities, mainly marketing/sales and logistics, but also engineering/technical activities and administration/management. More than 50% of SMEs relocated/offshored core activities. While more SMEs than larger firms tend to relocate/offshore support activities, it is the other way round as regards core activities.

Table 8: Relocation/Offshoring by business activity and company size class (%)

	Number of staff			
	100–249	250–499	500–999	1000+
Core activities	58.1	64.0	58.4	59.8
Support activities (total)	67.7	64.7	72.4	77.5
of which:				
Logistics	25.6	24.4	22.0	20.6
Marketing, sales	30.9	27.8	23.1	23.8
ICT	9.5	10.1	13.1	18.0
Administration, management	17.8	15.7	16.6	22.5
Engineering, technical services	19.7	19.4	18.0	26.7
Research and development	12.2	10.2	16.6	17.0

Source: Statistisches Bundesamt, 2008

In 69% of the business transfers carried out from mid-2000 to mid-2005 among German companies (more than 90% of them relating to SMEs) the successor came from the entrepreneur's family (Creditreform et al, 2008). The report also showed that:

- slightly over 11% of successors were previous employees;
- 12% took over the firm in the form of a management buy-out;
- in 6% of the cases the firm was sold to another business.

A more recent survey (2008/09) shows a slightly different picture:

- about 85% of successors are family members (66% sons, 20% daughters, 16% several children);
- 7% are previous employees;
- 6% are external transfers (Moog et al, 2012).

In 40% of the external transfers the company was sold to another firm, in more than 33% to a friend or acquaintance and in more than 25% to one or several external persons.

In about 44% of the transfers ownership and control were transferred at the same time, while in the same number the management was transferred before the ownership (Moog et al, 2012). In only 12% of the cases was ownership transferred before the management.

Involved actors

Quite naturally, because of their central role in the company, owners-managers play a key role in SMEs' restructuring. However, as restructuring in most cases is an important and difficult endeavour for the company and the entrepreneur – who often lacks previous experience in this area – it can be assumed that additional actors are involved to ensure a successful restructuring. The case studies conducted in this project (see <http://www.eurofound.europa.eu/emcc/labourmarket/restructuringsme.htm>), for example, pinpoint the importance of:

- personal support from family and friends;
- professional support from business consultants and employers' organisations;
- financial support from banks and investors.

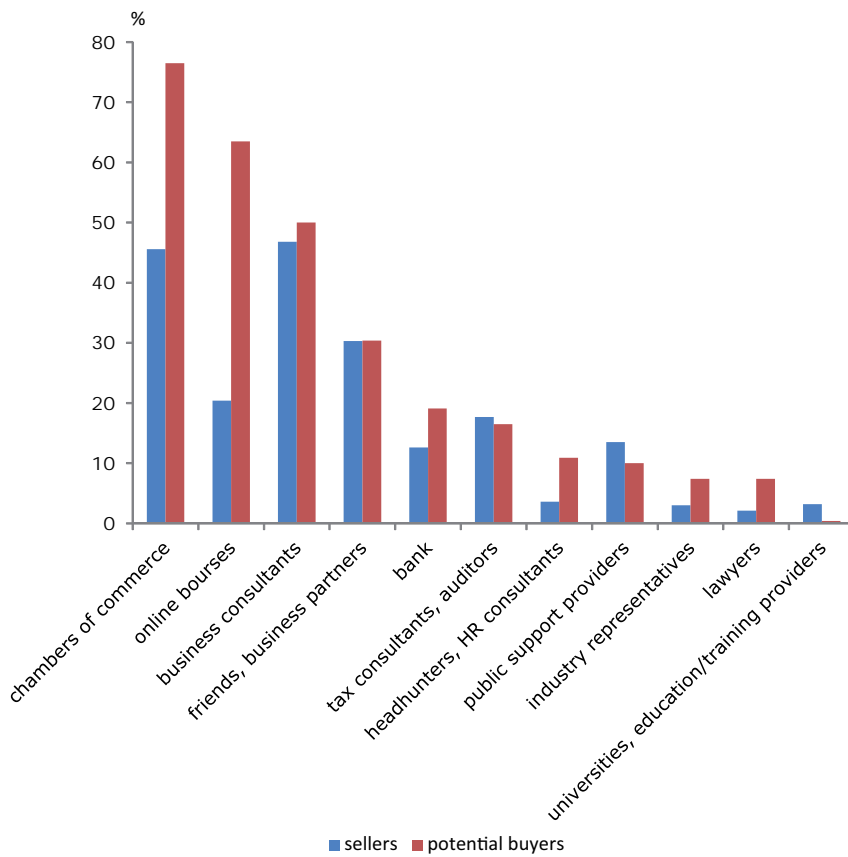
However, more comprehensive information is not available from previous research, so that only very fragmented findings can be presented.

Germany is characterised by an increasing market for interim managers, who help in restructuring (whether in a crisis, or if additional management capacity is needed in growth phases). A 2005 survey of German interim managers (Heuse, 2006) shows, however, that these experts are mainly consulted by large firms. In 2001, companies with less than 50 employees comprised 25% of the clients of interim managers, while in 2005 the share dropped to 19%.

In Germany, worker representation is based on a dual system, that is trade unions' engagement in collective bargaining at sectoral level and elected works councils' engagement in discussions at plant, company or group level (Dornelas, 2009). The latter includes the introduction, rejection or acceptance and management of restructuring, and is based on extensive rights to information and consultation, up to codetermination (particularly in social issues). However, due to the legal framework and the tendency of larger firms to be more institutionalised, workers' representatives can be found more often in larger than in smaller companies. About 85% of large firms have works councils, compared to 4% of the companies with five to nine employees (Bechmann et al, 2011). Micro enterprises with works councils tend not to be independent, but belong to a company group or holding. This also implies that works councils in large companies have a more prominent role in restructuring than they do in smaller companies. Behrens and Kädtler (2008) show that in companies with 5–99 employees works councils are worse informed and less considered in restructuring than those in larger firms.

Wallau and Schlömer (2010) mention that, in the framework of family external business transfers (which are about half of the transfer cases), there is extensive use of third parties (such as business consultants, chambers of commerce, business partners, online bourses or friends) as well as advertising. Potential buyers mainly take advantage of chambers of commerce and online bourses while sellers mainly approach business consultants.

Figure 16: External actors approached in family external business transfers



Source: Wallau and Schlömer, 2010

Main challenges and constraints facing SMEs in restructuring

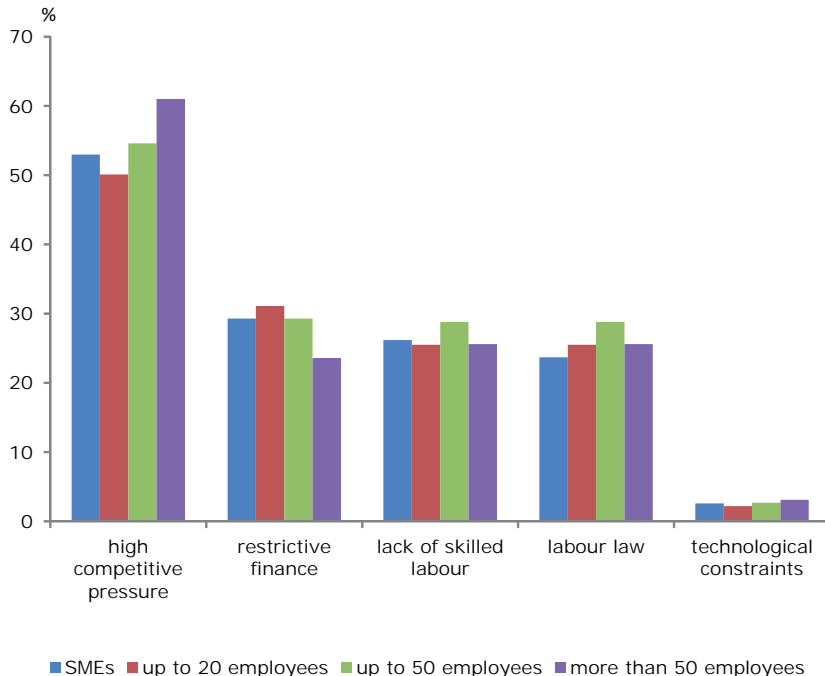
Previous research on most types of restructuring does not investigate factors that hinder SMEs from restructuring successfully. Some hindrances to SMEs' growth, innovation and internationalisation are presented below, even if not all growth, innovation and internationalisation that take place in SMEs can be considered as restructuring. Nevertheless, the challenges and constraints identified in these cases are assumed to apply just as much (if not more) to SMEs' restructuring.

The main constraints on growth in German SMEs, and for any substantial business expansion that can be considered restructuring, are:

- high competitive pressure;
- restricted finance;
- lack of skilled labour;
- labour law.

While financial issues are a bigger challenge for the smallest companies, all these aspects are mentioned more often by companies with up to 50 employees.

Figure 17: Main growth constraints for SMEs, by size class



Source: *Creditreform 2010*

In their survey of young, quickly growing companies, Dautzenberg et al (2012) identify the lack of skilled labour as the main barrier to growth, followed by the legal framework and bureaucracy. Furthermore, a lack of finance from banks and difficulty in accessing credit are mentioned.

As regards the development of innovation, Gorynia-Pfeffer (2009) summarises several empirical research studies findings showing that company internal factors are important challenges for SMEs. This relates to:

- human⁹ and financial resource limitations (particularly in the phase of transition from prototype to serial production);
- difficulties in assessing the market potential and forecasting changing market conditions;
- marketing the innovation.

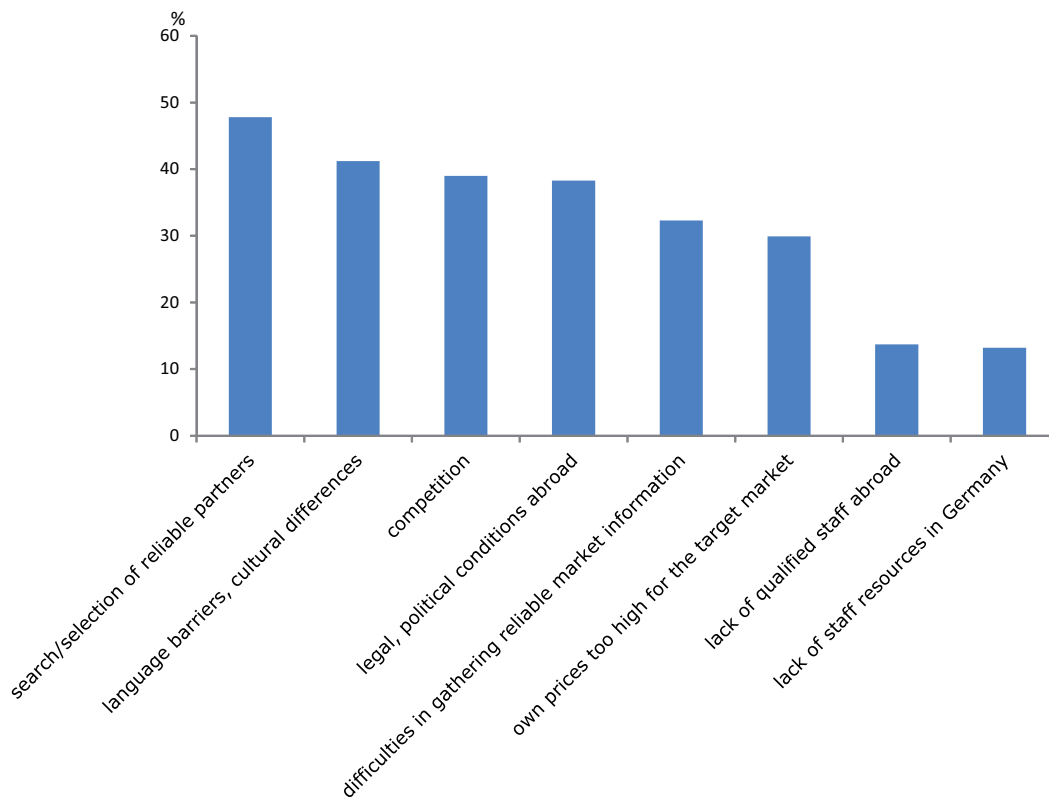
Similarly, Blaeser-Benfer (2009) says major constraints to innovation are:

- administrative burden;
- lack of skilled labour;
- access to finance.

Creditreform et al (2003 and 2005) find the expected low return (high costs vs. long duration until profit can be achieved with the innovation) as the major constraint on SMEs carrying out innovation projects. Other important hindering factors are the fear of imitation (caused by 'less dramatic' innovation and less use of patents), shortage of qualified staff and access to external know-how and financial resources. A lack of willingness by staff and management to explore new possibilities is also mentioned, which is more important for SMEs than for large firms. In Creditreform et al (2005) the perception that no innovations are needed because of previous innovations and the current market developments are pinpointed as hindering factors for innovative activities. However, these issues are mentioned more often by large firms than by SMEs (with the exception of manufacturing crafts as regards market development).

In autumn 2010, those German SMEs not internationally active mentioned finding a reliable partner as the main hindering factor, followed by language/cultural barriers, competition and legal/political framework conditions. Also the difficulties in gathering reliable market information and the higher price level in Germany compared to the target market are important bottlenecks. In contrast, staff related issues are of less relevance.

⁹ In DIHK (2011) it is found that while the lack of skilled labour/researcher hampers innovation activities of 55% of SMEs, this is the case for 66% of large companies.

Figure 18: *Hindering factors for international activities, autumn 2010*

Source: *IfM Bonn/BDI, 2010*

From Hauser (2006), Haunschild et al, (2007) and Arndt et al (2009), this can be supplemented by the following SME specific structural problems hindering the entry and development of foreign markets.

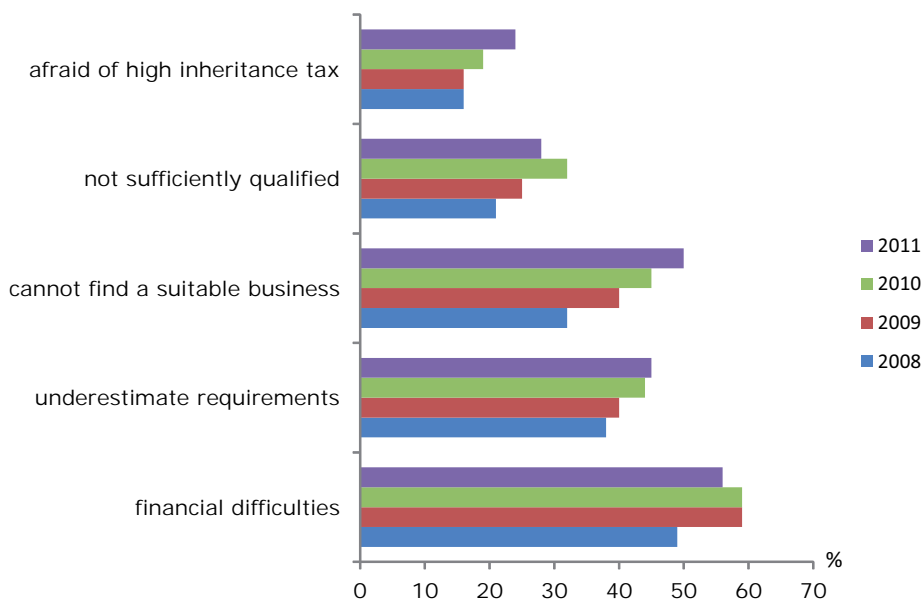
- Restricted management capabilities: the rare application of modern management practice and a strong involvement in daily business make it difficult to develop foreign markets.
- Limited organisational potential: there is a lack of HR resources, specific skills, knowledge and managerial responsibility necessary for internationalisation.
- There is a lack of financial resources.
- Limited awareness of problems: there is a lack of planned strategy and focus on local/regional markets or neighbouring countries, resulting in an avoidance of emerging markets which are further away.
- Restricted risk carrying capacity: this is due to a strong overlap between the owner-manager's business and private spheres.

One constraint for a successful business transfer/succession is the tendency of the initial entrepreneur to stop or reduce investments in the period before the planned transfer as the return on such investment would not be entirely for his/her benefit (Creditreform et al, 2008; KfW Bankengruppe, 2010). In the 2010 report by KfW Bankengruppe, for example, it is shown that in the year before the transfer, the probability of any investment within transfer companies is about 43%, compared to about 59% in all companies, and the investment volume is about half as high. This affects the sales and profit development of the company in the pre-transfer phase and lowers its attractiveness for potential successors.

From the perspective of potential successors, the major constraints are:

- financial difficulties;
- not finding a suitable company;
- underestimating what needs to be done;
- a lack of qualifications;
- fear of high inheritance taxes.

Figure 19: *Difficulties of potential successors*



Source: DIHK, 2012b

Business support from public and private sources

Supply

As mentioned above, the German government operates a broad spectrum of initiatives to support SMEs, many of which are related to restructuring (such as innovation, internationalisation, business transfer, skilled workers for growth). An overview of activities can be found on the webpage of the Ministry for Economy and Technology (Bundesministerium für Wirtschaft und Technologie)¹⁰ and in the German national contribution to the comparative analytical report on public support for restructuring in SMEs related to this project (Eurofound, 2013).

Against the background of all these initiatives, the German environment seems to be more helpful to SMEs than other EU countries. In the performance review of the Small Business Act (European Commission, 2011 and 2012), Germany is among the top-performing countries in the field of regulations and support relevant for restructuring, such as second chance (resulting in a shorter time and less costs involved to close a business compared with the EU average), access to finance, skills and innovation or internationalisation. In the following, just a few examples of public activities to support SMEs' restructuring are given as an illustration of this (although with no claim for comprehensiveness).

As access to finance is always an important issue for SMEs, favourable credits to finance investments, innovation or internationalisation are provided, and also business transfers/successions are supported. These restructuring forms are also supported through advice/consultancy, including, for example, matching potential buyers and sellers for business transfers, or supporting cooperation for innovation or foreign trade.

In 2011, the federal government announced the Skilled Labour Concept, a strategy to ensure an adequate supply of skilled labour for German companies, including, for example, initiatives to assess the demand for, and supply of, skilled labour (European Commission, 2012). Furthermore, a draft was approved of the Act on the Implementation of the Directive on High Qualified Employees aiming at easing recruitment of highly skilled foreign workers.

SMEs are a principal target group for the governmental support of foreign trade, due to the perceived competitive disadvantages of these companies in entering foreign markets and developing trade there due to their limited size (Hauser, 2006). Measures comprise:

- missions abroad to establish contacts with foreign authorities and raise interest for projects;
- establishing chambers of commerce and offices for foreign trade abroad to provide information and to liaise with local actors;
- advice and training for businesses on foreign trade;
- participation in foreign trade fairs;
- investment and export credit guarantees;
- political support for individual projects;
- programmes to finance activities abroad;
- feasibility studies for projects of SMEs in developing countries.

¹⁰ <http://www.bmwi.de/DE/Themen/mittelstand.html>

In spring 2010 the national government established a foreign trade offensive (*Außenwirtschaftsoffensive*) based on already existing measures, to help companies overcome the economic and financial crisis by exploiting the opportunity of doing international business (IfM Bonn/BDI, 2010). The BDI (2010) states internationalisation activities offered by different ministries lack transparency and coordination, making it difficult for SMEs to make best use of the initiatives. Hauser (2006) who shows that there are about 300 institutions involved in the promotion of foreign trade and investment, calls the result a 'Promotion Jungle'.

In March 2012 a law to facilitate the restructuring of companies (*Gesetz zur weiteren Erleichterung der Sanierung von Unternehmen*, ESUG) came into force, with the aim of focusing insolvency legislation more on the continuation, rather than on the closure, of enterprises. Creditors now have a stronger role in the selection of the insolvency administrator, and companies facing insolvency now have three months to develop a restructuring plan during which they are protected from creditors' demands. Furthermore, as a restructuring measure, liabilities can be transformed into company shares ('debt-to-equity-swap'), reducing the previous rights of the owners to block such strategies. A first assessment (Roland Berger, 2012) shows that these major changes have proved efficient, with fewer firms closing down. Early involvement of the creditors is among the main success factors for restructuring here, although the report detects the potential to improve the tax treatment of the restructuring and the positioning of lower priority creditors. The main expectations that have been satisfied by these new measures are:

- improved planning security for the debtors;
- better success rates for restructuring;
- an earlier position in insolvency applications.

However, there is still a need for:

- fewer legal experts as insolvency administrators;
- an increase of debt-to-equity swaps
- a decrease in the stigma of insolvency applications.

Apart from public support, German SMEs can approach business and craft organisations as well as a wide range of private consultants. The German restructuring association (Bundesvereinigung Restrukturierung, Sanierung und Interim Management e.V.¹¹), for example, lists a multitude of banks and other finance providers, insurance companies, consulting companies, auditors, insolvency administrators, interim managers, lawyers and business associations that can be approached for private support in restructuring.

Demand

Dautzenberg et al (2012) find that almost half of the fast-growing young companies took advantage of public support, mainly subsidies (73%). About half of them indicate that the public support played a major role for their growth trajectories, while about 30% assessed a minor relevance for their development.

¹¹ <http://www.brsi.de/page/0000>

An evaluation of public support for the creation of innovation networks among SMEs shows that the following aspects of the programme have been particularly appreciated by the companies (Möller and Voigt, 2007):

- selection and matching of partners that complement each other on technology, market requirements, target markets and the creation of value chains;
- the identification of network partners with common objectives who are willing and able to cooperate;
- an early, clear objective of the network with target-oriented planning, resulting in more transparency and quicker results;
- clear structures regarding project management and internal control;
- flexible incentives to convince partners to cooperate, such as support for research and development.

In spite of the recent government activities to boost internationalisation, more than 80% of German SMEs active in foreign trade in autumn 2010 did not use public support (IfM Bonn/BDI, 2010). The main reasons for this were:

- companies felt no need to do so;
- lack of information about the available support;
- available instruments were thought to be unsuitable;
- gathering of information on support was a burden.

Among the 20% that benefited from public support, the vast majority took advantage of information provision and the opportunity to participate in international trade fairs. Advice and study visits were well used. Haunschild et al (2007), in their summary of previous research on this topic, confirm that German SMEs have low levels of awareness of public support for internationalisation. They also have low levels of satisfaction with the provided services. However, knowledge of support and its use increases with firm size.

Table 9: *Reasons for SMEs' rejection of public support for foreign trade – autumn 2010 (%)*

Companies not using public support (80.9)	
No need for the instruments	45.4
No knowledge of available instruments	37.8
Measures not suitable	27.2
Gathering information is burdensome	22.8
Application rejected	1.3
Other reasons	5.3

Source: *IfM Bonn/BDI, 2010*

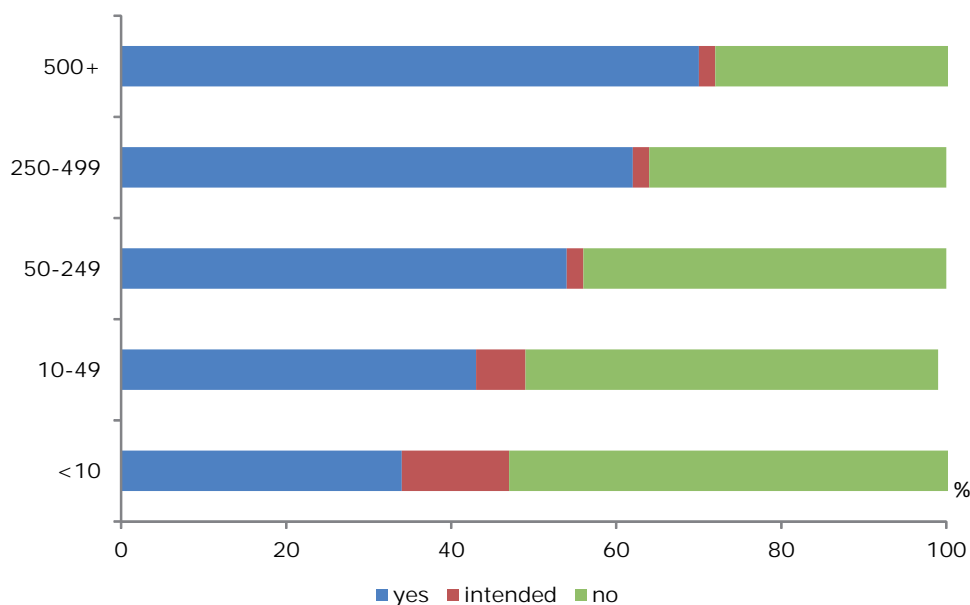
Table 10: SMEs' use of public support for foreign trade trade – autumn 2010 (%)

Companies using public support	
Information events	68.0
Support of international trade fairs, contact/cooperation bourses	58.6
Information material	39.5
Advice	28.8
Study visits	26.1
Export guarantees	20.6
Financial support of exports	8.8
Political support of a specific project	7.1
Financial support for FDI	2.7
Investment guarantees	1.2

Source: IfM Bonn/BDI, 2010

A previous survey (Hauser, 2006) shows a higher use of public foreign trade promotion, however with statistically significant differences by company size class. While only about 33% of micro enterprises benefited from public support, about 50% of the medium-sized and 60%–70% of large ones did so. One reason for this relationship is that companies with a specific foreign trade department are found to search more often for support measures, and that such departments are more prevalent in larger firms (see figure 27). The main reasons for not using foreign trade promotion were found to be a lack of knowledge about their existence (57%, with higher shares among SMEs than large companies), their perception of it being too confusing/complex (31%) and that these measures were not needed or did not correspond to the firm's needs (about 20% each). About 66% of all enterprises believe that the promotion schemes favour large enterprises, whereas among SMEs this perception is as high as 80%–90%.

Figure 20: Utilisation of foreign trade promotion by company size class, 2006



Source: Hauser, 2006

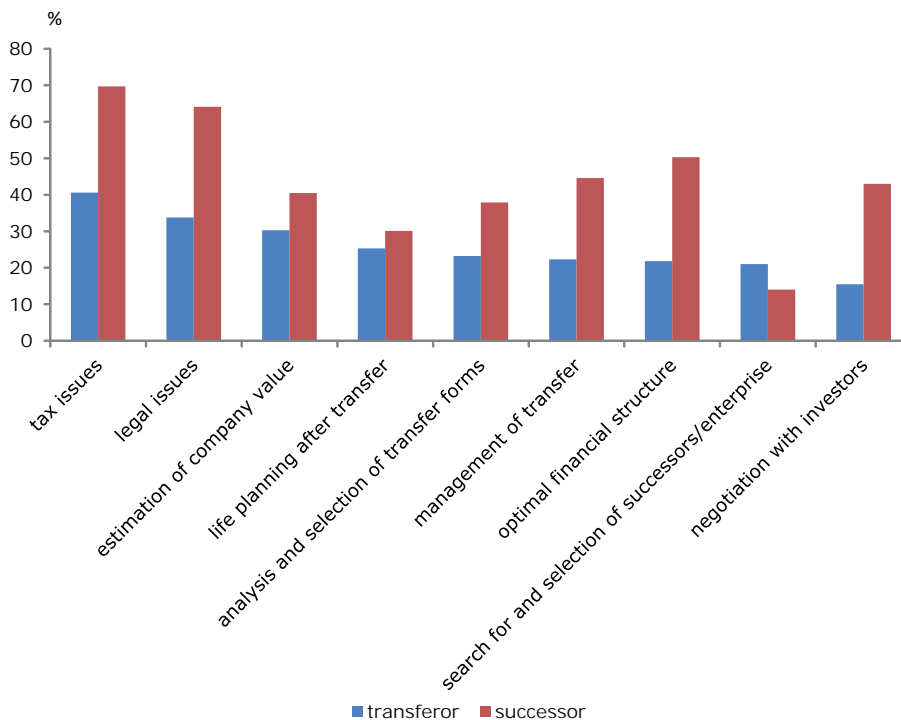
In 2011, about 4,700 enterprises approached their employers’ organisation (IHK) for advice and support in the framework of a business transfer. This is an increase of 16% compared with the previous year and can be attributed to discussions on changes in the law on inheritance tax as well as the comparatively low level of demand in 2010 (DIHK, 2012b). At the same time, about 6,400 potential successors approached the services (about the same as in 2010). Some 58% of the ageing entrepreneurs approaching the employers’ organisation for advice related to business transfer have micro enterprises, and another 33% are small firms. Only 0.2% of the consulting clients employ 200–499 workers.

The main areas where potential transferors and successors seek advice refer to:

- tax and legal issues;
- management of the transfer;
- estimation of the company value;
- optimisation of the firm’s financial structure;
- planning their personal life after the transfer.

Other relevant topics are the search and selection of successors or an enterprise to buy, the analysis of potential transfer forms and selection of the most suitable one as well as negotiations with investors. Interestingly, advice for all of the surveyed topics is more often demanded by potential successors than transferors, with the exception of matching services. Questions related to taxes, legal and financial issues, as well as the management of the transfer, seem to be more pressing for successors than for transferors.

Figure 21: Use of advice for specific topics related to the transfer of business



Source: Moog et al, 2012

Outcomes of restructuring

Organisational effects

A survey of 20,000 employees (of all company size classes) in 2005–2006 showed that restructuring resulted in the following effects (Köper and Richter, 2012):

- introduction of new computer programmes (63%);
- introduction of new production or process technologies (50%);
- introduction of new machines or plants (49%);
- development of new or considerably changed services (46%);
- introduction of new products (35%).

Dautzenberg et al (2012) find that 76% of fast-growing young companies make innovations, mainly product innovations (80%). Some 59% consider their innovation as radical, with 31% of these gazelles reporting that they are active on international markets, with an average export share of 25% of total sales.

In their survey among SMEs in Hesse, Lohmann and Blaesner-Benfer (2011) found that:

- 5% of the companies could not achieve any turnover with the innovations they had launched within the last three years;
- almost 40% realise up to 10% of their turnover with these innovations;
- about 20% achieve 10%–20%;
- about 40% make more than 20%.

Creditreform et al (2003 and 2005) find that innovations in SMEs have lesser effect than in large companies. SMEs' innovations are focused on products rather than on changes in production processes, and mainly result in the improved quality of existing products, an increased market share and the penetration of new markets. As regards processes, increased flexibility to react better to client requirements is the most important outcome (while for large companies rationalisation – mainly the reduction of staff costs – is more important). Due to SMEs' lower level of innovation, the economic effect they experience (the share of sales realised through innovations) is lower than in large firms.

Available estimates indicate that SMEs with higher export shares outsource a larger part of their supplies than purely domestically-oriented firms (Creditreform et al, 2007). Exporters are found to be more productive than non-exporting SMEs (although the question of causality here cannot be answered), and SMEs with international activities are considerably more involved in innovation. In contrast to this, no relationship between export orientation and sales growth could be found.

Companies with 100–499 employees that offshored their activities achieved a slightly higher productivity increase between 2003 and 2007 than those companies that did not move abroad (+17% vs. +14%), implying that going abroad was of benefit for medium-sized companies, probably because of the better opportunity to divide tasks between market players, with the consequent specialisation leading to better efficiency (Statistisches Bundesamt, 2009). The profitability of offshoring firms is generally lower than that of non-offshoring companies. However, while offshoring companies realised a growth in profitability of 48% between 2003 and 2007, the increase was only 36% for non-offshoring companies with 100–499 workers.

For SMEs with 100–249 employees, offshoring/delocating has positive effects on their competitiveness (83%), wage costs (72%) and access to new markets (60%) (Statistisches Bundesamt, 2008). The development of personal knowledge and access to new know-how is assessed as neutral by almost half of the firms, with the shares of those companies experiencing an improvement being twice to three times higher than those feeling they are worse off. Logistics shows the worst results, with 33% reporting neutral effects, about 25% having positive and about 16% negative effects (there was no response from the rest).

The majority of successors which took over a German business (more than 90% being SMEs) between 2000 and 2005 report organisational changes in the framework of the transfer (Creditreform et al, 2008). More than 81% of the successors brought new ideas, products or processes into the company, and a similar share established new technologies in production or administration. Some 58% of the successors penetrated new markets, mainly as a result of the other mentioned changes.

In more than half of the companies the changes positively affected the profitability; however in over 10% of firms this indicator worsened (Creditreform et al, 2008). The 2010 report by KfW Bankengruppe found a considerably higher sales growth in transferred companies compared with the average firm.

In about half of the transferred companies the relationship to employees, clients and suppliers improved, while in the other half no change was observed. Some 15% of the companies encountered financial difficulties as a result of the transfer while 40% experienced positive developments (Creditreform et al, 2008). Up to the mid 1970s, continuing a business after bankruptcy/insolvency was rare as it was easily possible to find another job in the times of economic growth. Now, it is estimated that, since the 1980s, restructuring/continuation of the firm was the aim of about 80%–90% of bankruptcies/insolvencies, which resulted in about 10%–20% of the cases managing to carry on (Icks and Kranzusch, 2010). In general, the share increases with company size, as does the quota at which creditors are satisfied.

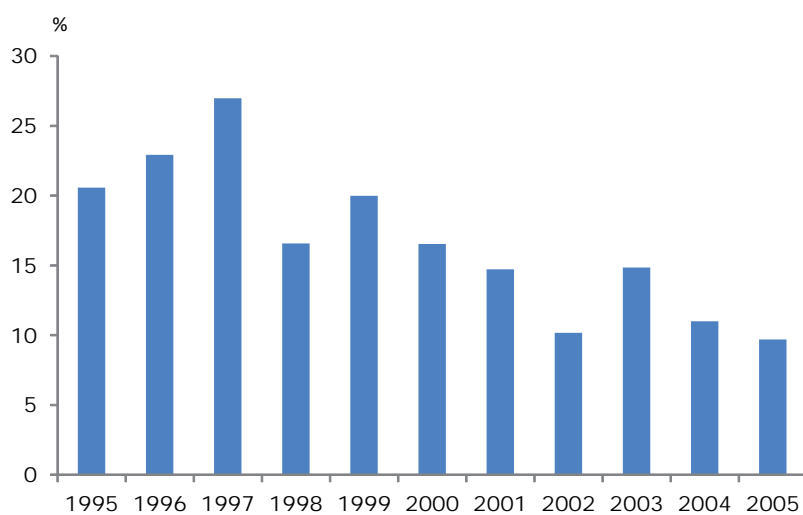
Effects on employees

Restructuring is often related to job loss, increased stress, pressure and an increase in job-related requirements (Köper and Richter, 2012). A survey of 20,000 employees in 2005–2006 showed that restructuring resulted in the following effects on employees (of all company size classes), with only about 10% saying they had not been affected by any changes:

- increase in task diversity (68%);
- increase in job requirements (63%);
- increased stress and pressure (61%);
- engagement of freelancers, trainees or temporary agency workers (46%);
- introduction of new computer programmes (63%);
- introduction of new production or process technologies (50%);
- introduction of new machines or plants (49%);
- development of new or considerably changed services (46%);
- introduction of new products (35%).

Dautzenberg et al (2012) find that nearly 17% of jobs created through start-ups between 1995 and 2006 are to be attributed to a fast-growing young enterprise. However, the employment effects of these gazelles tend to decrease. Irrespective of when growth begins after the start-up, it is characterised by a comparatively stable employment level of 15 workers. However, the earlier a company becomes a gazelle, the greater the employment effects. Furthermore, early gazelles have a more continuous growth and keep on growing after the defined three-year growth phase (growth rate of 20% in the eight years after the growth phase).

Figure 22: Jobs created by gazelles as share of jobs created by all start-ups (%)



Source: Dautzenberg et al, 2012

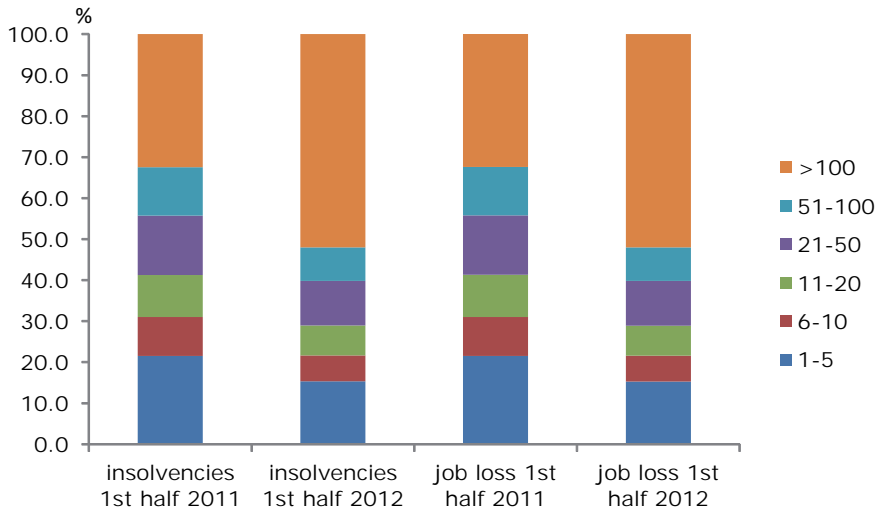
Available research gives some indication that internationalisation of German SMEs leads to a higher demand for qualified workers; however, this could not be empirically confirmed (Creditreform et al, 2007). However, surveys show that while exporting SMEs realised an employment growth between 2003 and 2005, non-exporters experienced a reduction in personnel or at least stagnation (Creditreform et al, 2007, summarising various studies). Exporters also planned further increases in staff numbers while non-exporters expected further decreases. Also, Haunschild et al (2007) find, in their summary of previous research on this topic, positive employment developments (in quantitative terms) resulting from SMEs' export activities. As regards foreign direct investment, it is observed that in spite of job losses, the net employment effects in Germany are positive, although this development is less dynamic for companies investing in central and eastern Europe (Haunschild et al, 2007).

An analysis of offshoring and non-offshoring companies (100–499 employees) shows that, while offshoring companies reduced their staff costs (as a share of all input costs) by 27% between 2003 and 2007, the decrease amounted to 20% in non-offshoring firms (Statistisches Bundesamt, 2009). This implies that offshoring companies tend to outsource more. While this implies a delocation of jobs, it is also observed that new jobs are created in Germany, which are characterised by a higher qualification level than the delocated jobs. As these jobs are better paid, the absolute staff costs rose more in offshoring than in non-offshoring firms with 100–499 workers between 2003 and 2007 (+8.1% vs. +6.6%). This can also be confirmed by Statistisches Bundesamt (2008) showing that the relationship between relocated/offshored and newly created jobs in Germany is 45.5% for firms with 100–250 employees (that is, more than twice as many jobs are lost than created in Germany) while it is about 83.4% as regards qualified jobs.

While sales dynamics are found to be better in transferred companies, compared with other firms, employment growth tends to be lower (KfW Bankengruppe, 2010).

In the first half of 2012, 150,000 jobs were lost due to company insolvencies in Germany. About 20% occurred in micro and small enterprises, each, while more than 50% were caused by insolvencies of enterprises employing more than 100 workers.

Figure 23: *Distribution of job losses due to company insolvencies by size class (estimates)*



Source: *Creditreform, 2012*

Conclusions and policy issues

SMEs are recognised as being hugely important for the German economy, and several initiatives have been implemented to support not only their sustainability and development, but also their restructuring, even if not explicitly signposted.

The available literature shows, however, that while a lot of research addresses SME issues and deals with restructuring, there are not many publications showing how restructuring is done in SMEs. Different types of restructuring, such as internal restructuring (innovation, business transfer) as well as business expansion (mainly internationalisation) of SMEs are well covered, while specific information is scarce on other forms, such as (mergers/acquisitions, relocation, offshoring/delocalisation). Similarly, it is hard to make assessments about restructuring in SMEs from structural business statistics and although regularly conducted business surveys on restructuring cover SMEs, publications and analysis seldom pinpoint size class specific details.

Consequently, there is a knowledge gap on:

- how SMEs anticipate and manage restructuring;
- the main success factors and bottlenecks for SMEs' effective restructuring;
- the outcomes for SMEs and their employees.

More data and research targeted at SMEs are recommended in order to tailor public policies better to the needs of SMEs (and their workforces) confronted with and affected by restructuring.

The analysed literature implies that the number of restructuring events increases with company size, but they also happen in the smallest firms. For SMEs, the main issues are internal restructuring and (avoiding) bankruptcy/closure, while relocation, outsourcing and particularly offshoring/delocation are of less relevance. There are mixed findings on business expansion. While, in general, German SMEs are seen as having slow growth (hence, most probably without major restructuring events), there is a good share of fast-growing enterprises and exporters. No SME-specific information could be identified for mergers/acquisitions.

The main motive for SMEs to restructure is the desire (or need) to cut costs and improve business performance. This can be driven, among others, by increased competition or opportunities caused by globalisation, or the need to adapt to legislative changes.

In most organisations restructuring, and the management of it, is not conducted in a long-term, strategically planned manner (Köper and Richter, 2012).

The outcomes of restructuring quite naturally differ by restructuring type. Business expansion and transfer are linked to innovative and internationalisation activities, resulting in job retention and job creation. However, SMEs' innovations do not always have considerable effects on their performance. Exporting and offshoring SMEs tend to be more productive and competitive. While there are job cuts in German firms, new, more highly skilled jobs are also created due to SMEs' internationalisation. As for bankruptcy/closure, more businesses are coming out of this and carrying on.

Bechmann et al (2011) pinpoint the following general strengths and weaknesses of micro and small businesses that should also be considered when policies are drawn up to support SMEs and their employees in restructuring.

Table 11: *Strengths and weaknesses of micro and small enterprises compared to larger firms*

Strengths	Weaknesses
<ul style="list-style-type: none"> • Ability to act more autonomously, flexibly and quickly • Leaner work organisation • More autonomy of staff • Broader scope of activity for staff • More (informal) employee participation 	<ul style="list-style-type: none"> • Lower productivity • Lower export quota • Lower wages • Longer working hours • Less workforce training • Greater difficulty in finding qualified workers and trainees/apprentices • Lower level of innovation and investment • Higher dependency on external capital

Source: *Bechmann et al, 2011*

In spite of the wide range of restructuring support available, much of which is strongly focused on SMEs, smaller firms in particular do not seem not to take much advantage of them. This is due to:

- a lack of awareness by SMEs as to what is available;
- a lack of awareness about their needs;
- the administrative effort required.

To foster fast growth in young enterprises , Dautzenberg et al (2012) suggest the following public support:

- extension of the offer of early phase finance for technology-oriented companies, including the provision of risk capital;
- easier design and regional orientation of start-up support and (structured overview of available support);
- enhanced focus on industry-specific support and cluster support, also with specific emphasis on innovation;
- mentoring business start-ups;
- awareness raising for start-ups and internationalisation and creation of a positive image of entrepreneurship;
- more flexible laws to aid the recruitment of highly qualified workers from third countries.

The BDI (2010) suggests that the innovation capacity of SMEs can be supported through favourable tax treatment of research and development; and a lessening of their administrative burden. The literature review shows that it is also vital to help SMEs with access to skills/knowledge and in marketing their innovation.

As regards the fostering of SMEs' internationalisation, the following recommendations can be summarised from BDI (2010) and Hauser (2006).

- Improve the coordination of different ministries and business organisations, and focus them thematically and regionally.
- SMEs should be considered when composing delegations for international visits.

- There should be a focus on countries with growth and development potentials for SMEs.
- Continuously adapt available support for SMEs regarding the participation in international trade fairs and export finance/guarantees.
- The international representations of the chambers of commerce need to have good connections to the national level, as this is where the extent and content of demanded services in foreign markets is determined.
- There should be guaranteed provision of cheap, objective and sector specific information from other countries.

The literature review also shows a need for measures to reduce language and cultural barriers.

As regards business transfers, awareness-raising among ageing entrepreneurs, financial support for successors and the inheritance tax are relevant policy fields that should be (better) tackled.

To facilitate the legal procedures of bankruptcies or insolvencies, Icks and Kranzusch (2010) recommend:

- an exchange of good practices regarding filing for bankruptcy and related procedures among employees of the different courts;
- common standards and guidelines for testimonies to start the procedures;
- a requirement that insolvency administrators provide detailed information about their activities (for example, the proceedings for each asset);
- simplifying the software involved and providing the opportunity of adapting programmes to individual cases;
- introducing, in smaller cases, testimonies with lower examination and information requirements.

Some suggestions can also be made to SMEs themselves on how to be better prepared to anticipate and manage restructuring (Linneman, 2007).

- In order to cope with the more rapid knowledge development and the consequent need for specialisation and innovation, companies need to provide continuous and flexible training for their employees and cooperate and network with other firms.
- SMEs should address new ways of getting finance as traditional bank loans are not suitable for risky innovation projects. Cooperation with investors not only providing capital, but also know-how, will therefore become more important.

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