



Eurofound

Restructuring in SMEs: Austria

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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 a successful restructuring.

The amount of external support available (or required) for employers and employees in SME restructurings was also investigated to identify potential ways of improving policy. This research project was conducted in all the EU 27 Member States. This, the national background report for Austria, aims to summarise the available relevant research. The literature and data review show that there are hardly any standardised structural business statistics in Austria 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 classes, and sometimes provide only aggregated, macroeconomic analyses.

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 also seldom specifically focuses on SMEs, instead providing findings at microeconomic level without differentiating by size, or at macroeconomic level. Furthermore, some of the research related to microeconomic restructuring uses specific isolated research questions or covers only limited industries, making it difficult to draw more general conclusions. Consequently, the information that can be presented in this report, based on this data, is rather limited. This is particularly true for individual restructuring types, such as relocation or mergers/acquisitions, as well as how SME restructuring is done, in terms of processes and procedures, and motivation and achievement.

Apart from the literature review here, there are also three Austrian company case studies available in Eurofound’s database: **Boutiquehotel Stadthalle Wien**, **M-TEC Energie.Innovativ** and **Paltentaler Minerals**.

SMEs in Austria

In Austria, SMEs have been seen as contributing considerably to making the economy robust in times of crisis.¹ Indeed, it is thought that it is due to SMEs that, for more than a decade, the Austrian economy has been increasing faster than the rest of the Eurozone.

¹ <http://www.bmwfj.gv.at/Unternehmen/UnternehmensUndKMU-Politik/Seiten/EntwurfMittelstandsbericht2012.aspx>

In 2010, there were 307,700 Austrian businesses, and 99.7% of them were SMEs. They are responsible for:

- about 66% of employment;
- 70% of apprenticeship training;
- about 63% of the net turnover;
- 58% of gross value-added of the Austrian economy.

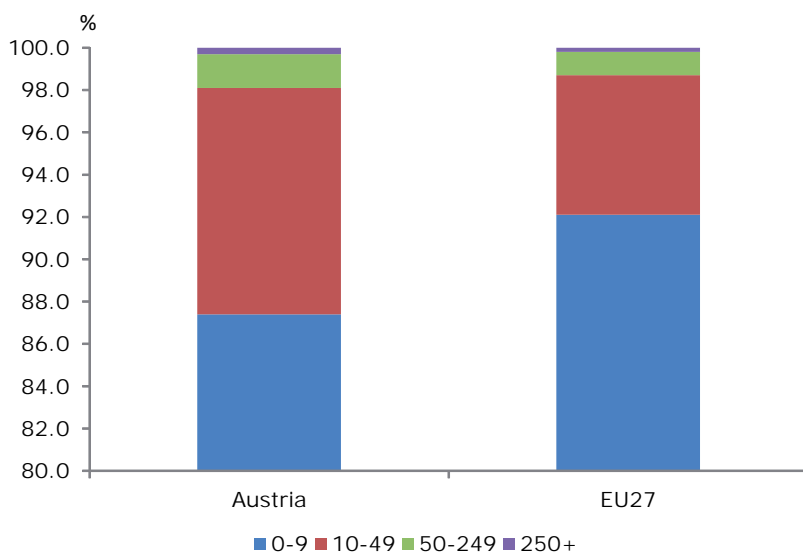
Table 1: Key indicators of Austrian SMEs of the market-oriented economy 2010*

	Number	Share of SMEs in %
Companies	307,667	99.7
Employees	1,795,561	66.9
Net turnover in € millions	397,892	62.6
Gross value-added at factor costs, in € millions	98,524	58.0

* sections B-N, S95 of ÖNACE 2008
Source: Statistik Austria (BMWFJ, 2012)

About 87% of Austrian firms are micro enterprises with fewer than nine employees, 10% are small firms (10–49 workers) and about 2% are medium-sized companies employing 50–249 staff. Compared with the EU average, there is a lower share of micro enterprises and a higher share of small and medium-sized firms in Austria.

Figure 1: Size class distribution (by number of employees) of the enterprises of the market-oriented economy, 2010

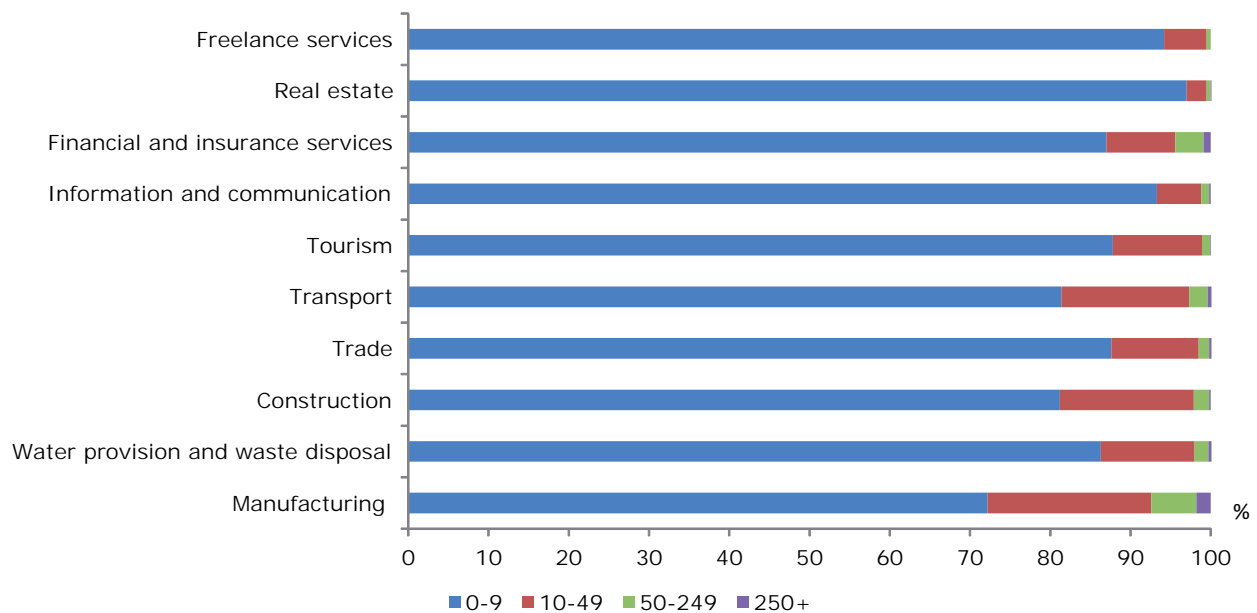


Source: Statistik Austria, Eurostat (BMWFJ, 2012)

Between 2005 and 2012, the number of SMEs increased by 5%, the number of employees working in SMEs by almost 10%, and the value-added created by SMEs by more than 20% (European Commission, 2012). The outlook is also positive as Austria is one of the few EU Member States where the SME sector has so far weathered the global economic and financial crisis without any lasting downturn (European Commission, 2012).

About 25% of Austrian SMEs of the market-oriented economy are active in the trade sector and another 20% in freelance services. Some 14% are tourism companies with about 10% in construction and a further 10% in manufacturing. The information and communication, freelance services and real estate sectors are characterised by a particularly high share of micro enterprises (more than 90%) while small and medium-sized firms have a 20%–30% share in manufacturing, construction and transport.

Figure 2: Size class distribution (by number of employees) of the Austrian market-oriented economy by sector, 2010



Source: Statistik Austria (BMWFJ, 2012)

Restructuring in SMEs as a public and policy issue

Given that over 99% of Austrian businesses are SMEs, SME policy is considered central to the country's economic policy.² Sector and size-class specific measures have been established to take account of the fact that the SME sector is very heterogeneous.

During the last decade, restructuring in Austrian companies has become faster and more frequent. (Voss, 2008). At macroeconomic level, job losses in manufacturing and agriculture have been compensated for by increasing employment in the service sector. SMEs' share in total employment has been increasing, also implying that these businesses are restructuring to improve their sustainability and competitiveness.

In spite of that, public debate about restructuring in Austria mainly focuses on big job losses in large firms or more general issues which are not about size. Policy and public discussions, including those in the media, rarely explicitly address the characteristics of restructuring in SMEs and the related challenges for companies and workers.

² <http://www.bmwfj.gv.at/Unternehmen/UnternehmensUndKMU-Politik/Seiten/default.aspx>

However, some of the main elements of the Austrian SME policy are related to restructuring (mainly internal restructuring and business expansion), even if not explicitly signposted. These include measures on:

- access to finance;
- access to public procurement;
- fostering innovation and internationalisation;
- creation of SME networks;
- establishment of a positive image of craft enterprises.³

Obviously, the measures are introduced in order to encourage SMEs' competitiveness, growth, internationalisation or innovation potential. However, despite the fact that there is no overall policy dealing with SME restructuring, it can be assumed that this issue has been continuously considered at policy level, at least implicitly, even before the global economic and financial crisis (and certainly with more emphasis since then).

³ <http://www.bmwfj.gv.at/Unternehmen/UnternehmensUndKMU-Politik/Seiten/KMU-Paket09.aspx>

Relevance of different types of restructuring for SMEs

Overview

Here, the classification of the European Restructuring Monitor (ERM)⁴ is applied to analyse the occurrence of individual forms of restructuring in SMEs. However, no secondary data or literature relevant to SMEs for the ERM categories of ‘relocation’ and ‘merger/acquisition’ could be found for Austria.

- Outsourcing: When a business’s activity is subcontracted to another company within the same country. This study focuses on SMEs’ giving work to other companies, not those who act as suppliers.
- Offshoring/delocalisation: When a business’s activity is relocated or outsourced abroad.
- (Avoiding) Bankruptcy/closure: When a business goes bankrupt or is closed for economic reasons, or when trying to prevent bankruptcy or closure.
- Internal restructuring: any reorganisation not covered by another definition here, for example a business transfer/succession, diversification, or change of organisational structures.
- Business expansion: Where a company extends its business activities (for example, 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). Continuous growth is not considered as restructuring in this study.

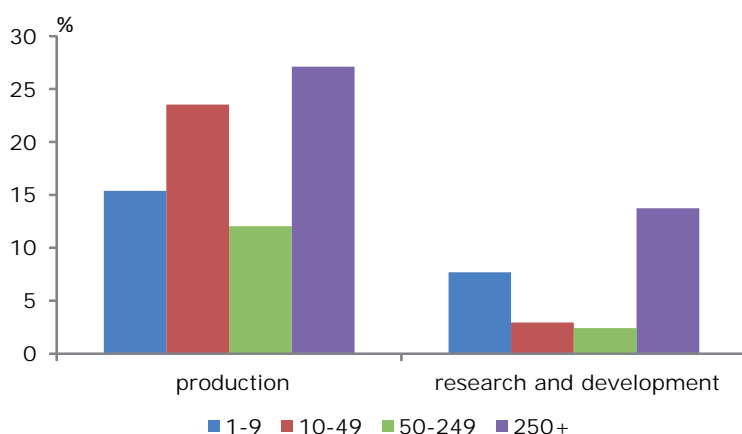
Outsourcing and offshoring/delocalisation

Hornung et al. (2005) find that fewer than 10% of Austrian companies with up to 300 employees outsourced production in the year before the survey (compared with about 20% of firms with more than 1,000 workers). Slightly more than 10% did so in the previous three and ten years, respectively. Overall, about 70% did not outsource production.

In a survey of spring 2005, 8.4% of Austrian SMEs reported that they planned to delocate (parts of) their production to Eastern Europe (Voss, 2008). Similarly, according to a report by the International Central European Institute (icei) in 2007, 14% of Austrian businesses that were internationally active had offshored parts of their value chain in 2002–2006. Some 66% of these offshoring activities related to production. Interestingly, small firms (10–49 employees) show a similar level of offshoring production as large enterprises (about 25%), while the share among micro and medium-sized firms is about half as high. Offshoring of research and development is far less common, and particularly so in small and medium-sized firms (fewer than 3%, compared with about 8% among micro and about 14% in large firms).

⁴ <http://www.eurofound.europa.eu/emcc/erm/index.htm>

Figure 3: Share of offshoring companies by size class and type of offshoring, 2002–2006



Source: *icei, 2007*

Bankruptcy/closure

Statistics on companies' survival rates show that there is a positive relationship between firm size and closure. While differences are small in the start-up year with survival rates around 90%–96% across all size classes, micro enterprises have a considerably lower chance of survival later on than larger companies. For example, after six years 70% of firms with 10 or more workers are still active on the market, while this is the case for only 54% of firms with one to four employees.

Table 2: Survival rates of companies of the market-oriented economy* founded in 2004 by employment size class

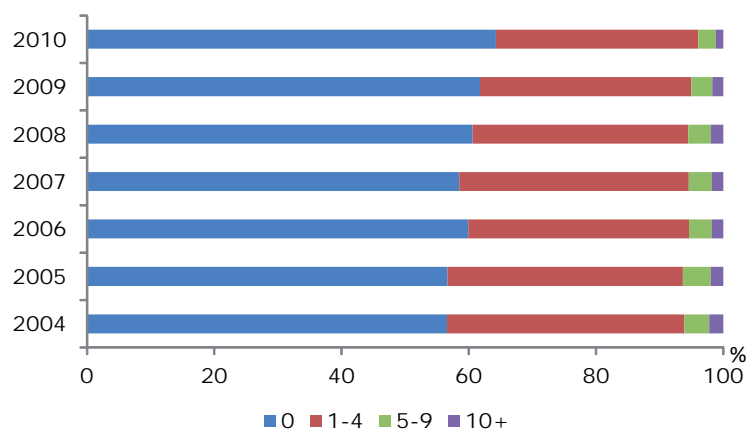
No. of employees	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years	After 6 years
0	89.9	80.6	72.8	66.6	60.8	56.3
1–4	87.4	78.7	71.3	65.0	59.0	53.9
5–9	92.7	82.4	73.6	67.4	61.7	57.6
10+	96.1	89.2	83.6	77.4	73.6	70.4

* Sections B-N of ÖNACE 2008

Source: *Statistik Austria (BMWFJ, 2012)*

In 2010, about 24,100 Austrian companies were closed. Some 64% of them did not employ any workers and another 33% had fewer than five employees. Between 2008 and 2010 the number of company closures decreased in all size classes; however, the larger the firm, the higher the rate. As a consequence, the relative importance of closures among one-person enterprises was increasing. The share of micro enterprises which are closing is particularly high in the trade, freelance/technical services and arts/entertainment/leisure sectors.

Figure 4: Company closures by employment size class, 2004–2010



Source: Statistik Austria

Only a small number of closures are caused by insolvency. There were about 5,900 company insolvencies in Austria in 2011. This is the lowest level since 2003, and is particularly striking when compared with the peak in 2009 caused by the global economic crisis. Each year, about 35% of insolvent companies succeed in restructuring their firm and continue activities through a restructuring plan (KSV1870, 2012).

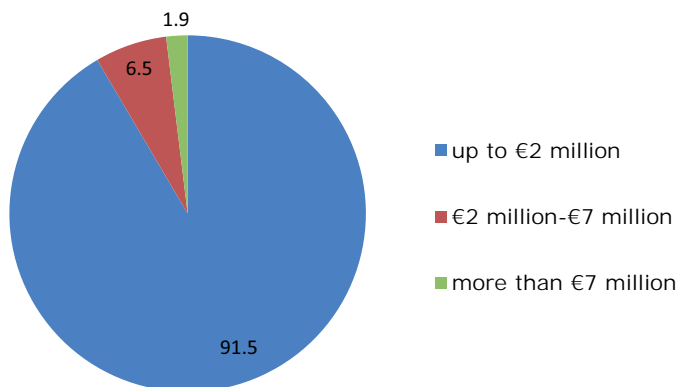
Table 3: Company insolvencies, 2000–2011

Year	Number of company insolvencies
2000	5,340
2001	5,178
2002	5,281
2003	5,564
2004	6,318
2005	7,056
2006	6,707
2007	6,295
2008	6,315
2009	6,902
2010	6,376
2011	5,869

Source: KSV1870

The total number of workers affected by company insolvencies (20,600 in 2011 and 24,000 in 2010) pinpoints that the vast majority of companies becoming insolvent are SMEs. This can also be shown by the involved liabilities. More than 90% of insolvency proceedings relate to debts of up to €2 million, while fewer than 2% relate to debts of more than €7 million.

Figure 5: Distribution of insolvencies (proceedings opened) by liability size class, 2011



Source: KSV1870, 2012

Internal restructuring

Hornung et al. (2005) find in their survey that more than 70% of Austrian companies with up to 300 workers conducted internal restructuring. Almost 30% have done so in the year of the survey, with a further 30% carrying out restructuring during the three years before the survey. About 10% had done so within the previous 10 years. Among firms with 301–1,000 employees, the share is about 85%, and in companies employing more than 1,000 staff it amounts to 90%.

Internal restructuring, however, is a very heterogeneous category. Ponholzer (2004), for example, differentiates between:

- financial restructuring (such as changes in ownership, restructuring of credits, introduction of new financing forms);
- organisational restructuring (optimisation of processes, logistics);
- stakeholder-oriented restructuring (HR, purchases).

Due to the broad understanding of this type of restructuring, it is very difficult to provide comprehensive data on the individual forms, particularly as data generally is so scarce on restructuring in SMEs. Here is some illustration of what data there are on individual forms of SMEs' internal restructuring.

In 2005, the Global Entrepreneurship Monitor (GEM) found that 44%⁵ of Austrian company founders or young entrepreneurs (up to 3.5 years of business activity) and 26% of the established entrepreneurs assessed their products/services as new to their clients or that they were unknown on the market (Sammer and Schneider, 2005). In an international comparison, Austria ranks in the top 33% regarding innovative young enterprises, but only in the lower middle group of established entrepreneurs.

⁵ 45% in 2007 (Apfelthaler et al., 2007)

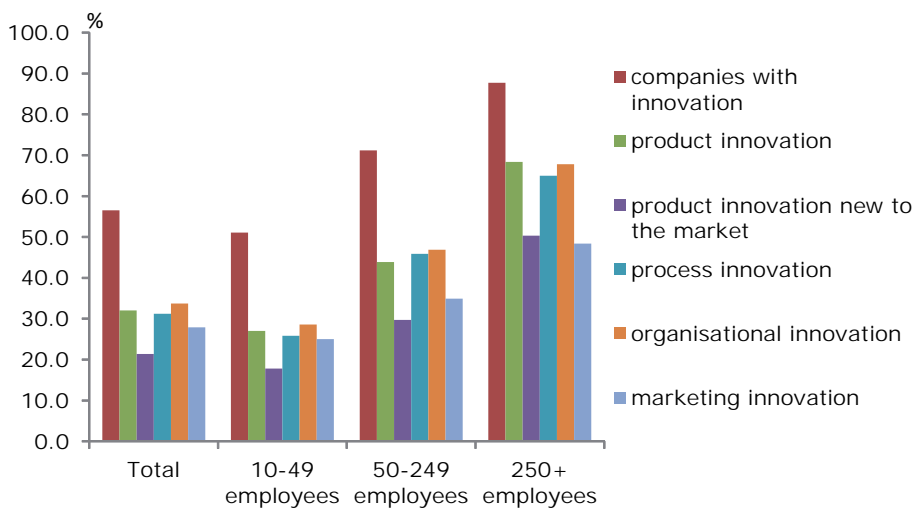
Table 4: *Innovation of Austrian enterprises, 2005*

Seeing products/services as new	Nascent entrepreneurs (up to 3.5 years)	Established entrepreneurs
All clients	10% [17%]	11%
Some clients	34% [28%]	15%
No clients	56% [55%]	74%

[] refer to shares for 2007 (Apfelthaler et al, 2007)
 Source: *Sammer and Schneider, 2005*

Similar results are found in the Community Innovation Survey (2010) for Austria. In 2008–2010, 56.5% of Austrian companies carried out innovations, with the share increasing with company size (from 51% in small to 71% among medium-sized and almost 90% in large firms). While among SMEs the highest share of companies indicated organisational innovations, among large firms product innovations were more prevalent.

Figure 6: *Innovation activities of Austrian companies 2008–2010, share of companies by employment size class*

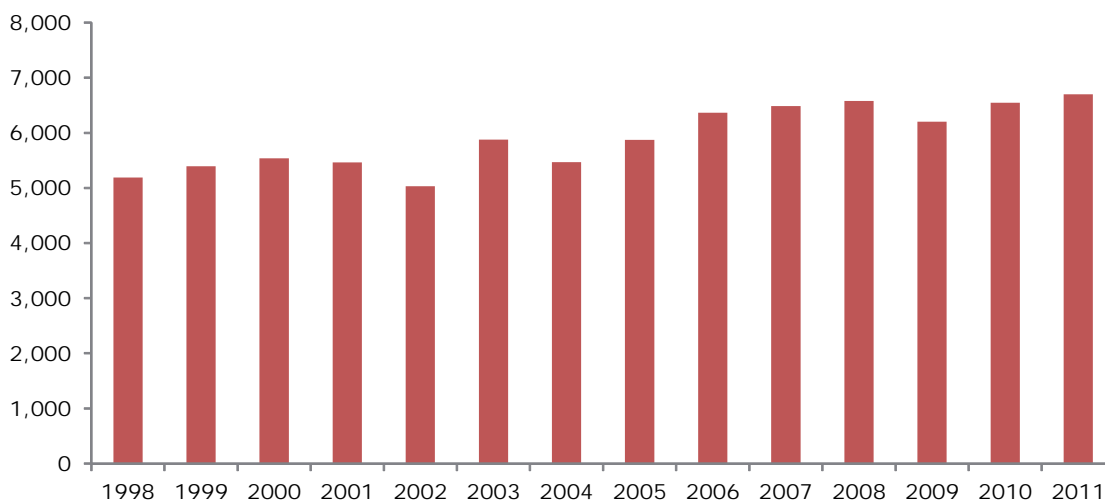


Source: *Statistik Austria, CIS 2010*

As has been mentioned, changes in ownership and management structure can also be considered as internal restructuring, and this is particularly relevant for SMEs in which a single person is owner and manager. Consequently, business transfers and successions may have a considerable influence on a firm’s business orientation and development.

Between 1998 and 2011, about 5,900 Austrian businesses were transferred annually to a new owner, which corresponds to about 1.6%–1.9% of active members of the Austrian Economic Chambers. Most transfers were carried out in the tourism (32%), craft (26%) and trade (21%) sectors.

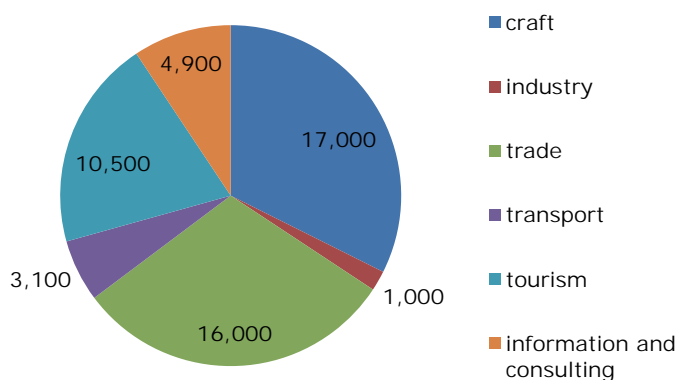
Figure 7: Achieved business transfers, 1998–2011



Source: WKO, 2012b

In 2012–2021 an estimated 52,500 Austrian SMEs (excluding one-person enterprises) will be faced with a business transfer. This corresponds to about 33% of all SMEs. Most transfers will take place in the craft, trade and tourism sectors.

Figure 8: Potential business transfers of SMEs (excluding one-person enterprises) 2012–2021



Source: Austrian Institute for SME Research (BMWFJ, 2012)

Business expansion

The survey conducted in the framework of the Global Entrepreneurship Monitor (GEM) in 2007 showed that Austrian nascent entrepreneurs (those with businesses up to 3.5 years old) had good growth expectations. The share of those not employing any staff was planned to decrease from 37% to 22%, while the share of those having more than 19 employees was planned to increase from 0% to 16%. More established entrepreneurs had hopes for growth too, but these were more modest.

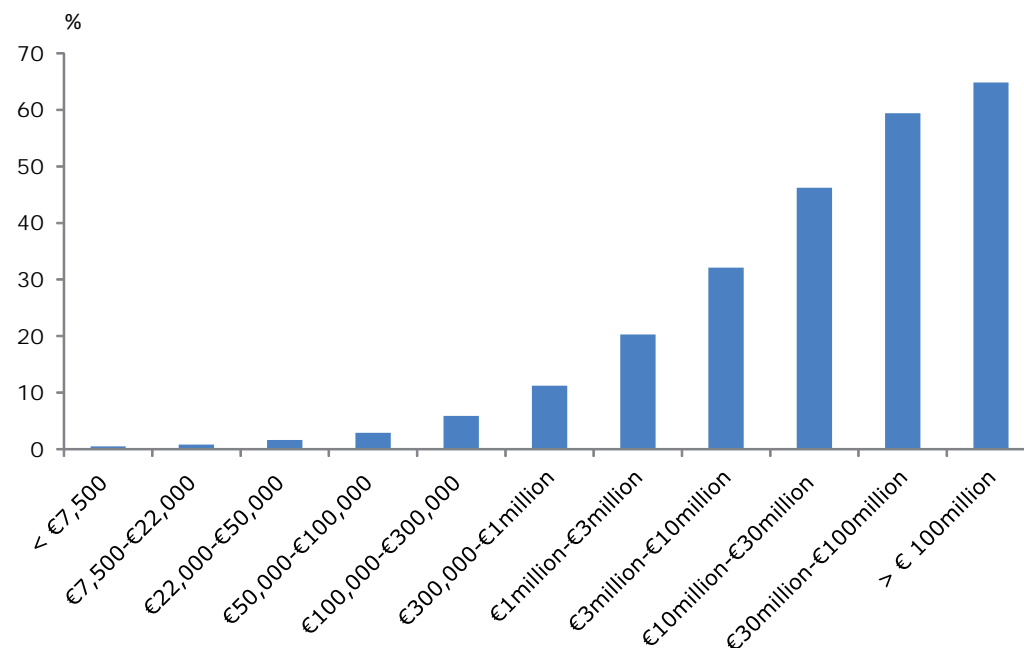
Table 5: *Planned employment development, share of entrepreneurs in %, 2007–2012*

No. of employees	Nascent entrepreneurs (up to 3.5 years in business)		Established entrepreneurs (> 3.5 years in business)	
	2007	2012 (plans)	2007	2012 (plans)
0	37	22	12	12
1–5	53	51	38	34
6–19	10	11	25	27
>19	0	16	26	27

Source: *Apfelthaler et al., 2007*

Business expansion can be carried out domestically or by entering new foreign markets. As regards internationalisation, EIM Business & Policy Research (2010) found that in 2006–2008 about 33% of Austrian SMEs were active in international activities (exports, imports, investing abroad, cooperating internationally, and having international subcontractor relationships). This level is considerably below EU average (44%).

This also holds true when focusing solely on exports. While about 25% of SMEs in the EU, on average, are engaged in direct exports, the share is less than 20% for Austrian SMEs. Furthermore, national VAT statistics show huge differences among Austrian companies. While fewer than 5% of companies with a turnover of up to €100,000 have export turnover, the share rises to about 33% among firms with an export turnover of €3 million–€10 million, and to a share of about 66% for the largest firms. Pöschl et al. (2009) show that Austrian exporters active in manufacturing on average employ 183 workers and are, hence, about four times larger than domestically oriented companies in their sample (with the exception of the chemical industry).

Figure 9: *Share of companies with export turnover according to VAT statistics, 2009*

Source: *Statistik Austria*

However, the share of Austrian SMEs investing abroad is much higher than on EU average (11% compared with 4% in 2006–2008) (BMWFI, 2010). While in general, the share of companies with at least one foreign subsidiary increases with size class (as does the number of foreign subsidiaries), it is interesting to note the comparatively high level of micro enterprises, particularly in non-manufacturing sectors, that can be considered multinational companies.

Table 6: *Share of companies with at least one foreign subsidiary by size class, 2009*

No. of employees	Total	Manufacturing	Non-manufacturing
1–9	4.5	1.9	4.6
10–24	1.7	1.7	1.7
25–49	2.8	3.3	2.7
50–99	5.9	7.0	5.6
100–249	9.9	15.5	7.5
250+	23.4	38.4	15.2

Source: *Falk et al., 2010*

Drivers of restructuring

Due to the lack of research specifically dealing with the issue of restructuring in SMEs in Austria, little can be said about drivers of restructuring. In the following section, very fragmented findings on the motivations for outsourcing, internationalisation and the reasons for insolvencies and SME crisis are summarised.

In their survey among works councils, Hornung et al. (2005) found that the improvement of competitiveness was the motive most mentioned for restructuring by the owners of companies with up to 300 workers (about 45%). Almost 40% cited a desire to reduce costs, with another 40% wanting to cut duplication. In about 30% of cases, the increase of core competences was the driver, with cuts in staff costs indicated by almost 20% of the owners, (but another 25% of the works councils assume that this was a motive but has not been officially mentioned).

Globalisation, and the transformation of central and eastern European economies, including their access to the EU, had a strong (and positive) influence on Austrian business sectors, including SMEs (Voss, 2008). Exports have been increasing, resulting in an improved trade balance and global market share. Furthermore, foreign direct investment into central and eastern Europe was expanded, giving Austrian companies a pioneering role in investment in the New Member States.

The main reason for Austrian companies (with 46% employing fewer than 50 employees and another 41% having 50–500 workers) to outsource IT services is to reduce costs (30%) and get access to qualified IT specialists and resources (24%) (IT Sourcing Europe, 2010). Another study on IT outsourcing mentioned that for 25% of large enterprises and 8% of SMEs the global economic crisis was a reason to consider outsourcing as a means to reduce costs (investment and running costs), focus on the core business and save time.⁶

The main reasons for Austrian companies, particularly smaller ones, to offshore production are the establishment of sales and customer services abroad, as well as the potential to save costs (icei, 2007). Other important reasons are resource shortages as well as flexibility and delivery capacity.

A 2008 study on business transfers shows that the reason for 50% of Austrian successions is the age of the initial entrepreneur, followed by his/her wish to conduct another self-employed activity (15%). Some 14% of transfers are caused by accidents/health problems/death of the entrepreneur and 8% by his/her wish to switch into dependent employment. (Mandl et al., 2008)

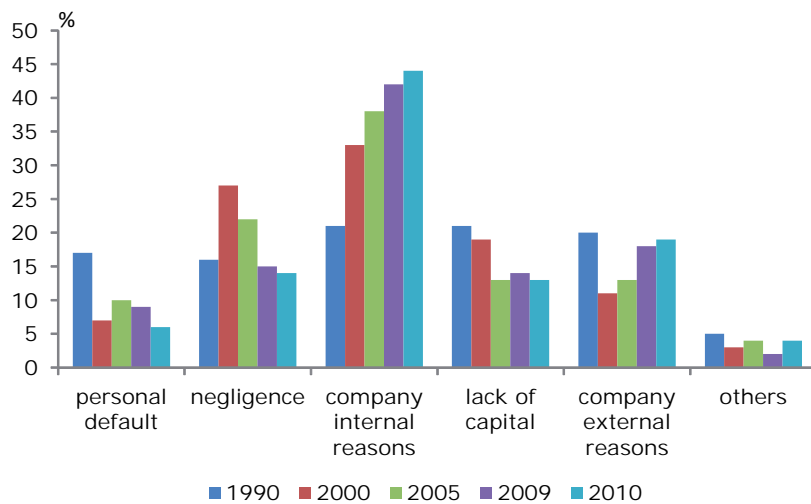
The main reason for company insolvencies in Austria – the majority of which are SMEs – are company internal features (more than 40% of insolvencies), related to lacking business know-how. This is mainly related to:

- unfavourable organisational structures;
- lack of strategic planning and financial monitoring;
- acceptance of payment delays by customers;
- marketing deficiencies;
- conflicts among owners.

⁶ http://portal.wko.at/wk/format_detail.wk?AngID=1&StID=534741&DstID=5295

About 20% of the insolvencies are caused by external factors, such as the economic crisis. Both internal and external reasons show an increasing importance over time. Personal default, such as fraud, speculation or withdrawal of assets/equity for private use is not only the least important reason, but also characterised by decreasing importance over time, as is negligence.

Figure 10: *Reasons for company insolvency, 1990–2010*



Source: *KSV1870 (2011)*

Ponholzer (2004) mentions that a company crisis is not caused by a single event or factor, but by a combination of internal and external issues. He differentiates between emotional and business administration and economic-related drivers for SME insolvencies.

Emotional causes include:

- low interest in financial planning;
- the monitoring and interpreting of data too optimistically;
- over-optimistic perspectives for the future;
- a higher emphasis on prestige rather than on economically sound decisions;
- blaming employees for unfavourable business development rather than admitting one's own faults, resulting in demotivation and decreased performance of staff;
- rejection of any recommendations by others.

Business administration and economic reasons include:

- sectoral downturns;
- issues related to previous company development (for example, low equity due to capital needs in/after business transfer, unfavourable previous investments);
- delays by clients in paying (or not paying at all);
- lack of marketing strategy or financial control;
- inefficient production processes;
- lack of involvement of employees in company strategies, resulting in reluctance to change and lower motivation and commitment.

Distinctive characteristics of restructuring in SMEs

The scarcity of available research studies on restructuring in SMEs in Austria means that a comprehensive picture cannot be presented on the processes and proceedings SMEs apply in anticipating and managing change. The very fragmented information which can be given is limited to specific restructuring types for which research is available, and to a description of the restructuring forms rather than of processes applied. The three company case studies carried out in this project (<http://www.eurofound.europa.eu/emcc/labourmarket/restructuringsme.htm>) can supplement the findings below.

Anticipation, planning and preparation of restructuring events

Ponholzer (2004) mentions that most enterprises do not use suitable ways of identifying company crises at an early stage, and that risks – if identified at all – are often wrongly assessed. Crisis is often considered as a temporary problem, caused by external reasons (such as low demand or low economic development). Furthermore, SMEs mainly use traditional accounting systems. These are based on past data which are not sufficient for the early detection of a potential crisis.

The available, fragmented research shows that Austrian SMEs tend to be weak in forecasting.

An IT outsourcing study (IT Sourcing Europe, 2010) shows that only 31% of Austrian companies (46% of these employed fewer than 50 employees and another 41% had 50–500 workers) conduct in-house assessments of work to be outsourced before signing an outsourcing contract, while 19% ask others for references and 18% hire a consultant.

In 39% of the business transfers carried out in 2006 there was a concrete plan for the succession, compared with 18% in 2001 (Mandl et al., 2008). There is a higher share of plans in:

- larger firms (49% in firms with more than four employees);
- family businesses (50%);
- transfers due to age (47%).

In general, it can be assumed that entrepreneurs underestimate the importance of the long-term planning of business transfers and take comparatively little consideration of unpredictable events that might affect their company. Almost 75% of transfer plans include a concrete time plan for realising the succession and, on average, the entrepreneur starts preparing the transfer about two years before the planned official handover date. About 50% of transfer plans are written down, and in about 80% of the cases the successor is involved in the transfer planning.

Managing restructuring – characteristics of restructuring events

Hornung et al. (2005) show that almost 40% of the firms with up to 300 employees outsourced typical white-collar work, mainly within the last 10 years. Accordingly, the smallest company category lies in between the firms with 301–1,000 workers (about 30% outsourced white-collar work) and those with more than 1,000 staff (about 50%).

Auxiliary activities were outsourced by about 50% of the companies with up to 300 employees, by about 70% of those with 301–1,000 workers and almost 90% of the largest companies (Hornung et al., 2005).

A 2010 survey (IT Sourcing Europe, 2010) showed that:

- 32% of the Austrian companies (46% employing fewer than 50 employees and another 41% having 50–500 workers) outsourced their software/web development nearshore (maximum of two time zones away);
- 17% outsourced nearshore and within Austria;
- 16% offshored (more than two time zones away);
- 13% both offshored and nearshored;
- 11% offshored and outsourced within Austria;
- 5% outsourced within Austria only;
- 6% combined all three methods.

Destinations are mainly chosen on the basis of geographical/cultural proximity (25%), available resource pools (19%) and low costs (18%). As for outsourcing experience and choice of partners:

- 12% of the companies had outsourced software development for more than three years;
- 37% had one to three years of outsourcing experience;
- 51% had started outsourcing within the last year;
- 87% outsourced their IT services to a single provider;
- 57% partnered with a provider employing 50–499 workers;
- 31% partnered with small providers (fewer than 50 employees);
- 12% partnered with larger firms.

Partners are mainly selected on the basis of references and reputation (26%), low rates (17%) and the availability of innovative business models (13%).

As regards the internationalisation strategy of Viennese service companies, Nowotny et al. (2009) find that smaller companies are more likely to export than larger ones (43% of micro enterprises compared with 25% of large firms) and post workers (74.5% of micro firms vs. 58% of large companies) while cooperation and, particularly, the establishment of foreign subsidiaries increases with firm size.

Table 7: *Forms of international activities of Viennese service companies, share of enterprises by size class in %*

	Posting workers	Cooperation	Subsidiary	Export
Micro	74.5	16.1	0	43.0
Small	74.0	17.0	8.1	38.7
Medium-sized	44.1	28.0	51.7	33.0
Large	57.8	12.0	61.4	25.0
Total	70.9	16.7	9.3	38.4

Source: Nowotny et al., 2009

Falk et al. (2010) observe that small Austrian multinational companies (that is, firms with at least one foreign subsidiary) prefer foreign locations that are close to their headquarters (within Europe) while larger multinationals have a higher share in more distant locations.

Table 8: *Share of companies with at least one foreign subsidiary by employment size class and location, 2009*

No. of employees	Western Europe	Eastern Europe	North America	Asia	South America
1–24	61	33	4	2	1
25–49	65	29	5	1	0
50–99	61	30	6	2	2
100–249	57	31	7	2	3
250+	51	32	10	4	4

Source: *Falk et al., 2010*

Among the Austrian companies with process innovation, improving support for these procedures are most common (about 18% of small and about 32% of medium-sized enterprises), followed by new/improved methods for producing goods or services (14% and 26%). Least important was the development of innovations related to logistics or sales methods.

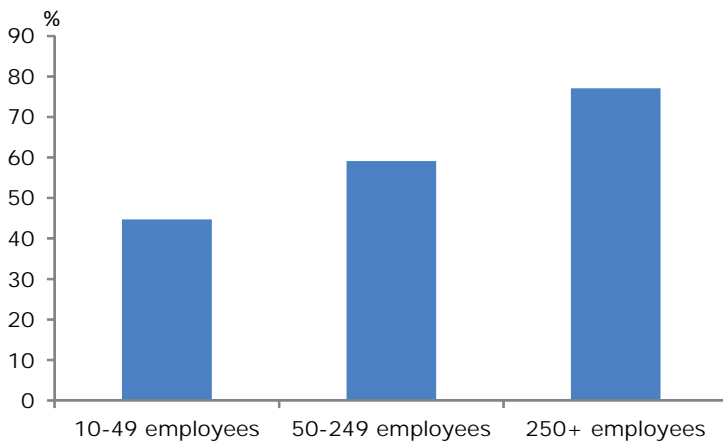
Table 9: *Share of companies with process innovation in 2008–2010, by employment size and type of innovation*

No. of employees	New/improved methods for producing goods or services	New/improved logistics procedures, delivery or sales methods	New/improved supporting activities for processes and procedures
10–49	14.1	9.3	17.8
50–249	26.6	14.9	31.7
250+	48.4	31.3	49.2
Total	17.8	11.4	21.8

Source: *Statistik Austria (CIS, 2010)*

Available data show that the share of companies cooperating in the field of the development or marketing of innovation increases with company size class. While about 45% of small firms have established cooperation to achieve innovation, the share is as high as 77% among large firms.

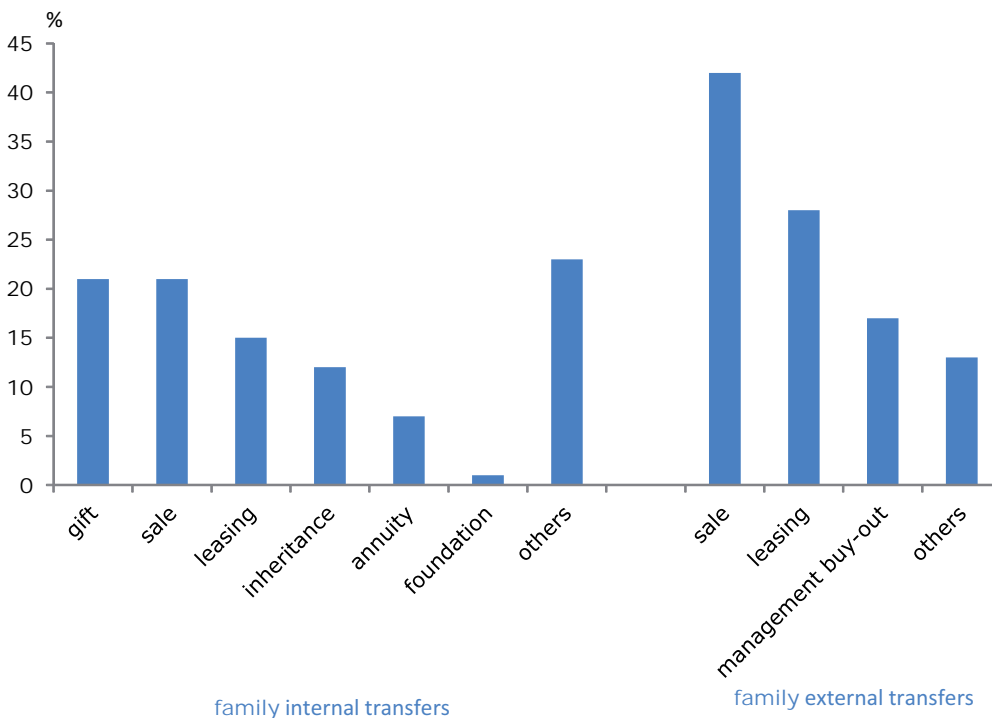
Figure 11: Share of companies that have established innovation cooperations, 2008–2010



Source: Statistik Austria (CIS 2010)

As regards business transfers, a decreasing tendency of family internal successions is observed in Austria (Mandl et al., 2008). While, in 1996, 75% of all transfers were carried out within the family, the share reached only 50% in 2006. In 2006, about 20% of family internal transfers were carried out through gift and about 10% through inheritance. While this form of succession is of decreasing importance, financial compensation is gaining importance. In family external transfers, sale and leasing are the most prominent forms, followed by management buy-outs. About 57% of the successors used their own funds to finance the business transfer, 51% took on bank credits, and about 14% received public financial support, with another 14% having private loans.

Figure 12: Forms of business transfers, 2006



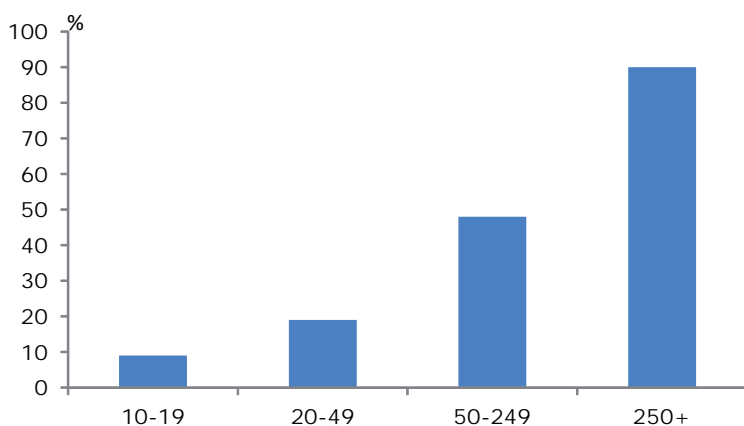
Source: Mandl et al., 2008

In both family internal and external transfers a step-by-step withdrawal of the initial entrepreneur from the company's management while the successor is increasingly involved in company decisions is deemed advantageous in order to avoid a break for internal and external stakeholders. As a consequence, 62% of entrepreneurs taking over a business in 2006 had been working in the company before the official transfer, for an average of 12 years. As the share is as high as 80% in family internal transfers, this indicates that family business transfers are a long-term process, including an early involvement of the successor. At the same time, in about 33% of the transfers, the initial entrepreneur is still active in the company after the succession, mainly by doing operative work or providing advice to the successor.

Involved actors

Social partnership in Austria can be considered as institutional cooperation between employees' organisations, employers' representatives and the government, covering all important aspects of economic and social policy (Voss, 2008). At company level, a dual model of works council and trade union representation is in place. If there are at least five employees at a workplace they can decide to elect a works council. This represents the employees' interests in social, staff and economic matters and is therefore also involved in restructuring (such as being given information about planned collective dismissals). However, available data show that works councils are not very widespread in micro (9%) and small enterprises (19%), and only about 50% of medium-sized firms have a works council.

Figure 13: *Establishments with a works councils*



Source: *European Company Survey 2009 (Eurofound, 2009)*

Ponholzer (2004) mentions the following important stakeholders in an SME crisis. While these are recommendations, rather than providing information about these bodies' actual involvement, it can be assumed that they are the ones generally involved in SME restructuring (not necessarily just in crises).

- **Banks and other financial institutions:** It is important for an entrepreneur to approach these early in order to keep open a wide range of options.
- **Public authorities** (such as tax or social security): They should be informed about the main characteristics of any crisis, ideally by professional restructuring managers or tax consultants who are often better accepted by the authorities.
- **Clients:** Key customers should be informed to counteract any rumours about the stability and reliability of the company. The longer and intense the relationships have been, the more detailed the information should be.

- **Suppliers:** They often support SMEs in crisis by granting longer payment periods, offering credit, providing shorter delivery times, and cooperating in product development.
- **Employees:** The success of restructuring depends largely on staff commitment, underlining the necessity to align their interests with the restructuring objectives.
- **Business organisations:** They should be informed and approached for advice and assistance on matters such as communication with employees and information for the general public.

Main challenges and constraints facing SMEs in restructuring

Again, due to the lack of data and literature and the heterogeneity of both restructuring events and SMEs themselves, it is not possible to give a general picture about the main difficulties SMEs and their employees face when restructuring. The following paragraphs summarise the fragmented research available, giving some indication of challenges to be mastered in regard to crisis, outsourcing and business transfers, only.

Ponholzer (2004) indicates that, in a crisis, the SME entrepreneur may experience a psychological and physical overload due to his/her company's limited management capacity and the increased requirements caused by the situation. Such stress might result in poor communication or other unfavourable developments endangering the success of the restructuring.

Not only HR issues, but also financial resources are often highlighted as main constraints for SMEs. In 2012, however, the share of SMEs reporting a deterioration in banks' willingness to provide a loan dropped to 26% from 31% in the previous year (European Commission, 2012). The share of rejected loans for SMEs is only 3% in Austria compared with an EU average of 15%. Also, the mark-up on interest rates for small loans dropped from 20% to 13% (EU average: a drop from 24% to 19%). Consequently, access to credit seems to have slightly improved after the financial crisis, and does not seem to be as severe a problem for Austrian SMEs as for SMEs in other European countries.

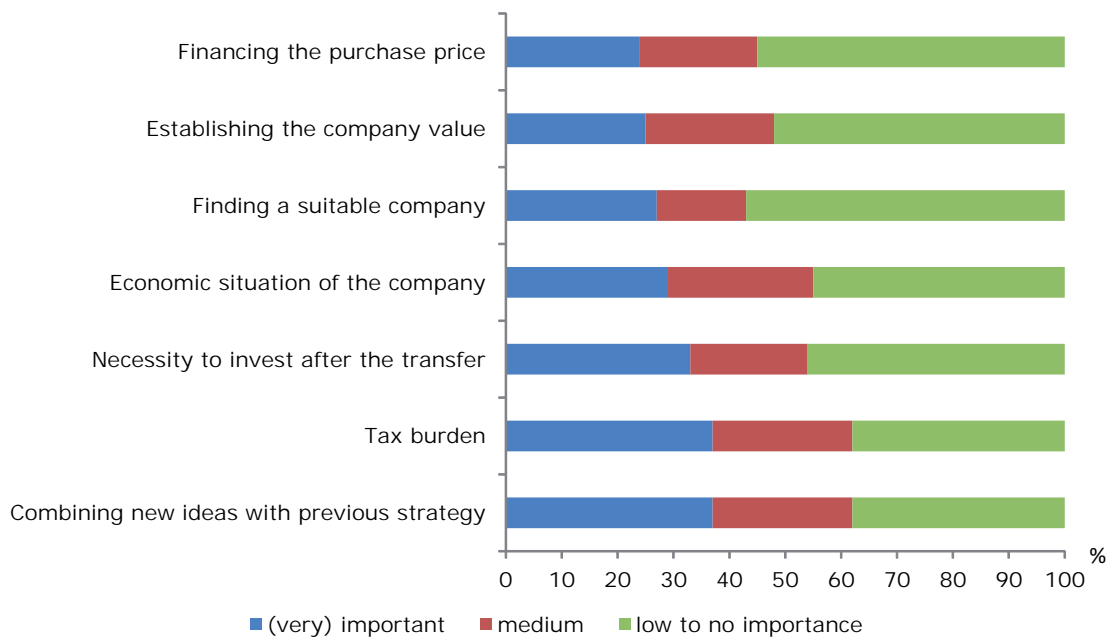
In a survey on IT outsourcing⁷, Austrian SMEs said they did not outsource because they assumed it was expensive and had concerns about the service quality and data security. Furthermore, companies feared becoming dependent on the service provider. In another IT outsourcing study (IT Sourcing Europe, 2010), Austrian companies (46% employing fewer than 50 employees and another 41% having 50–500 workers) identified poor communication with the vendor's project management, delays in delivery schedules and cultural differences as main challenges to outsourcing IT.

The main constraints for achieving a business transfer are:

- finding a suitable company to take over;
- combining the new entrepreneur's ideas with the previous company strategy;
- tax burdens;
- the economic situation of the company;
- the need to invest after the takeover.

Interestingly, compared with these factors, estimating the company value and financing the purchase price was of lower relevance for the successors.

⁷ http://portal.wko.at/wk/format_detail.wk?AngID=1&StID=534741&DstID=5295

Figure 14: *Main constraints of a business transfer, 2006*

Source: *Mandl et al., 2008*

Business support from public and private sources

Supply

Austria has traditionally had an SME-friendly policy which has been strengthened even more since the global financial crisis (European Commission, 2012). As already mentioned, the Austrian SME policy does not explicitly address restructuring as such, but individual forms of SME restructuring are implicitly covered by public and policy debate as well as operational support measures. The following paragraphs provide illustrative examples of what is done to support SMEs and their employees; a more comprehensive overview on the multitude of instruments provided – particularly if also considering regional offers – would go far beyond the scope of this report. The Austrian Federal Economic Chamber (WKO) provides a database on support instruments⁸ which is searchable by region, sector and type of support (training, advice, business expansion, business transfer, innovation, internationalisation, finance and cooperation). There also is a specific category of ‘restructuring’ (comprising more than 40 regional instruments), which mainly show investment guarantees as well as guarantees for measures aimed at stabilising SMEs in financial difficulties.

The Austrian government supports businesses in their innovation, investment and internationalisation activities through subsidies, favourable credits and guarantees.⁹ Following the SME promotion law, the Austria Wirtschaftsservice GmbH (aws), a promotion bank of the federal government and the Österreichische Hotel und Tourismusbank (ÖHT), a special bank owned by the three largest credit institutes of Austria, support SMEs in their restructuring through public credit guarantees for investment and project costs related to the growth or stabilisation phase and business transfers. The various support instruments are characterised by favourable conditions (such as low, or no, handling fees), and SMEs often do not have to provide collateral.

In 2010 the ‘Aktionsprogramm KMU’ (action programme SMEs) with focus on supporting companies’ sustainability and coping with crisis was established, and in 2011 a coaching programme to show SMEs potential ways of development was drawn up (‘Wachstums-Coaching’) (BMWFJ, 2012).

A very SME-specific, proactive, instrument is the qualification advice for companies (‘Qualifizierungsberatung für Betriebe, QBB’), established in 2000 to assist firms with up to 50 employees to develop a strategic qualification planning, the lack of which often proved to be detrimental to applications for financial support for qualification (BMASK, 2011). The instrument involves an analysis of training needs, the development of life cycle oriented qualification plans and advice in the field of HR management, work organisation and related issues. Similarly, in the framework of qualification networks (‘Qualifizierungsverbünde’), qualification advice is targeted at cooperating employers of which at least 50% have to be SMEs.

Internationalisation of SMEs is strongly supported through the ‘Internationalisierungsoffensive’ (internationalisation programme) of the Federal Ministry of Economics Youth and Family and the Federal Economic Chamber. This comprises a substantial package of activities related to:

- awareness-raising;
- motivating firms to export;

⁸ http://portal.wko.at/wk/foe_suche.wk?sbid=190&ttid=21&dstid=0

⁹ <http://www.bmwfj.gv.at/Wirtschaftspolitik/Wirtschaftspolitik/Seiten/Mittelstands-Offensive.aspx>

- specific industries or topics;
- international technology networking;
- improving competitiveness through education and training;
- service exports and international projects;
- positioning the Austrian economy abroad (BMWFJ, 2010).

Furthermore, there are SME-specific innovation support programmes. The scope of the Österreichische Forschungsförderungsgesellschaft (FFG) has been continuously expanded during the last few years, following the government's objective to foster the research and innovation performance of SMEs (BMWFJ, 2012). For example, in 2011, the offers of FFG for SMEs were bundled into a 'SME package' consisting of:

- financial support for establishing innovation concepts and prototypes;
- feasibility studies;
- research and development projects;
- penetration of markets;
- new target groups.

Furthermore, in 2012, an 'innovation enhancing public procurement strategy' has been launched.¹⁰ This includes, among others, the stipulation that innovation is to be explicitly considered in the law regulating public procurement, and public procurement centres will be trained to facilitate the implementation of innovating enhancing public procurement.

Also, in 2011, an increase of the upper limit for favourable tax treatment for contracted research is particularly targeted at SMEs that do not have their own research and development department, and the 2011 increase in the research and development tax premium is important for small firms (European Commission, 2012) in their innovation and expansion efforts.

Business transfers and successions are so important to the sustainability of companies, not least because of the enhanced dynamism caused by the introduction of new concepts and ideas, that advice dealing with, for example, the tax treatment and modalities of transfers is offered by the Austrian Federal Economic Chamber, the Chamber of Chartered Public Accountants and Tax Consultants and the Association for the Protection of Creditors¹¹. In 2008 the inheritance and gift tax on business transfers was abolished and the services of the successor's bourse of the Federal Economic Chamber were expanded.

¹⁰ <http://www.bmwfj.gv.at/FORSCHUNGUNDINNOVATION/INNOVATIONSUNDTECHNOLOGIEPOLITIK/Seiten/Beschaffung.aspx>

¹¹ <http://www.bmwfj.gv.at/Wirtschaftspolitik/Standortpolitik/Seiten/Betriebsübernahmen.aspx>

The 2010 amendment of insolvency regulations created a single insolvency proceeding and focused on making reorganisation easier and faster, for example through:

- adapting the terminology (differentiating between ‘restructuring’, ‘forced settlement’ and ‘insolvency/bankruptcy’);
- lowering the minimum required quotas for administering the restructuring under supervision of an administrator from 40% to 30%;
- increasing the incentives to enter proceedings earlier (European Commission, 2011; BMWFJ, 2010).

While it takes less time in Austria than the EU average to close a business (1.1 vs. 1.98 years), the costs involved in winding up are much higher (18% vs. 10.6% of the debtor’s estate). In 2012, the federal government plans to amend the private bankruptcy legislation to limit further the discharge time of honest entrepreneurs after bankruptcy (European Commission, 2012).

To cushion the effects of the global economic crisis and to keep the increase in unemployment as low as possible, the Austrian government introduced several packages (BMAASK, 2011). The first package (*Konjunkturpaket I*) included specific measures related to access to finance for Austrian companies, with a focus on SMEs (continuing the internationalisation support, establishing a fund to help SMEs). The second (*Konjunkturpaket II*) focused on investment and included investment incentives and bringing public investment forward. The third pillar was a tax reform in 2009 aiming at improving Austria’s economic structure. Various assessments agree that these measures have had a positive effect on the labour market and Austria’s GDP. However, no results specific to company size have been published. At the same time, three labour market packages (‘Arbeitsmarktpakete I, II and III’) were initiated by the government and social partners to support the labour market (for example, reforming the short-time working regulation, facilitating the establishment of work foundations, and bringing in measures on qualifications). These refer to both the employed and unemployed and have no specific regulations for SMEs.

Apart from public support, there is a wide range of private business consultants and lawyers specialised in restructuring. The restructuring and turnaround forum ‘return’ (www.restrukturierung.at) and the website www.unternehmer-in-not.at (entrepreneur in difficulties), for example, both provide a list of experts as well as publications (such as management literature, manuals) and host events to assist entrepreneurs.

Demand

In 2011, in the framework of offering guarantees, credits and subsidies, the Austria Wirtschaftsservice (aws) in 2011 supported 5,251 projects (more than 97% of these were in SMEs) with a total of €834 million guarantees, credits and subsidies (SMEs accounting for more than 75% of this). This enabled investment of €2.37 billion, the retention of 68,000 jobs and creation of 7,400 more. About 75% of new jobs were created in micro enterprises. After the increased demand for SME finance (mainly from micro and small firms) caused by the global economic and financial crisis, the demand for public support has returned to pre-crisis levels in 2011. (BMWFJ, 2012)

An evaluation of the guarantees offered by the aws in the framework of the SME promotion law shows that the requirements of almost all of the surveyed SMEs could be satisfied by the services offered (Mayer et al., 2011). At the same time, for more than 33% of the SMEs the differences between the individual programmes are not clear and many beneficiaries actually do not know from which particular support they have benefited. The evaluation pinpoints that, in general, SMEs approach their banks for credits without knowing about the possibility of public credit guarantees and learn about them only in their meetings with the bank representatives. Consequently, almost 60% of the beneficiaries applied for public support on the recommendation of their bank.

An evaluation of the qualification advice for companies (*Qualifizierungsberatung für Betriebe*, QBB) to assist firms with up to 50 employees in the establishment of a strategic qualification planning in Lower Austria, showed that about 1% of micro and small firms were reached with the measure (BMASK, 2011). Only about 10%–15% of the contacted firms were willing to participate in a first meeting and, of those, only 15% continued with the consultation. The effects in terms of established qualification plans and increased training activities are assessed to be limited.

Some 78% of enterprises that applied for innovation support with the FFG in 2011 were SMEs. This corresponds to more than 1,500 projects and is an increase by nine percentage points compared with 2008. This is attributable to the recent programmes that have targeted this group. If only basic programmes are considered (these support research projects of companies, research institutes and individuals resulting in market-oriented outcomes) the share of supported projects of SMEs is almost 87% (or almost 44% for micro enterprises). (BMWFI, 2012)

In the field of internationalisation, EIM Business & Policy Research (2010) observe that 47% of Austrian SMEs use financial public support, thereby being top in the European country ranking. In contrast to this, only 3% use non-financial support for internationalisation.

A study by Mandl et al (2008) shows that, in relation to business transfers:

- 90% of successors in 2006 approached their tax consultant for advice related to the business transfer;
- 75% consulted the Economic Chambers;
- about 66% got advice from family or friends;
- 58% received advice from banks;
- 43% approached lawyers or notaries;
- 31% of entrepreneurs taking over a business in 2006 said it was a challenge to finding public support during the transfer process;
- 18% had difficulties in implementing received advice;
- 16% found it hard to pay for the cost of advice.

In spite of these challenges, the successors were generally satisfied with the support received (84% as regards tax consultants, 79% as regards family and friends, 63% as regards the Economic Chambers, 60% as regards lawyers and banks). Additional demand for support was mentioned in the fields of legal and tax issues (about 60%), administrative questions (about 50%), contractual and marketing issues, the assessment of the company value (about 30%–40% each) and how to deal with the employees (about 25%). (Mandl et al, 2008)

Outcome of the restructuring events

Research on the effects of restructuring mainly deals with the macroeconomic level, such as the outcome of international trade on the Austrian economy. Microeconomic perspectives considering the effects on the organisational level of individual firms or their employees are scarce and even more limited when focusing on SMEs. Consequently, again, only fragmented information can be presented, dealing mainly with the employment effects of outsourcing, offshoring, innovation and business transfers in SMEs.

In their survey among Austrian works councils, Hornung et al. (2005) find that in 55%–60% of companies with up to 300 employees which restructured, staff numbers were reduced and departments closed or downsized (compared with about 80% in firms with more than 1,000 staff). In the vast majority of cases, this took place within the first year after restructuring. About 75% of the works councils of the smallest company size class report increased work pressure, compared with more than 80% in larger firms. About 45% of works councils of firms with up to 300 employees indicate that jobs are insecure after restructuring, while this share is as high as 65%–70% in larger companies. About 55% of the works councils of firms with up to 300 workers assess that the workers' representatives have a more limited influence after the restructuring (around 70% in larger firms).

In a 2010 IT outsourcing study (IT Sourcing Europe, 2010), Austrian companies (46% employed fewer than 50 employees and another 41% had 50–500 workers) report saving 10%–24% of operating costs by outsourcing.

In 2002–2006, for each job offshored by Austrian companies abroad, 2.4 jobs were created in Austria (icei, 2007). The highest growth is achieved by the smallest companies: for each job lost through the internationalisation of companies with up to nine workers, 3.5 new jobs were created in Austria. By offshoring, these companies succeed in improving their cost structure so much that they can achieve a growth – related to additional employment – that could not have been done without internationalisation. In small and medium-sized firms, three new jobs on average are created in Austria for each offshored workplace.

On average, in 2010, Austrian companies achieved 11.9% of their turnover with innovations, with this share ranging from 8.4% in small companies to 13.4% in large ones. Slightly more than half of this turnover is attributed to products that are new only to the company, but not to the market. Small, and particularly medium-sized, companies achieve a considerably lower level of their turnover on innovation with products new to the market.

Table 10: Turnover achieved by product innovation by employment size class, 2010

No. of employees	% of total turnover achieved with product innovation	% of total turnover achieved with product innovation new to the market	% of total turnover achieved with product innovation new to the market
10–49	8.4	3.6	4.8
50–249	11.7	4.4	7.3
250+	13.4	6.2	7.3
Total	11.9	5.1	6.8

Source: *Statistik Austria (CIS 2010)*

A study in 2008 (Mandl et al., 2008) shows that companies which had transferred ownership in 2006 employed, on average, 4.7 workers (including the entrepreneur). This constitutes a considerably higher employment effect than that of start-ups, as 80% of those are one-person enterprises. After the transfer, 66% of the companies made changes in employment numbers. In about 20% of the cases the number of employees was reduced while in about 33% additional staff was employed.

More than half of the successors of 2006 achieved an increase in their number of clients and orders after the transfer, resulting in an increased turnover, while about 20% experienced a decrease (Mandl et al., 2008). After the transfer, about 75% of the businesses introduced new products or services or improved their offer. More than 60% applied new marketing strategies and improved the methods/processes of their production.

Company closures in 2010 resulted in a loss of about 37,000 jobs of which 47% concerned dependent employees. On average, each closure made 1.9 employees jobless. Quite naturally, the closure of larger firms has greater implications for the labour market. As a consequence, although companies with ten or more employees accounted for only 12% of all closures in 2010, they were responsible for almost 25% of lost jobs.

Table 11: *Number of employees affected by closures of companies of the market-oriented economy by employment size class, 2010*

No. of employees	Employees in closed companies	Of whom: dependent employees	Employees per closure
0	12,664	0	1.0
1–4	16,067	9,971	2.5
5–9	3,845	3,408	7.2
10+	4,327	4,164	20.8
Total	36,883	17,543	1.9

N.B. Sections B-N of ÖNACE 2008
Source: *Statistik Austria (BMWFJ, 2012)*

Conclusions and policy issues

The literature and data review on restructuring in SMEs in Austria has shown that little information is available on the topic, due to a lack of standardised secondary data, surveys and research. Standardised data shedding light on restructuring in Austria mainly provides macroeconomic information, while research tends to focus either on the whole enterprise population without size class differentiation, on large businesses or on very specific research questions covering individual industries or limited research questions, making it difficult to generalise results.

Consequently, further research is needed to learn more about restructuring in SMEs. This holds particularly true for individual forms of restructuring, such as business expansion, internationalisation and closure, which are deemed highly relevant for SMEs. For other restructuring types, such as relocation or mergers/acquisitions, it cannot be assessed how important such events are for SMEs as they have seldom been the subject of research and policy debate.

Furthermore, next to a quantitative assessment on the level of different restructuring types for SMEs, more qualitative information about the motivations for SMEs to restructure and the actual steps and procedures carried out in SME restructuring would be needed to get a better understanding about how restructuring is conducted and how it affects the employees and the organisation of the business. More knowledge about the challenges and constraints that SMEs and their employees face in restructuring could contribute to better public support, and consequently an outcome that benefits both the businesses and the labour market.

This could also contribute to counteracting the often negative image of restructuring, as being widely identified with job losses. More in-depth information could help to show that not all restructurings result in negative employment effects, and that even job losses can result in positive labour market effects if a business becomes more competitive and ready to grow.

As regards public support, Austria is characterised by a strong tradition of comprehensive SME policy and, even if not explicitly signposted, there is a multitude of public and social partner based support instruments which foster SMEs' restructuring. Nevertheless, there are a few areas of potential improvement which have been identified by this project.

First of all, the wide variety of available support instruments, offered by various actors and at different administrative levels, seems to result in a certain lack of transparency about what is available. Companies and employees have difficulty in gaining a good overview of the different schemes, and in identifying differences between them, so it is hard for them to choose the most suitable one. Initiatives such as centralised database as well as advice from business and employees' organisations should be further encouraged.

The Austrian government and social partners have already recognised the heterogeneity of the SME sector and targeted specific measures to individual SME types. However support for companies which are growing, particularly young companies, could be improved. Young companies are generally characterised by good growth ambitions as the literature and data review shows, but at the same time face several challenges such as the fact that they do not have an established reputation or accumulated profits, and the entrepreneurs are relatively inexperienced. Next to providing a generally beneficial business environment, young businesses' growth could be supported by providing the new managers with practical business know-how (for example, through coaching/mentoring after the immediate start-up phase). The lack of this support was identified as one of the main challenges in restructuring and a reason for closure. This enhanced know-how could also contribute to a more strategic approach in doing business, which, in turn, could foster the anticipation and preparation of change, which was found to be rather weak in Austrian SMEs.

Next to management know-how, a general challenge in SME restructuring is their limited human and financial resources. Public measures to counteract this have already been implemented (such as wage subsidies, training support, lowering of social security contributions, provision of favourable credits and bank guarantees) and should be continued. There is,

however, the potential for improving education and training for workers, for example through campaigns to increase employers' and employees' willingness to take part, and to prepare on time for future changes in the economy.

In this context, the Austrian Federal Economic Chamber (WKO) has asked the government to implement some measures and strengthen others to foster Austrian businesses (WKO, 2012a):

- increasing the supply of skilled labour, with more attractive apprenticeship, incentives for international recruitments, aligning curricula with business needs;
- easing bureaucracy on support measures, and that related to authorisations for plants, and establishing one-stop-shops for business services by regional and local governments;
- improving access to finance, for example through fostering the risk capital market, and not restricting the provision of loan guarantees;
- providing entrepreneurs with the opportunity to make working time more flexible, and improving short-time working regulations;
- offering investment and innovation incentives, for example through supporting cooperations;
- reducing the barriers SMEs face in public procurement;
- supporting internationalisation.

The current literature and data review has shown that Austrian SMEs can be considered to be rather innovative, and a broad spectrum of public support is available to support this. However, more tailor-made support towards product innovation could be considered, as available data show that SMEs are weaker in this area compared with organisational innovations. One way of doing this could be helping the establishment and management of innovation cooperations as they are more difficult for SMEs to achieve than for larger firms. However, they are often an important precondition for getting access to public support and making innovations.

To do more to help innovation in SMEs, the Federation of Austrian Industries (*Industriellenvereinigung, IV*) suggests¹²:

- intensifying the networking between large firms, SMEs and research institutes;
- creating an internationally competitive system of research support, with elements of direct and indirect fiscal instruments;
- strengthening education and training in mathematics, information technologies, natural sciences and techniques already in school, and incentive-oriented subsidies.

¹² <http://www.iv-net.at/b2905/innovation/>

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