WORKING PAPER

Labour market change

SME business transfers and their job retention effects: Measurement and policy approaches

European Restructuring Monitor

Author: Irene Mandl (Eurofound)
Research Manager: Irene Mandl

Acknowledgements: The author would like to express her gratitude to Chantal Botos, Cécile Deneys, Eva Dimitrova and Gijs van Houten for their assistance in compiling relevant data, and to Henrik Ahm, Sigried Casper and Lucyna Kaminska and (European Commission), Harald Fugger (Federal Ministry for Labour, Social Affairs, Health and Consumer Protection, Austria), Bela Galgoczi (European Trade Union Institute), Karin Gavac (KMU Forschung Austria), Rosemarie Kay (IfM Bonn), Claudio Lucifora (Catholic University, Milan), Željko Mrnjavac (University of Split), Patrice Muller (London Economics), Linda Romele (Free Trade Union Confederation of Latvia) and Liliane Volozinskis (SME United) as well as Eurofound colleagues Stavroula Demetriades, Donald Storrie and Mathijn Wilkens for providing valuable feedback to draft versions of this working paper.

Eurofound reference number: WPEF19014

Related reports: Restructuring in SMEs in Europe; European Company Survey 2019 – Overview report

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency established in 1975. Its role is to provide knowledge in the area of social, employment and work-related policies according to Regulation (EU) 2019/127.

European Foundation for the Improvement of Living and Working Conditions

Telephone: (+353 1) 204 31 00

Email: information@eurofound.europa.eu

Web: www.eurofound.europa.eu

Contents

Key messages

- A business transfer is a change of ownership and management of a company or a large part of it, with the continuation of the core part of its economic activity.
- Due to the general separation of ownership and management in larger enterprises, business transfers and successions are mainly an issue for small and medium-sized enterprises (SMEs).
- After the start-up and growth phase, a business transfer is the third critical phase in a company life cycle.
- While business transfers are natural events in the economy, they often constitute a unique and hence challenging process for the transferor and transferee.
- For more than 25 years, the European Union has recognised the importance of successful transfers of economically viable businesses for the economy and labour market.
- Accordingly, support of business transfers features both at EU and national level on the policy agenda. Examples of national support instruments refer to market places to match transferors and transferees (often with strong involvement of business or employer organisations and offering additional services beyond the matching; ensuring confidentiality and user-friendly search functions are important success factors), the provision of information and advice (which seem to be important to be provided at regional level) or access to finance (for example, favourable loans, but also related to taxation).
- There is a substantial lack of data on business transfers and their employment effects across Europe. Such, however, would be important for (better) informed policy making.
- A few national approaches to measure realised and forecast forthcoming business transfers are illustrated in this working paper. Most of them are based on administrative or survey data. Two more sophisticated prediction models combining different approaches and data sources could be identified.
- Due to the different definitions and methodologies applied the available data are not comparable. Nevertheless, the level of realised and predicted annual business transfers lie between 2.5% and 4% of SMEs in Europe, affecting about 6%-8% of the workforce.
- Eurofound's European Company Survey (ECS) 2019 seems to be the only available data source providing an indication of realised business transfers and their employment effects across the EU.
- For a European-level prediction model on business transfers the following types of information are deemed essential: Data on the company population and size classes, including information on the number of one-person enterprises; data on the owner-managers, notably gender and age; proxy indicators to correct for transfers for personal reasons other than for old age; proxy indicators to correct for economic transferability.
- Such a model could draw on a combination of existing data sources, including Eurostat data and Eurofound's European Working Conditions Survey.

1. Introduction

Background and objectives of the report

Business transfers, understood as the transfer of ownership and control of an enterprise with continued commercial activity (European Commission, 2002), are a natural feature in the economy. After the start-up and growth phase, a transfer is often considered as the third critical phase in a company's life. Notably small and medium-sized enterprises (SMEs)[1] with an ownership and governance structure characterised by the dominance of a single individual or a small team sooner or later face this phase in the company life cycle, at the latest when the owner-manager(s) are to retire.

Nevertheless, business transfers should not be considered to happen automatically and always result in positive outcomes for the business and its employees. Rather, they constitute a form of restructuring, more specifically a form of 'internal restructuring' as defined in Eurofound's European Restructuring Monitor[2]. Available evidence shows that even those restructurings that do not involve job loss are 'a major event for the company, a process which is rarely smooth or painless and one which has serious implications for the organisation and its workforce' (Eurofound, 2013, p. 5). This even more so as although transfers are common in the economy, they most likely constitute a unique event in the transferor's and transferee's life (OECD, 2018). Previous research clearly flags that awareness about and openness towards a forthcoming business transfer is an important precondition for a timely and good planning of the transfer process, which in turn is a critical success factor for a sustainable continuation of the business by the successor(s) (OECD, 2018).

While the EU policy agenda strongly supports start-ups and scale-ups[3] to foster the competitive, innovative and growth potential of the European economy and labour market, also the retention of healthy businesses and the therewith related employment is deemed essential (OECD, 2018). For more than 25 years, the European Commission has recognised the importance and benefits of successful business transfers and initiated a series of activities to support them in its endeavour to create and maintain an entrepreneurship-friendly business environment to promote economic and employment growth.[4] One reason for this is the large scale of potential job loss if an economically viable and sustainable business does not find a successor or the transfer process is not handled favourably (European Commission, 1998). This will very soon become a particular challenge in Eastern Europe. There, a whole generation of entrepreneurs, having established their business after transition to the market economy, will soon face the challenge of a business transfer for the

[1] The European Commission (2003) defines SMEs as companies with fewer than 250 employees and a turnover of up to €50 million or a balance sheet total of up to €43 million (the SME definition is under revision).
[2] https://www.eurofound.europa.eu/observatories/emcc/european-restructuring-monitor
[3] See, for example https://ec.europa.eu/digital-single-market/en/startup-europe
[4] https://ec.europa.eu/growth/smes/promoting-entrepreneurship/advice-opportunities/transfer-business_en

first time (OECD, 2018). Accordingly, it can be assumed that the topic of business transfers will gain even more attraction on the policy agenda in the near future.

In spite of the political awareness of the economic and labour market contribution of successful business transfers, across Europe there do not exist much data on realised or predicted business transfers and the therewith related employment effects (European Commission, 2002 and 2011). A few countries have established administrative data sources or surveys to map the number and characteristics of companies that have been handed over, or statistical models to estimate the number of forthcoming transfers. However, the available evidence remains fragmented, and does not cover the whole EU in a comparative way. Eurostat does not provide any data on business transfers, and the compilation of national statistics is challenged by the application of different definitions and methodologies across countries (European Commission, 2011). The European Commission (2011) highlights that 'the lack of reliable descriptive [...] and predictive [...] data on business transfers results in a lack of support for governments to produce and implement specific policies to facilitate business transfers'. Further, it suggests creating 'a common approach, methodological tools and indicators, leading to the development of a regular common monitoring mechanism for business transfers in Europe'. Similarly, the OECD (2018) emphasises that 'better evidence is needed to monitor business transfer processes across countries, sectors, firm typologies and entrepreneurs' characteristics'.

Against this background, this working paper aims to compile information on the most prominent data gathering attempts in the EU Member States to measure the past and future prevalence of business transfers. The main interest lies in models to predict forthcoming business transfers and their expected job retention effects. As these seem to be very scarce across Europe, also some approaches to map realised business transfers are collected, but not discussed in the same level of detail as the identified prediction models. Studies exploring other elements of business transfers, like the challenges, risks and success factors associated with them, or assessments of related public or social partner-based support instruments, are out of the scope of this working paper.

Methodology and structure of the working paper

The methodological information on the various approaches to measure realised or predict forthcoming business transfers was gathered through desk research (that is, literature review) in the third and fourth quarter of 2019 and is summarised in chapter 2. The mapping does not claim to comprehensively illustrate all available methods. Rather, it concentrates on the best-known, most established and most sophisticated prediction models and aims to describe them in as much detail as possible, while just touching upon other approaches to measure realised or estimate forthcoming business transfers. The reason for the focus on potential future transfers is the assumed higher political relevance of estimations on forthcoming transfers (in order to better support their success) compared to information on realised ones. The latter is useful to derive lessons learned on challenges, risks and success factors or similar which, in turn, can be transformed into supportive policy interventions. However, as there exists a rather extensive body of literature already dealing with these topics, less need was seen to contribute to this research angle compared to a more forwarding looking perspective.

The aim of this working paper is a first stock-taking of available national approaches to measure the scale of business transfers. This is exclusively based on desk research. Accordingly, there are important limitations as regards discussing and comparing the individual national approaches as most of the available publications do not provide much detail on the applied methodologies (for example, applied understanding of 'business transfer', which data sources have been used, definition of the target population, sample sizes or questionnaires of surveys). In order to learn more about the individual approaches, notably with a focus on whether and how they could be harmonised across Europe for a more comprehensive data provision to European policymakers, a next step could be involving national researchers and data providers to jointly discuss the key elements that should be considered for a solid prediction of business transfers, as well as the preconditions related to the required data collection and compilation. During the research phase, Eurofound learned that the European Commission, DG for Internal Market, Industry, Entrepreneurship and SMEs (DG Grow), is working on an exercise with a similar aim. As this research is of much larger scale and a longer research phase that could be realised for Eurofound's project, this working paper is limited to the above-mentioned first stock-taking step and might be considered as one of the inputs to the European Commission's larger project.

Nevertheless, chapter 2 also includes some first considerations how business transfers could be predicted in a comprehensive and comparative way across Member States, that is, at EU level.

Chapter 3 summarises the data available across the EU as regards the number of realised and forthcoming business transfers and their job retention effects. Due to the different definitions and methodologies applied and the different time horizons considered, care needs to be taken when comparing the individual findings. Again, the paper does not claim to comprehensively present all available data. Instead, the most prominent ones are presented as indications on the prevalence of business transfers and the therewith related employment effects.

Finally, chapter 4 provides an illustrative overview of policy approaches taken at EU and national level to support business transfers and the affected employees. This information mainly draws on the legal[5] and support instruments database[6] of Eurofound's European Restructuring Monitor (ERM). Also, this section (and the underlying databases) does not claim to be a comprehensive presentation of all available interventions. Furthermore, it just gives examples of available policy interventions, and does not assess the effectiveness of the offered support.

[5] https://www.eurofound.europa.eu/observatories/emcc/erm/legislation
[6] https://www.eurofound.europa.eu/observatories/emcc/erm/support-instrument

Definition of ‘business transfer’

There does not exist a formal harmonised definition of ‘business transfer’ or ‘transfer of undertaking’ at European level.[7] Council Directive 2001/23/EC on the approximation of the laws of the Member States relating to the safeguarding of employees’ rights in the event of transfers of undertakings, businesses or parts of undertakings of businesses formalises the notion of transfer by clarifying that the Directive applies to ‘any transfer of an undertaking, business, or part of an undertaking or business to another employer as a result of a legal transfer or merger […] where it retains its identity […] which has the objective of pursuing an economic activity’. The transfer of assets or shares, only, where one company acquires control over another without any change in the identity of the employer are not covered by the Directive.

Various research publications mention similar elements that characterise a transfer. Accordingly, business transfers are processes in which all assets belonging to an enterprise or a business unit (or a large part of them) as well as its management/control is transferred to a new owner. The latter is often understood as 51% of shares in private limited companies. Public limited companies are not assumed to experience a ‘business transfer’ in the understanding of this working paper due to the widespread separation of ownership and management. In line with this consideration, business transfers are generally seen as an ‘SME issue’ and less relevant for larger enterprises. Across the reviewed publications and measurement approaches, the assessment whether one-person enterprises, that is companies exclusively employing the owner-manager but no additional staff, can be transferred and hence should be included in estimations varies. Respective considerations are summarised in chapter 2.

The Council Directive 2001/23/EC specifies that a transfer can relate to public and private undertakings engaged in economic activities, and that it can also be relevant for non-for-profit organisations.

A key characteristic of a business transfer is the intention of a so-called ‘going concern’, that is the continuation of the full or at least core part of the business activity (European Commission, 2002, 2011 and 2012; OECD, 2018). This raises the question whether mergers and acquisitions, that is the incorporation of the business into another entity, should be considered as business transfers. The author is not aware of specific considerations of this type of business continuity in the analysed prediction models.

The new owner-manager(s) can be family members of the initial entrepreneur, staff members (employees or management) or a third party; and it can be a single individual, a group of people or another enterprise, that is both physical and legal persons (European Commission, 2002 and 2012). Accordingly, while business transfers are often discussed in relation to family businesses, they are also an issue for non-family businesses. Indeed, many recent studies flag the increasing share of transfers to non-family members.

[7] Also see Eurofound’s European Industrial Relations Dictionary, https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/transfer-of-an-undertaking

The reasons for a business transfer are manifold. Next to the retirement of the owner-manager, their pursuance of another career opportunity (including setting up a new business – so-called 'serial entrepreneurship'), a favourable purchase offer (as, for example, observed for rapidly growing high-tech start-ups) or unforeseen events like illness or accidents are to be mentioned (European Commission, 2002; OECD, 2018). Related to that, transfers can be realised through inheritance, gift, sale or other modes.

2. Measuring realised and predicting the number of forthcoming business transfers and their employment effects

National approaches to measure realised business transfers

In general, there are two broad methodological approaches to measure the scale of realised business transfers: administrative/register data and surveys. From the conducted desk research, it appears that surveys are more common than the use of administrative data which might be related to the challenges of identifying business transfers in available register data due to the lack of a formal definition or key elements characterising business transfers that enable a standardised capturing of the phenomenon.

An example of **administrative data** is the **German** craft registration statistics ('Gewerbeanzeigenstatistik') which allows to identify transfers due to inheritance, sale and lease (Kay et al, 2018).

In **France**, BPCE, a large banking group, publishes data on realised business transfers. This is based on its 'Observatoire sur la cession-transmission des entreprises' (2017) which draws upon a combination of different administrative sources (Sirene, Infolégale, Altarès, Corpfin, Insee)[8].

As regards **surveys**, dedicated surveys have to be differentiated from those which 'just also' cover the topic of business transfers. The latter seem to be more widespread. An example is the family business survey of PwC (2014). The telephone survey covered about 2,400 companies in **40 countries** and explored a range of family business-relevant topics, including plans related to business transfers. Companies were eligible for the sample if the founders, their family or descendants held the majority of shares or voting rights (25% in case of publicly listed companies) and at least one family member was part of the management of the company.

At individual national level, the **Bulgarian** national statistical institute has introduced a survey on family businesses in the framework of their business statistics (Iskrenova, 2017). Next to a variety of other topics, it was planned to also ask about realised business transfers. However, no evidence on whether this was realised could be found.

In some instances, the two **methodological approaches** (administrative data and surveys) are also **combined**. In **Austria**, administrative data are available from the Federal Economic Chambers. There is obligatory membership, and the Chambers' statistics on start-ups allow to derive the number of realised business transfers by annually comparing the available information on the location of the business and the sector of activity (Gavac et al, 2002). That is, a business transfer is assumed if a company appears in the start-up statistics, but there has already been a company at the respective location, conducting business in the same sector, in the previous year. Since the early 2000s, this is regularly followed up by

[8] http://www.observatoire.bpce.fr/vertus-transmission-familiale-carnets-2017.html

surveys among the assumed transferors and transferees (closed questionnaires and phone interviews) to validate the estimates on realised business transfers and to learn more about the characteristics of the transfers (Ziniel et al, 2014). The surveys bring about that about two thirds to three quarters of the assumed transfers are real transfers, while the remainders are start-ups or changes of the legal form or economic activity or similar (Gavac et al, 2002).

Box 1. A first attempt to measure realised business transfers across the EU

As to the best knowledge of the author, by the time of writing (autumn 2019), there does not exist a European-level data source which captures the number of business transfers realised across the Member States. Against this background, the latest wave of Eurofound's European Company Survey (ECS) aims to contribute to closing this information gap.

The ECS is a Europe-wide survey covering establishments with at least 10 employees. It aims to map, assess and quantify information on companies' human resource and workplace practices (including social dialogue) and their impact on the establishment as well as employees' overall well-being on a harmonised basis. It is a questionnaire-based representative sample survey carried out in the language(s) of the respective country. Interviews take place with the manager responsible for human resources in the establishment and, when possible, with an employee representative.

The first wave, conducted in 2004, covered issues around working time arrangements and work-life balance at company level. The second wave (2009) looked at different forms of flexibility (working time, contractual, pay) and accompanying human resource measures as well as at the quality of workplace social dialogue. The third wave (2013) explored workplace organisation, workplace innovation, employee participation and social dialogue at European workplaces.

The fourth wave of the European Company Survey is realised jointly by Eurofound and Cedefop. In the first half of 2019, about 22,000 management and 6,000 employee representatives of establishments in all 28 Member States of the European Union have been surveyed on workplace practices with regard to work organisation, human resource management, skills use, skills strategies, digitalisation, direct employee participation and social dialogue. This was done through a 'push-to-web approach' where establishments were contacted via telephone to identify the respondents who were then asked to fill out the survey questionnaire online.

For the first time, the management questionnaire of the ECS 2019[9] included a question on business transfers which allows to give an indication of the scale of transfers across Europe in a harmonised and comparable way (for a first analysis, see chapter 3):

Q8: Since the beginning of 2016, has there been any change in the ownership of this company/the company to which this establishment belongs?

9 https://www.eurofound.europa.eu/sites/default/files/ef_survey/field_ef_documents/20190816_ecs2019-mm-questionnaire.pdf

- Yes, and it involved a change of management
- Yes, but management remained the same
- No

Employment effects of those realised business transfers can be derived from the questions on the establishment size, change in employment in the previous years and planned changes in employment in the forthcoming years:

Q1: Approximately how many people work in this establishment?

Q12: How has the total number of employees in this company/establishment changed since the beginning of 2016?

- Increased by more than 10%
- Increased by up to 10%
- Stayed about the same
- Decreased by up to 10%
- Decreased by more than 10%

Q71: In the next three years, how do you expect the total number of employees in this company/establishment to change?

- It will increase
- It will stay about the same
- It will decrease

National approaches to predict forthcoming business transfers and their employment effects

Similar to the measurement of realised business transfers, also for predictions administrative data and surveys are used. Additionally, a few more sophisticated models drawing on different data sources have been identified.

Guyot et al (2016) used a combination of various **administrative data sources** to estimate the number of forthcoming business transfers for the Walloon region in **Belgium**. The prediction is based on the number of public and private limited companies and cooperatives registered in the Walloon region which have at least one employee and whose owner-manager will reach the statutory retirement age in the prediction period. Already earlier on, CeFiP (Centre de connaissance du financement des PME) mapped the forthcoming business transfers in the next decade (SDI, 2012; Direction Générale Opérationelle de l'Économie, de l'Emploi et de la Recherche, 2014). It seems that this exercise was also based on administrative data and exclusively considered the owner-manager's age (that is, reaching retirement age in the prediction period), but no further information could be found through desk research.

In **France**, Insee, the national statistical institute, published estimates on forthcoming business transfers, based on their administrative data on the age of the owner-manager (excluding micro-entrepreneurs[10]). Accordingly, reasons other than old-age related ones which might be relevant for transfers, such as other opportunities, economic or personal reasons of the entrepreneur, are not considered. Also, the fact that some owner-managers continue running their business beyond statutory retirement age is not included in their estimations. It seems that these administrative data are no longer produced at national level (Dombre-Coste, 2015; Nougein and Vaspart, 2017), while data are still published at regional level (for example, Bischoff, 2019).

In both Belgium and France, estimates on forthcoming business transfers are also based on **surveys**. In **Belgium**, an example of an academic survey on the topic is the one of Lambrecht and Naudts (2007). In a telephone survey of about 1,300 entrepreneurs with fewer than 250 full-time equivalent employees, respondents were asked whether they think that the ownership and daily management would be transferred in the next year, within five years, or within 10 years. In **France**, the regional chamber of commerce of Hauts-de-France recently covered the issue in its 2017 annual survey among 4,000 establishments (Denoual, 2019).

In **Bulgaria**, a survey among family businesses covered the intention of a transfer of ownership and management within the family, staff or external successors (Kersiev, 2017).

Another example for a survey approach is the **German** KfW-Mittelstandspanel (SME panel run by a bank), an annual panel of up to 15,000 SMEs with an annual turnover of up to 500 million. Also, in Germany, the IAB-Betriebspanel (establishment panel of the public employment service) is an annual representative employer survey conducted since the 1990s. In recent years, the sample size amounts to about 16,000 companies with at least one employee. Its aim is to provide information on employment trends and labour demand, and thereby also covers questions which could be considered as a proxy for business transfers (for example, integration of other establishments into the company, separation of units that are continued as independent business). Both surveys report on the number of planned transfers. In this context, Kay et al (2018) raise the question in how far ‘planned transfers’ are a good proxy for transfers actually taking place as some planned transfers will not take place while on the other hand some unplanned transfers will be realised.

For **Ireland**, an estimation on forthcoming family business transfers was based on the 9th PwC Global and Irish Family Business Survey. This covered 129 owner-managers of Irish family businesses (PwC, 2019).

[10] A specific type of self-employed, previously called auto-entrepreneurs.

In the **Netherlands**, Van Teeffelen (2015) bases his estimate on forthcoming business transfers on a random sample of companies with fewer than 100 employees. A transfer is thereby understood as a company for which the owner at the time of the survey indicated that it was for sale.

A sophisticated **model** to estimate the number of forthcoming business transfers has been developed in **Austria** in the late 1990s and was continuously refined since then. The model is applied for the national level, but also regional and sectoral analysis is possible (see, for example, Mandl et al (2009) for predictions for Vienna).

The core model refers to SMEs in the commercial economy ('Gewerbliche Wirtschaft') that employ at least one employee. Due to the specific characteristics of one-person enterprises (OPEs), that is self-employed without employees, it is assumed that just a part of them are transferable. The considered criteria to assess the transferability of OPEs refer to the following:

- The economic activity is the main job of the self-employed.
- The average weekly working hours amount to more than 30 hours.
- The main workplace is different from the place of living of the self-employed, and different from clients' premises.
- The OPE has more than two regular clients.
- The self-employment has a tenure of more than three years.
- The annual turnover exceeds €50,000.

The model applies a long-term prediction (10 years) and a medium-term prediction (five years). Starting point of the calculations is the number of enterprises in the commercial economy ('Gewerbliche Wirtschaft') registered with the Austrian Economic Chambers (obligatory membership) on 31 December of the year preceding the analysis. As the focus is on employer SMEs, OPEs as well as large companies are deducted. Furthermore, the number is reduced by the number of SMEs with an annual turnover of less than €50,000 as these are deemed too small to be transferred. The resulting number is filtered for those companies of which the owner-manager will reach the statutory retirement age within the 10/5-year time horizon (differentiation by gender due to different retirement ages for male and female workers in Austria). This is corrected by adding a share of those who are expected to work longer and deducting a share of those where the transfer might take place before the pensionable age (for example, due to sickness, death, or change in career). The result is decreased by a share of companies which are expected to close rather than being transferred (for example, due to lacking attractiveness) and by those which are not transferable for economic reasons.

Table 1: Calculation model to predict potential business transfers in Austria

Stock of enterprises as registered with the Austrian Economic Chambers, 31.12.	
-	One-person enterprises (0 employees)
-	Large enterprises (>250 employees)
Stock of SMEs (excluding OPEs)	
-	SMEs (excluding OPEs) with an annual turnover < €50,000
Stock of SMEs under consideration of a turnover threshold	
*	Share of self-employed reaching statutory retirement age within the next 10/5 years
-	Share of self-employed who are expected to work beyond statutory retirement age
Age-driven business transfers	
+	Share of companies that are expected to be transferred before statutory retirement age
Total potential of business transfers	
-	Share of SMEs that are expected to close
-	Share of SMEs that are expected to be not transferable for economic reasons
Predicted business transfers under consideration of structural and economic factors	

Source: Ziniel et al, 2014

Important preconditions for the above calculations are:

- The existence and access to a comprehensive company register which includes information on the company size, gender and age of the owner-manager.
- Information on the shares of transfers postponing and frontloading old-age-driven transfers. In the Austrian model, this is based on a combination of social protection data, expert opinion and previous survey data. The factor is considered stable throughout the considered time horizon. The authors acknowledge that the applied approach is a proxy, only, as 'real values' are missing, and that the use of a stable factor is a methodological choice to limit the complexity of the model (while it is assumed that in practice the share will vary from year to year).
- Available information on the number of company closures. Also, this is available with the Austrian Economic Chambers (special analysis of the membership data).
- Available data on the share of SMEs that are not transferable for economic reasons. This is based on the long-standing balance sheet database of the Austrian Institute for SME Research and is calculated as the share of SMEs (excluding OPEs) whose three-year-average equity is lower than -20% of the total capital (that is, indebtedness of at least 20%) and which realised an economic loss of at least 5% of the turnover for a three-year average.

On the basis of the predicted number of business transfers, the potential employment effect is estimated (Mandl et al, 2009). The calculation is done in employment bands, using employment statistics of the Federal Economic Chambers. Two scenarios are developed:

- The ‘cautious scenario’ assumes that, next to the job of the owner-manager, for each company size class only the minimum number of jobs are affected.
- The ‘neutral scenario’ assumes that in each company size class the average number of jobs are affected. This number is added to the number of predicted business transfers (to accommodate for the jobs of the owner-manager) to arrive at the total number of estimated employment effects.

Also, in **Germany**, there exists a prediction model that was established in the mid 1990s (Kay et al, 2018). It estimates the number of family businesses that are facing a transfer in the next five years in a two-step process. Step one establishes the minimum rentability above which taking over a business is economically sound. In previous models this was done by referring to the return on equity, while in the latest version the return on bonds was used (to take into account the current low interest level). To qualify as transferable, the company has to be in a position to realise an imputed entrepreneurial wage, including an equity yield rate and some risk premium. To reduce the complexity of the model, the imputed entrepreneurial wage is not differentiated (for example, by sector, age, education level) and based on the average gross salary of a full-time employee in the manufacturing crafts and services sector in Germany to which the employer’s contribution to social protection is added. To calculate the equity yield rate, the company balance sheet database of the German Federal bank is used to establish the average equity level of companies in the respective size class and legal form. On this, the arithmetic means of the monthly interest level for company bonds for the last five years is applied.

Step 2 estimates the number of SMEs above this threshold whose owner-manager will withdraw from the business within the next five years for personal reasons. Starting point is the number of companies whose owner-manager will reach the statutory retirement age within the prediction horizon. This is increased by a share of owner-managers who will withdraw prematurely due to illness. A proxy for this is taken from the socioeconomic panel of DIW Berlin (those who have been on sick leave at least once for at least six weeks, or who report a bad health status and were not employed nor self-employed in the following year). Furthermore, the number is corrected by the average share of those dying before reaching the statutory retirement age.

Figure 1: Formula for the German prediction model

$$U_{\ddot{U}} = \underbrace{(U_P - U_M)}_{\substack{\text{übernahmewürdige} \\ \text{Unternehmen}}} * \underbrace{((S_{61+} + S_T + S_G)/S)}_{\substack{\text{Anteil aus persönlichen Gründen} \\ \text{ausscheidender Unternehmer}}} * A_{FU}$$

Notes: $U_{\ddot{U}}$=number of companies facing a business transfer; U_P=total company population; U_M=number of companies below the minimum rentability threshold; S=number of self-employed; S_{61+}=number of self-employed reaching the statutory retirement age in the prediction period; S_T=number of self-employed withdrawing due to death; S_G=number of self-employed withdrawing due to health reasons; A_{FU}=share of family businesses in the total enterprise population; übernahmewürdige Unternehmen=transferable companies; Anteil aus persönlichen Gründen ausscheidender Unternehmer=share of entrepreneurs withdrawing for personal reasons

Source: Kay et al, 2018

The authors mention some limitations of the model, like that it is not known whether or not a company belongs to a holding and that changes of owner-manager into dependent employment cannot be considered due to lack of data.

The German model estimates the number of employees affected by the potential business transfers as the average number of employees in the respective sector and size class. This is done by considering the total company population, not only family businesses. In the largest size class a correction factor is applied to account for the missing upper band level.

Towards a harmonised prediction for forthcoming business transfers across the EU

Understanding of ‘business transfer’

An important precondition for a cross-national harmonised measurement of any phenomenon is a common understanding or definition of what should be captured. The brief discussion in chapter 1 of this working paper shows that there are a few aspects that need clarification as regards the definition of a business transfer if such was to be applied across the Member States. Examples are whether or not to consider

- one-person and very small enterprises;
- large enterprises;
- all legal forms;
- all ownership and governance structures (family business; share ownership);
- all types of transfer, including for example mergers and acquisitions.

The applied definition will also affect the requirements towards the methods and data used for any prediction.

The author suggests to apply a definition of business transfer that refers to the transfer of ownership and management, with the intention to continue the economic activity of the business. All ownership and governance structures could be included, while some operationalisation might be needed (for example, percentage of transferred shares that would qualify for a transfer in private limited companies, or – depending on the national situation – transfers as defined above could take place in public limited companies). The focus should be on SMEs as in larger entities the likelihood of separation of ownership and management increases. One-person and very small enterprises should be considered; however, as it is acknowledged that not all of them are transferable, the model needs to include a respective correction factor (see below). All reasons and forms of transfer should be included, but also as to this regard some correction factors should be applied.

Elements of a prediction model

While the above discussion on available predictions for business transfers in the Member States does not claim to be comprehensive, it becomes obvious that there are comparatively few measurement attempts available. Additionally, most of them seem to fall short in capturing the complexity that would be required to present a scientifically sound proxy indicator, and due to different methodological approaches comparability across the EU is not given.

To arrive at prediction data that is harmonised across the EU, the same three options as applied at national level can be considered. Due to the above-mentioned limitations of an exclusive approach based on administrative or survey data, this working paper suggests exploring the feasibility of a more sophisticated European model, combining different datasets.

Starting point for such a prediction model is the total SME population. In a first step, those SMEs whose owner-manager will reach statutory retirement age within the prediction model should be identified. In a second step, several correction factors need to be applied to result in a more realistic estimation:

- legal form: depending on the national situation, it can be assumed that not all legal forms lend themselves to a business transfer as understood for the purpose of this prediction model; notably public limited companies might be characterised by a separation of ownership and management and hence fall outside the suggested definition
- ownership structure: if a company is owned by a group of individuals, it has to be clarified when a business transfer as defined for the purpose of the prediction model would apply
- minimum company size: a share of one-person and very small enterprises will not be transferable as the business is too closely linked to the person of the owner-manager; correction factors that could be considered are whether the self-employment is the main job of the owner-manager, whether they regularly work a minimum number of weekly working hours in the self-employed activity and achieve a minimum turnover or income, whether the workplace is different from the place of living, whether they have a minimum number of different clients etc.
- early transfers: a share of companies is transferred before the owner-manager reaches retirement age; this could happen due to unforeseen events like sickness, accident or death; other reasons are that the owner-manager wants to pursue a different career opportunity (either as employee or staring another business) or receives a favourable purchase offer (as happens for example with fast growing high-tech start-ups); while the first two reasons should be corrected for in a prediction model aiming to illustrate the potential economic and labour market loss of non-realised transfers of economically viable businesses, less need is seen for the last one as the continuation of the business can be considered as a given
- late transfers: a share of owner-managers continue running their business after statutory retirement age
- economic viability: a share of companies will not be transferred as they are not attractive enough on the market and – due to limited competitiveness – even should not be continued; factors to be considered refer to both, macroeconomic ones (for example, sector, region) and microeconomic ones (for example, rentability)

Other influence factors like management decisions or workers' preferences are certainly important, too, but hard to include in a statistical model due to lack of data.

To estimate the employment effect of the predicted business transfers, the application of different scenarios could be applied. This could refer to

- the absolute number of jobs affected by transfer (maximum scenario)
- the minimum number of jobs affected by size class of transfers (minimum scenario)
- the average number of jobs affected by size class of transfer (average scenario)

It is suggested to also consider the job of the owner-manager in the calculation.

Data requirements

Based on the above consideration, the author identifies the following as the main types of required information for a solid prediction:

- Data on the company population and size classes, including information on the number of one-person enterprises and employees
- Data on the owner-managers, notably gender and age
- Proxy indicators to correct for transfers for personal reasons other than for old age; this refers to a factor for early transfers (for example, due to the intention of selling a well-performing business to capitalise on its development, alternative career options or due to sickness or death) and a factor for late transfers (those entrepreneurs staying active in their role as owner-manager beyond statutory retirement age)
- Proxy indicators to correct for economic transferability; this includes deducing a share of one-person enterprises which cannot be transferred as the business is too closely linked to the person of the owner-manager, and deducting a share of enterprises which are not economically viable in the medium to long run and hence cannot be transferred due to lacking attractiveness

Solid data on the company population is an important precondition for forecasting the number of business transfers. Such should include information on the owner-manager(s) – notably their number, gender and age – and the company size. The latter is not only relevant to estimate the potential employment effects related to business transfers, but also to filter for companies not transferable due to size class (as regards both, too small and too large enterprises). Based on the reviewed literature, the author suggests to apply a correction factor foe economic transferability to deduct too small firms and to limit business transfer estimates to SMEs, based on the assumption that in larger enterprises a separation of ownership and control is more likely.

At European level, Eurostat's Structural Business Statistics[11] provide data on the number of enterprises in the non-financial business economy and on the number of employed persons by size class. This includes data on enterprises without employees. However, it does not seem to give information on the owner-manager(s). Eurostat's Labour Force Survey[12] provides data on self-employed persons in Europe which can be differentiated by gender,

[11] https://ec.europa.eu/eurostat/web/structural-business-statistics
[12] https://ec.europa.eu/eurostat/web/lfs

age and occupation, as well as by whether or not they have employees. This includes an age category ’55-64’ which could serve as a sufficiently good proxy for those entering retirement in the next decade in most countries, in combination with Eurostat data on life expectancy[13], health status[14] and duration of working life[15] (that is, to correct for early and late transfers). Nevertheless, a limitation of this data source seems to be the lack of information whether or not these self-employed are employers or not.

Respective information could the drawn from Eurofound’s European Working Conditions Survey (EWCS)[16]. This representative population survey covers more than 40,000 workers in the European Union, Norway, Switzerland, Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, Serbia and Turkey. The 7th wave will be realised in 2020 and covers topics like employment status, working time duration and organisation, earnings and financial security and health. Amongst others, it provides the following information which could be incorporated into a prediction model on business transfers:

- Self-employment status, with information on the age and the specific role of the person; for the purpose of a business transfer prediction model, those who are, in their main job, the sole director of a business with employees could be considered if they reach statutory retirement age during the prediction period, as could be those self-employed without employees whose business is nevertheless deemed transferable for economic reasons (see below)
- Information on potential transfers for personal reasons other than old age: The EWCS includes information on how long the worker wishes to work in their current job, as well as on how long they think they will be able to work in this job. This, in combination with EWCS information on the health status and occupational health risks of the worker could be used to derive correction factors for early and late transfers.
- Information on economic transferability: The EWCS includes information on the working hours, the place of work, dependency on a single client and earnings which could be considered as a proxy for economic transferability. Those self-employed activities which are conducted as a side activity only, for a limited number of weekly working hours, from the home of self-employed, being dependent on a single client and realising low income can be considered non-transferable to a successor. Also, information on the sector (macroeconomic attractiveness of the economic activity) and the tenure of the self-employed activity could be considered for a prediction model.
- The EWCS also asks about the size of the company, which, in combination with other respective data (such as from Eurostat or the European Company Survey on realised business transfers, see above) could be used to estimate the employment effects of the forecasted business transfers.

[13] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Category:Life_expectancy
[14] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Health
[15] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Duration_of_working_life_-_statistics
[16] https://www.eurofound.europa.eu/surveys/european-working-conditions-surveys

Data on the scale of potential transfers for personal reasons could also be derived from other European data sources, such as the panel Survey on Health, Ageing and Retirement (SHARE)[17] among 140,000 individuals aged 50 or older in 27 European countries and Israel.

To assess the economic transferability of businesses, also the Amadeus database of Bureau Van Dijk[18] could be considered. It contains financial information of 21 million enterprises across Europe, hence could be a valuable source of information. However, as it is a commercial database, full access could be costly, and the author's experience with the database shows that smaller companies are not that well represented.

Once the number of business transfers is estimated, the employment effect can be derived by applying company size information from, for example, Eurostat's Structural Business Statistics or Eurofound's European Working Conditions Survey.

[17] http://www.share-project.org/home0.html
[18] https://bit.ly/2YFvJKR

3. Analysis of the available data on business transfers and their employment effects

The European Commission (2011) flags that in most EU Member States statistics on business transfers to not exist, and where available, definitions vary, which makes it difficult to give sound indications on the scale of business transfers in Europe. That said, the following sections give some indications on the scale of realised and predicted business transfers in Europe. The illustrated data are based on national measurements, with no claim for comprehensively summarising all existing data.

The consulted sources apply different definitions and methodologies, have been published at different points in time and refer to different time horizons. Accordingly, direct comparisons as well as extrapolations are not scientifically sound. Nevertheless, the presented data give some impression on the dimension of the discussed phenomenon.

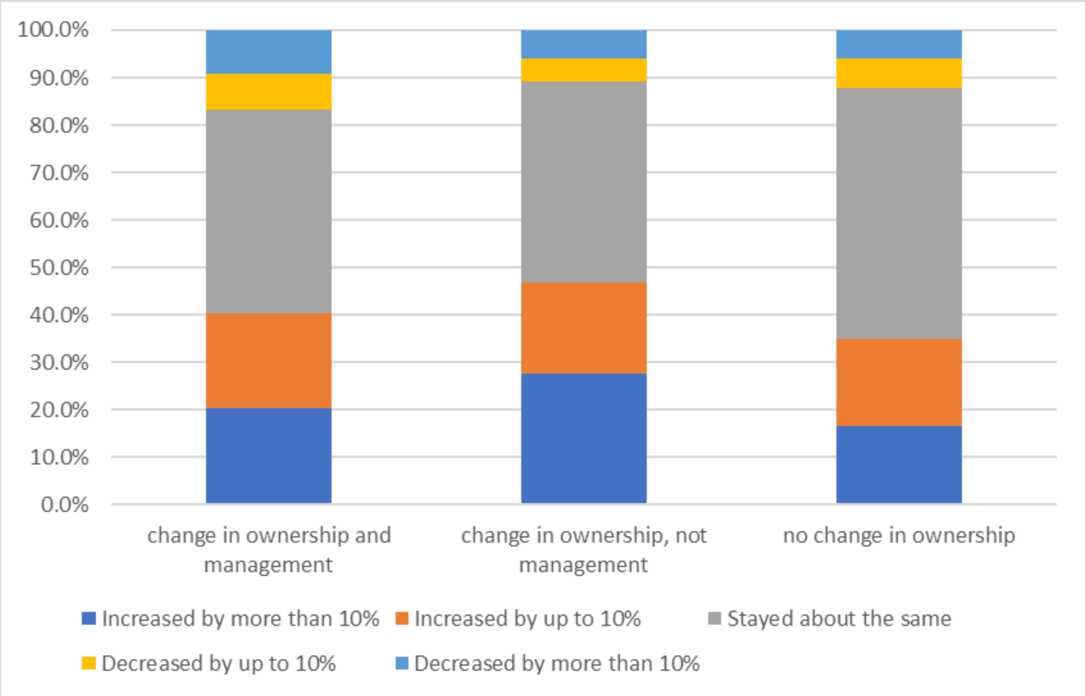
Realised number of business transfers and their employment effects

Across **Europe**, The European Commission (2011), using data gathered in its Business Dynamics Survey 2010, estimated that about 450,000 firms with 2 million employees are transferred annually across Europe. Furthermore, it flags the risk of losing 150,000 firms with 600,000 jobs due to 'inefficiencies in the business transfers system' each year.

Data of the European Company Survey (ECS) 2019 indicate that since the beginning of 2016, there has been a change in the ownership in 9.3% of the companies which also involved a change of management (that is, 'transfers' as understood in this working paper). In further 9.1% there was a change of ownership, but the management remained the same.

About 80% of the companies which experienced a change in ownership had 10-49 employees, less than 3% were large companies with 250 or more staff. Those companies that did not experience a change in ownership had slightly more stable employment levels: more than half did not change their employment levels, about 35% increased staff numbers and about 11% reduced them. Among the business transfers as understood in this paper (change of ownership and management), about 40% experienced employment growth between 2016 and 2018, while about 17% reduced their staff numbers. Among those which had a change in ownership but not management, 47% increased staff numbers and 11% reduced them.

Figure 2: Development of employment levels since the beginning of 2016, share of establishments by change in ownership and management structure, 2019



Source: European Company Survey, 2019

Asked about their plans for the next three years, businesses with a change in ownership - both those with and without management change – are somewhat more optimistic than their counterparts without change. About 40% of them expect an increase in employment numbers while just 30% of the companies with no change do so. About half of the companies with recent changes in ownership expect stable employment levels, compared to more than 60% among those with no change.

For **Austria**, the most recent publication on the topic (BMDW, 2018)[19] indicates approximately 6,300 realised business transfers in 2017 which is an increase by 14% compared to 2000. Ziniel (2014) assesses 57% of the realised transfers as 'successful': 25% realised turnover and employment growth since the transfer and created 3,000-4,000 additional jobs per year; 32% retained their employment levels. The remaining 43%, however, resulted in an annual employment loss of 2,000-3,000 jobs since the transfer.

For **Finland**, the European Commission's Business Dynamics Survey 2010 (European Commission, 2011) estimated that around 6,000 firms are transferred each year.

For **France**, Tourdjman and Le Dret (2017) indicate that every year about 75,000 SMEs are transferred, affecting about 1.2 million jobs. This corresponds to about 2.5% of SMEs and about 8% of employment. Earlier figures from Insee showed with about 60,000 transfers affecting 330,000 jobs a lower level of annually transferred businesses (Bastié et al, 2010; Dombre-Coste, 2015; Nougein and Vaspart, 2017).

[19] At the time of writing this working paper in autumn 2019, an update of this report is being prepared, for publication in 2020.

In **Germany**, the craft registration statistics (‘Gewerbeanzeigenstatistik’) report 32,000 successions through inheritance, sale and lease in 2016 (Kay et al, 2018).

In **Romania**, about 35,500 firms have been transferred on average each year in the period 2007-2009 according to the European Commission’s Business Dynamics Survey 2010 (European Commission, 2011).

Estimated number of forthcoming business transfers and their employment effects

At **European level**, various European Commission publications mention different estimates. This is due to them being based on different national data which were then extrapolated. Due to the low number of available datasources and the use of different data sources for the various extrapolations, the illustrated variation emerges.

- The European Commission (1998) refers to 5 million enterprises (or 30%) facing a transfer in the coming years (without specifying the time horizon further) and expects 30% of those (or 1.5 million) with 6.3 million jobs to disappear from the market.
- The European Commission (2002) concludes that about one third of enterprises in the EU will transfer ownership in the next 10 years, with variations from 25%-40% across the Member States. This corresponds to an average of at least 610,000 SMEs per year, of which 300,000 have employees (a total of 2.1 million jobs) while 310,000 are SMEs without employees.
- The European Commission (2006) estimates that each year, in the EU transfers affect up to 690,000 SMEs providing a total of 2.8 million jobs.

Available **national predictions** can be summarised as follows:

- For **Austria**, BMDW (2018)[20] indicates that during 2018-2027 41,700 small and medium-sized employers will face the challenge of a business transfer (see chapter 2 for some explanations on the prediction model). This corresponds to 26% of all SMEs (excluding one-person enterprises (OPEs) without employees) in the commercial economy (‘Gewerbliche Wirtschaft’). If these are realised successfully, an average of 404,000 jobs (including those of the entrepreneurs) can be retained. The latter amounts to 30% of the total workforce in SMEs (excluding OPEs). In the same period, about 10,000 OPEs (3% of all OPEs) could be transferred.

[20] At the time of writing this working paper in autumn 2019, an update of this report is being prepared, for publication in 2020.

- Based on a survey of 50 Austrian companies, PwC (2014) estimate that more 50% of Austrian family businesses plan to transfer the business to the next generation within the next five years, and 4% plan to sell the business. Family businesses are understood as companies in which the founders, their family or descendants hold the majority of shares or voting rights (25% in case of publicly listed companies) and at least one family member is part of the management of the company.
- In **Belgium**, Guyot et al (2016) estimate that 23% of the companies (about 9,400) in the Walloon region will be transferred in the period 2020-2025. This will affect about 100,000 employees (full-time equivalents).
- Earlier estimates (Lambrecht and Naudts, 2007) for the total of Belgium expected 28% of SMEs to be transferred within 10 years.
- Also, for Belgium, CeFiP estimated in 2010 that during the next decade about 317,500 companies would face a transfer (SDI, 2012; Direction Générale Opérationelle de l'Économie, de l'Emploi et de la Recherche, 2014).
- The **Finnish** SME barometer (Pk-yritysbarometri, 2011) estimated that about 10,000 business transfers could be realised every year during the five following years.
- For **France**, CRA (2019) estimates the annual number of potential business transfers to amount to 68,000.
- At regional level in France, Frénois (2018) indicates that over the coming years 34,800 SMEs (excluding the agriculture and health sectors, as well as micro-entrepreneurs[21]) in Occitanie (the southernmost administrative region of metropolitan France) will face a business transfer, affecting 80,700 jobs. This corresponds to 28% of both, SMEs and employment in the region. For the region of Hauts-de-France, Denoual (2019) finds that 30,600 establishments (19% of the regional establishments) and more than 110,000 jobs could be affected by a transfer within the next five years. Bischoff (2019) refers to 60,700 entrepreneurs aged 50 or older in 2016 (43% of all entrepreneurs) in the region Grand Est, employing almost 23,800 workers.
- For **Germany**, Kay et al (2018) estimate that in the period 2018-2022 about 150,000 family businesses with about 2.4 million workers will face a business transfer (see chapter 2 for some explanations on the prediction model). This corresponds to about 30,000 companies per year. These findings are substantially different from those on the basis of the IAB-Betriebspanel (95,000 for the period 2012-2016, that is an annual average of 19,000) and those of the KfW-Mittelstandspanel which estimates that 511,000 companies (13.7% of all SMEs) plan a transfer in the period 2018-2022, hence 102,000 annually (Schwartz, 2018). Schwartz (2018) reports furthermore that those transfers that are planned to be realised by the end of 2019 amount to 6% of German SMEs and affect 2 million workers (about 6.4% of the total SME workforce) and 89,000 apprentices. More recent KfW-Mittelstandspanel data (Schwartz, 2019) show very similar levels. Kay et al (2018) suggest that the methodology (survey versus model), the considered time horizon and the target

[21] A specific type of self-employed, previously called auto-entrepreneurs.

population (all companies versus those with at least one employee versus family businesses) are the reasons for this discrepancy.

- PwC (2019) establishes that half of the **Irish** family businesses will realise a management/ownership transfer in the next five years (compared to 40% globally).
- For the **Netherlands**, Van Teeffelen (2015) indicates that the number of firms for sale has increased from 23,500 in 2011 to 55,700 in 2014. 7.1% of full-time jobs are related to those forthcoming business transfers.
- In **Poland**, 58% of SMEs are considering a business transfer to the next generation (Kowalewska, 2010).
- In **Sweden**, between 45,000 and 50,000 enterprises with employees are expecting a generation change in the next decade (Nutek, 2004).

4. Policy approaches to business transfers' employment effects

Regulatory framework

The Council Directive 2001/23/EC on the approximation of the laws of the Member States relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses establishes that all rights and obligations arising from an employment contract or employment relationship with the transferor are to be transferred to the transferee. That means that the **employment and working conditions** cannot be changed by the new employer due to the transfer. Dismissals are not allowed for the pure reason of a transfer, but could be justified for economic, technical or organisational reasons. Member States may provide for a joint and several liability of the transferor and transferee for a certain duration after the transfer (for example, one year in Lithuania, Luxembourg and the Netherlands or two years in Portugal and Slovenia).

As of 2019, all Member States of the European Union have established such legal employment protection in relation to business transfers (source: Restructuring related legislation database of the European Restructuring Monitor[22]). In several countries (for example Cyprus, Ireland, the Netherlands) recent amendments of the law (2017/2018) lifted the exclusion of employees on sea vessels from the protective regulation. Also noteworthy is a change in the Polish legislation which came into force in 2018. Previously, in case of the death of the owner of an enterprise owned by a single entrepreneur, the enterprise was automatically terminated, including the employment contracts. Under the new legislation the enterprise can continue, for example under temporary management, which improves the situation of workers as regards their employment retention.

Overall, it can be assumed that transfers do not have negative impacts on employment levels and employment and working conditions, that is existing jobs are fully retained at least for a certain duration after the transfer and employees continue enjoying the same employment and working conditions.

While no solid evidence, for example in the form of legal impact assessments, could be identified, anecdotal evidence flags that the objectives of the regulations seem to be generally well achieved. For Croatia, for example, it is mentioned that there are no issues with the implementation of the regulation, and in Cyprus only 2-3 complaints are brought forward by trade unions annually. In Finland, however, employment protection disputes related to public sector business transfers are deemed to occur rather frequently – but nevertheless concern a rather marginal number of employees (250-300 annual dismissals among nearly 500,000 employees). In Slovakia, trade unions note that some employers try to avoid the regulation by encouraging employees to sign new employment contracts with modified employment terms. From a different perspective, employer organisations in the Netherlands consider the regulations to hamper economic activity as business transfers

[22] https://bit.ly/2OpaF6F

binding the transferee to take over employment contracts requires them to carefully evaluate the risk of taking on new employees.

Council Directive 2001/23/EC further establishes that the status and function of **employee representatives** and existing **collective agreements** must not be changed until they expire or are replaced by another collective agreement. Both transferor and transferee are required to **inform** employee representatives in good time on specified aspects related to the transfer and to **consult** with them 'in good time' with the intention to reach an agreement on measures related to the employees. Member States may decide that such obligations are only relevant for undertakings that meet the conditions for establishing employee representative, or that otherwise all employees need to be informed.

Also as regards staff information and consultation on business transfers, there exists regulation in all Member States of the EU (source: Restructuring related legislation database of the European Restructuring Monitor[23]). In France, general information and consultation obligations apply while the legislation has not implemented article 7 § 3 of the Council Directive, and the Supreme Court in two decisions refused compensation to an employee who had not received information from their employer related to a business transfer in a company without an information and consultation body[24].

While the regulations oblige transferors and transferees to inform staff in advance of the transfer, the understanding of 'in good time' is not operationalised, or harmonised, across the Member States. For example, information has to be provided five working days before the planned consultation in Lithuania (10 days in Portugal), 15 days before the business transfer is implemented in Hungary or Malta, one month before the transfer in Czechia, Estonia, Ireland, Latvia, Poland, Romania, Slovenia and Slovakia, or two months before the transfer in Bulgaria.

In general, the required consultation process on employee measures is hardly detailed. However, where consultation topics are mentioned, the impact of the transfer on employees and projected measures features (for example, Hungary, Malta, Slovenia, Slovakia). For those countries for which respective information is available (for example, Sweden) the consultation process does not provide employee representatives with the right to declare void any decision of the employer, but in some cases (for example, Estonia, Luxembourg) the transferor and transferee need to justify if they disregard the proposals of the employee representatives.

In several jurisdictions (for example, Poland), the burden of proof that information and consultation obligations have not been (properly) followed by the transferor or transferee lie with the employees or their representatives, and non-compliance does not result in the transfer being void. Such specifications raise doubt about the effective and efficient implementation of the regulations regarding safeguarding employees' rights and protections. Concerns are also voiced as regards the protection of employees in non-organised enterprises, even if the Council Directive 2001/23/EC provides that in that case

[23] https://bit.ly/2PAGA4s

[24] https://bit.ly/2rEZTlo

employees themselves shall be informed in advance. In the EU28, 37% the employees have no formal employee representation (Eurofound, 2017). Of these, 89% work in SMEs.

Public and social-partner based support

In 1994, a European Commission Recommendation (European Commission, 1994) aimed to improve the framework conditions for business transfers by encouraging Member States to take action, for example as regards raising awareness among entrepreneurs, improving the financial environment, allowing SMEs to adopt the most appropriate legal form, or reducing inheritance and gift taxes. As it was assessed that various of the suggestions have not been followed to an extent which would be required to overcome the barriers for successful business transfers, a 1998 Communication emphasised the need for continued facilitation of business transfers, for example through legislative and administrative simplification, tax reductions and access to finance (European Commission, 2018). Also, a 2006 Communication (European Commission, 2006) highlighted the continued need to improve conditions for business transfers through awareness raising, adequate financial conditions, tax systems and transparent markets for business transfers.

Since 2008, the Small Business Act for Europe (SBA)[25] calls on the European Union and its Member States to create an environment in which business can prosper and entrepreneurship is rewarded (European Commission, 2008). Principle 1 ('Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded') requires Member States to establish schemes for matching transferable businesses with potential successors and to provide mentoring and support for business transfers.

In spite of all the progress made, still in 2012 the European Commission (European Commission, 2012) suggests the following actions to be taken to facilitate successful business transfers:

- Awareness raising among entrepreneurs on the need for a timely preparation of a business transfer;
- Creation of a transfer-friendly regulatory framework, including issues related to legal form and taxation; and systematic monitoring (that is, data gathering on business transfers);
- Access to and preferential conditions for external finance;
- Creation of comprehensive, but specialised, business advisory services;
- Establishment of transparent markets for business transfers.

In the 2013 Commission Evaluation of the Implementation of the Communication on Business Transfers[26] the following areas have been identified to need particular attention:

- quality of support and advisory services provided over the entire process of a business transfer;

[25] https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en
[26] https://ec.europa.eu/docsroom/documents/4263/attachments/4/translations

- awareness raising for better planning and preparation of business transfer;
- standards related to the functioning of online markets;
- evidence base on business transfers and harmonisation of data collection.

Eurofound's support instruments database of the European Restructuring Monitor[27] illustrates several examples of such initiatives established across the Member States. Prominent among the compiled instruments are **market places** aiming to bring potential transferors and transferees together. One reason for the (probably increasing) need for such 'transfer bourses' is the generally assumed increasing share of external business transfers (that is, to successors who are not members of the owner-manager's family, management of staff members). Transeo, the European Association for SME Transfer, provides an international platform[28] where advertisements of companies for sale and of potential buyers are posted. This also aims to encourage cross-border transfers.

In Austria, Belgium, France and Luxembourg, for example, such a succession bourse is administered by the economic chamber, while in Germany it is hosted by the government, with involvement of several employer organisations and other institutions (like banks). In Belgium and France, also regional market places have been established, with support of regional funds.

Important success factors of such market places are to guarantee confidentiality to the transferor while allowing for targeted search and filter options for the future successors. The market places are in most cases free of charge and accompanied by additional services such as guidelines and checklists, consultation and, in the case of Austria, an online tool assisting the determination of a suitable selling price.

Information and advice are also provided independently from such market places. In Belgium, for example, more than 65 events related to business transfers were organised in the 'week of business transfers' in 2017/2018, including advice by lawyers, accountants, auditors, banks, training centres etc. Similarly, since 2018 Polish SMEs facing a business transfer benefit from comprehensive advice related to business strategy, law, finance and organisational structure.

In France, regional one-stop-shops support transferors and transferees by organising meetings with specialists, information forums or consultations. This is done by a cooperation of the national and regional government, the public employment service and employer organisations. In Germany, a regional facilitator scheme assists entrepreneurs in different phases of their transfer project through advice by other entrepreneurs or business experts. This is seen to foster the transferor's trust in the scheme and ensures them as regards their confidentiality needs. In Slovenia, since 2018 the government offers a manual informing about the main challenges of family businesses facing a transfer and recommending solutions to overcome the related challenges.

At European level, **access to finance** has been identified as another important area of support for business transfers. While this is an important issue for SMEs in general and start-

[27] https://bit.ly/2ruiwbO
[28] http://www.transeo-association.eu/marketplace/

ups in particular, it can be assessed of particular relevance for transfers as the new owner-manager has to accumulate the financial means to buy an established company with all its tangible and intangible assets.

In France and Luxembourg, for example, the government offers a favourable loan to transferees who provide a minimum level of funding as well as a business and finance plan. Furthermore, the government in Luxembourg provides an investment grant for tangible or intangible fixed assets which can be increased in the case of a business transfer. In Malta, since 2017 a grant scheme supports the legal, notarial and advisory costs related to business transfers.

Also, in Malta, a recent ‘family business act’ of 2017 entitles companies not only to legal guidance and assistance to plan and realise a transfer, but also to enhanced tax credit, positive consideration of lease renewal of industrial government leased premises, education and training funds, relaxed investment aid and reduced stamp duties on business transfers. Furthermore, duties on transfer of immovable property and shares of a business among family members have been reduced. Similarly, in Belgium the tax rate applied to capital gains resulting from certain types of business transfers has been reduced as of 2018.

In Austria, transferees are exempt from certain administrative fees and taxes to reduce their financial burden.

References

All Eurofound publications are available at www.eurofound.europa.eu

Bastié, F., Cieply, S. and Cussy, P. (2010), *Impact de la forme de la reprise sur la réaction des stakeholders,* Revue d'Économie Industrielle, 4e trimestre 2010, p. 9-30.

Bischoff, J. (2019), *La transmission des entreprises indivduelles. L'emploi de 23 800 salariés en jeu au départ à la retraite du dirigeant,* Insee Analyses No. 96, Grand Est, Strassbourg.

Bundesministerium für Digitalisierung und Wirtschaftsstandort (BMDW) (2018), *Mittelstandsbericht 2018. Bericht über die Situation der kleinen und mittleren Unternehmen der österreichischen Wirtschaft,* Vienna.

Council Directive 2001/23/EC of 12 March 2001 on the approximation of the laws of the Member States relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses, Official Journal of the European Commission L82/16 of 22 March 2001.

CRA (2019), *L'Observatoire National CRA de la Transmission des TPE/PME, Tendances 2019,* Cédants & Repreneurs d'Affaires, Paris.

Denoual, D. (2019), *Observatoire de la Transmission-Reprise-Hauts-de-France. Étude prospective sur le potentiel d'entreprises à transmettre à horizon de 5 ans,* CCI Hauts-de-France.

Direction Générale Opérationelle de l'Économie, de l'Emploi et de la Recherche (2014), *Rapport annuel de l'Envoyé PME wallon 2013 – 2014,* SBAW/IWEPS/SPW, Namur.

Dombre-Coste, F. (2015), *Favoriser la Transmission D'Entreprise en France : Diagnostic et Propositions,* Ministère de l'Économie, de l'Industrie et du Numérique, Paris.

Eurofound (2013), *Restructuring in SMEs in Europe,* Publications Office of the European Union, Luxembourg.

Eurofound (2017), *Sixth European Working Conditions Survey – Overview report (2017 update),* Publications Office of the European Union, Luxembourg.

European Commission (1994), *Communication of the Commission recommendation of 7 December 1994 on the transfer of small and medium-sized enterprises,* OJ C 400, Brussels.

European Commission (1998), *Communication from the Commission on the transfer of small and medium-sized enterprises*, 98/C93/02, Brussels.

European Commission (2002), *Final report of the expert group on the transfer of small and medium-sized enterprises*, Brussels.

European Commission (2003), *Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises,* 2003/361/EC, Brussels.

European Commission (2006), *Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Implementing the Lisbon community programme for growth and jobs, transfer of businesses - Continuity through a new beginning*, COM(2006) 117 final, Brussels.

European Commission (2008), *Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of* *the Regions: "Think Small First" – A "Small Business Act" for Europe,* COM(2008) 394 final, Brussels.

European Commission (2011), *Business Dynamics: Start-ups, Business Transfers and Bankruptcy. The economic impact of legal and administrative procedures for licensing, business transfers and bankruptcy on entrepreneurship in Europe,* Brussels.

European Commission (2012), *Facilitating Transfer of business,* Guidebook Series How to support SME Policy from Structural Funds, Brussels.

Frénois, L. (2018), *Transmission et reprise d'entreprise : 80 700 emplois potentiellement en jeu dans les prochaines années*, Insee analyses Occitanie No. 66, available at https://www.insee.fr/fr/statistiques/3678956.

Gavac, K., Kanov, H., Kamptner, I., Mandl, I. and Voithofer, P., (2002), *Unternehmensübergaben und -nachfolgen in Österreich,* Österreichisches Institut für Gewerbe- und Handelsforschung/Bundesministerium für Wirtschaft und Arbeit/Wirtschaftskammer Österreich, Vienna.

Guyot, J.-L., Voz, B. And Wiliquet, M. (2016), *Le marché de la transmission d'entreprise en Wallonie : un éclairage statistique,* Working Paper de l'IWEPS No. 22, Institut Wallon de l'évaluation, de la prospective et de la statistique, Brussels.

Iskrenova, I. (2017), *Final methodological report on implementation of the action entitled 'Statistics for family businesses – SFB_NSI Bulgaria',* National Statistical Institute of the Republic of Bulgaria, Sofia.

Kay, R., Suprinovič, O., Schlömer-Laufen, N. and Rauch, A. (2018), *Unternehmensnachfolgen in Deutschland 2018-2022,* Daten und Fakten Nr. 18, Institut für Mittelstandsforschung (IfM) Bonn/Bundesministerium für Wirtschaft und Energie, Bonn.

Kersiev, I. (2017), *Professionalising management in the process of family business succession securing sustainable development of Bulgarian family firms*, University of national and world economy, Sofia.

Kowalewska, A. (ed) (2010), *Firmy rodzinne w polskiej gospodarce ‑ szanse i wyzwania*, Polska Agencja Rozwoju Przedsiębiorczości, Warsaw.

Lambrecht, J. and Naudts, W. (2007), *Overdracht en overname van kmo's in Belgie*, FOD Economie, SVO EHSAL-K.U., Brussels.

Mandl, I., Dörflinger, C. And Gavac, K., (2009), *Unternehmensübergaben und -nachfolgen in Kleinen und Mittleren Unternehmen (KMU) der Gewerblichen Wirtschaft in Wien,* KMU FORSHCUNG Austria/Wirtschaftskammer Wien, Vienna.

Nougein, C. and Vaspart, M. (2017), *Moderniser la transmission d'entreprise en France : une urgence pour l'emploi dans nos territoires,* Rapport d'information no. 440 (2016-2017), Sénat, Paris.

Nutek (2004), *Generationsskiften i företag – Problemanalys av vilka effekter som kan förväntas av kommande generationsskiften i företag*, Stockholm.

OECD (2018), *Business transfer as an engine for SME growth,* Policy Note SME Ministerial Conference 22-23 February 2018, Mexico City.

Pk-yritysbarometri (2011), *Spring 2011*, Federation of Finnish Enterprises, Finnvera, Ministry of Employment and the Economy, Finland.

PwC (2014), *Österreich Report. Family Business Survey 2014. Besonderheiten, Herausforderungen und Perspektiven österreichischer Familienunternehmen,* Vienna.

PwC (2019), *The values effect,* 2019 PwC Irish Family Business Report, PwC, Dublin.

Schwartz, M. (2018), *Generationswechsel im Mittelstand: Bis 2019 werden 240.000 Nachfolger gesucht,* Nr. 197, KfW Research, Fokus Volkswirtschaft, Frankfurt/Main.

Schwartz, M. (2019), *Nachfolge-Monitoring Mittelstand: Planungen stabil auf hohem Niveau,* Nr. 241, KfW Research, Fokus Volkswirtschaft, Frankfurt/Main.

Syndicat des Indépendants & des PME (SDI) (2012), *Cartographie de la transmission d'entreprises en Belgique,* news article, available at http://www.sdi.be/nouvelles/cartographie-de-la-transmission-dentreprises-en-belgique.

Tourdjman, A. and Le Dret, T. (2017), *La Cession-Transmission des PME et des TPE,* Groupe BPCE, Paris.

Van Teeffelen, L. (2015), *Groeiende impact van bedrijfsopvolging op de Nederlandse economie, Schattingen voor 2014/2015,* Hogeschool Utrecht.

Ziniel, W., Gavac, K., Seidl, T. And Bachinger, K., *Unternehmensübergaben und -nachfolgen in Österreich. Status quo 2014: Aktuelle Situation und zukünftige Entwicklungen,* KMU Forschung Austria/Bundesministerium für Wissenschaft, Forschung und Wirtschaft/Wirtschaftskammer Österreich – Gründerservice, Vienna.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency established in 1975. Its role is to provide knowledge in the area of social, employment and work-related policies according to Regulation (EU) 2019/127.