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Improving the evidence base on transfer of business in Europe

Annex C: Case study on the cross-border dimension of business transfers

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C.1. Introduction

Small and medium-sized enterprises (SMEs) play a significant role in terms of economic strength and growth in the EU. Ensuring their survival by facilitating business transfers is therefore of high importance.

The transfer process involves different parties and can take place in different settings. Within the logic of market integration in the EU, business transfers can occur not only in the domestic setting but also in the international setting which involves counterparties from other countries. In fact, cross-border transfers can have several advantages. In the search for a successor, expansion across borders increases the opportunities for sellers to reach out to a much larger group of potential buyers. For buyers, acquiring existing enterprises can be a good alternative to starting a new business and can enable them to enter a foreign market more easily and reduce competition or costs of internationalisation. On the other hand, transaction costs and asymmetries in accessing information are usually higher in cross-border transfers than in the domestic setting, which complicates the transfer process (Boeh, 2011).[1] It is natural and unproblematic if some businesses vanish and are replaced by new, more innovative businesses. However, it becomes a problem when transfers of valuable and competitive businesses fail due to too high transaction costs or other barriers in the transfer process.

At present, the evidence with respect to the volume of cross-border business transfers in the EU is scarce, but it has been suggested that cross-border transfer is an important phenomenon in the EU (CSES, 2013).[2]

The objective of this case study is to narrow the information gap regarding the volume of cross-border transfers and the latest trends of this phenomenon in EU Member States. The first section of this case study provides information on past cross-border transfers, involving merger and acquisition (M&A) activities of SMEs in EU Member States over time.[3] The second section draws a precise picture of cross-border business transfers that have been undertaken in Germany. This analysis covers more types of business transfers than just M&A and provides in-depth information on the characteristics of targeted firms and their economic footprints.

C.2. A brief review of the literature on cross-border transfers

There are clear gains from internationalisation and foreign direct investments (FDI).[4] Enterprises can benefit from international expansion due to market (demand-oriented) opportunities as well as resource-seeking and efficiency-seeking (supply-oriented) strategies (Dunning, 2009[5]; Johanson and Vahlne, 1977[6]). M&As are the main force behind the surge in foreign direct investment. This is why a large number of theoretical

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[1] Boeh, K. (2011). Contracting Costs and Information Asymmetry Reduction in Cross-Border M&A, Journal of Management Studies, Vol. 48, Issue 3, 568-590.

[2] CSES (2013). Evaluation of the Implementation of the 2006 Commission Communication on Business Transfers – Final Report..

[3] The phenomenon of a business transfer is based on a broader concept than on mergers and acquisitions only. M&A activities represent just one type of business transfer. Any person-to-person transfer, for instance, is not accounted for by M&A activities.

[4] Internationalisation is a broad term which refers to exports, imports, international R&D cooperation, and foreign direct investment.

[5] Dunning, J. H. (2009). Location of the multinational enterprise: John Dunning's thoughts on receiving the Journal of International Business Studies 2008 Decade Award. Journal of International Business Studies, 40(1), 20-34.

[6] Johanson, J., & Vahlne, J. E. (1977). The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments. Journal of International Business Studies, 8(1), 23-32.

and empirical studies focus on cross-border M&A deals. Usually, the main focus of these studies is the post-transfer performance of these firms, e.g. productivity.

Regarding *productivity*, most studies conclude that there are positive effects for the acquired firms. Girma et al. (2006) find positive and high productivity effects for firms in the UK,[7] and Bellak et al. (2006) for Austria.[8] Similar conclusions were made by Arnold and Javorcik (2009) using panel data from 1983 to 1996 on the performance of Indonesian firms,[9] followed by the research by Fukao et al. (2009) for Japan,[10] and Petkova (2008) for India.[11] Arndt and Mattes (2010) show that this is also true in the case of already highly productive multinational enterprises (MNEs) in Germany.[12]

According to the available evidence, cross-border business transfers seem to be quite rare events. From a historical perspective, there has been substantial variation over time, with periods of sharp rises in the intensity of M&A activities and subsequent falls (Brakman et al., 2006).[13] Most empirical papers found that macroeconomic factors such as GDP and stock prices, as well as institutional aspects, affect cross-border M&A activities (EC, 2004).[14] During the early 21st century, there was a slight increase in the intensity of cross-border M&A activities before the 2008 financial crisis.

C.3. Cross-border SME M&A transactions in the EU-28

This section provides an analysis of the latest trends in SME cross-border M&A transactions in the EU-28 Member States.

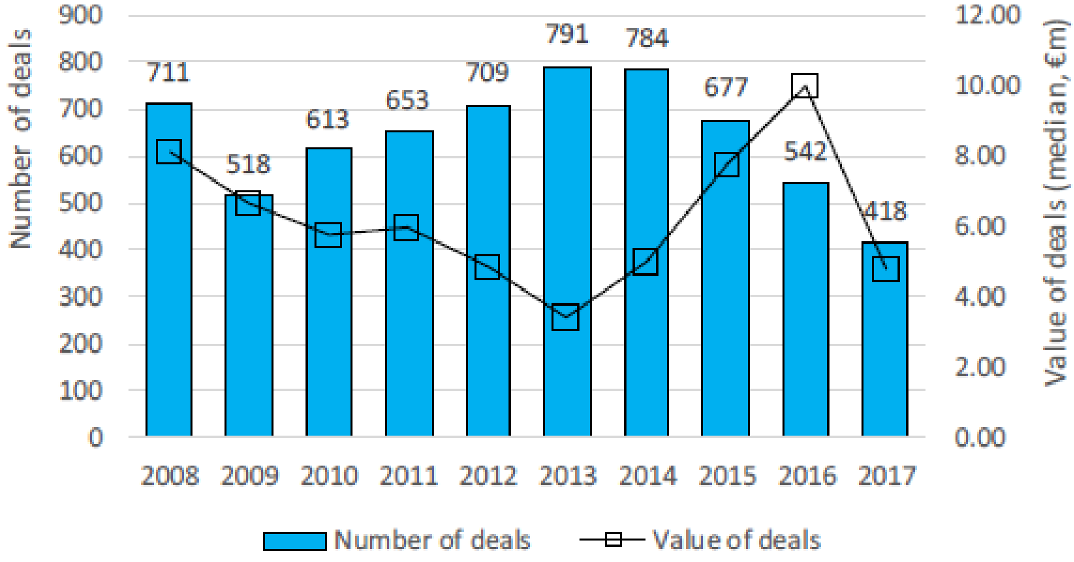
C.3.1. Trends in cross-border M&A over time

The present empirical investigation of cross-border transfers is based on the BvD-Zephyr database, which is the Bureau van Dijk database containing information on M&A activities. It concludes that between 2008 and 2017, within the EU-28 Member States, a total of 6,420 M&A activities involving SMEs took place (Figure C-1).[15] In order to be classified as an intra-EU cross-border SME transaction, both parties had to be located in the EU, but not in the same country, and at least one counterparty to the M&A transaction had to be an SME. Out of a pre-sample of 44,000 M&A deals involving a firm located in the EU-28 over the period of 2008 to 2017, in approximately 16,000 cases a European SME was part of the transaction.[16] The estimation of whether an SME was

[7] Girma, S., Thompson, S., Wright, P. (2006). International Acquisitions, Domestic Competition and Firm Performance, International Journal of the Economics of Business, Vol. 13, No. 3, 335-349.
[8] Bellak, C., Pfaffermayr, M., Wild, M. (2006). Firm Performance after Ownership Change: A Matching Estimator Approach, Applied Economics Quarterly, Vol. 52, No. 1, 29-54.
[9] Arnold, J., Javorcik, B. (2009). Gifted kids or pushy parents? Foreign direct investment and plant productivity in Indonesia, Journal of International Economics, Vol. 79 (1), 42-53.
[10] Fukao, K., Hamagata, S., Miyagawa, T., Tonogi, K. (2009). Intangible Investment in Japan: Measurement and Contribution to Economic Growth, The Review of Income and Health, Vol. 55 (3), 717-736.
[11] Petkova, N. (2008). Does Foreign Ownership Lead to Higher Firm Productivity, Working Paper.
[12] Arndt, C., Mattes, A. (2010). The Impact of Inward FDI and Foreign Ownership on Performance of German Multinational firms.
[13] Brakman, S., Garretsen, H., Van Marrewijk, C. (2006). Cross-Border Mergers and Acquisitions: The facts as a guide for international Economics. CESifo Working Paper No. 1823.
[14] European Commission (2004). Determinants of European cross-border mergers and acquisitions. Economic Papers.
[15] This section is a recap of the special report on "Cross-border M&A transactions regarding SMEs as one trend of SME foreign direct investments (FDI)" in the Annual Report on European SMEs 2017/2018 from December 2018 (European Commission, 2018).
[16] 23,000 M&A deals involved large firms only. 1,500 M&A deals involved non-EU counterparties only. 3,500 deals involved lack of information on the country in which firms were located or a lack of employment or financial data to determine whether one of the counterparties to a transaction was an SME.

involved was based on available employment and financial data. Deal values were available for 3,000 of the 16,000 observations.

Figure C-1:
Cross-border SME M&A, intra-EU, 2008-2017

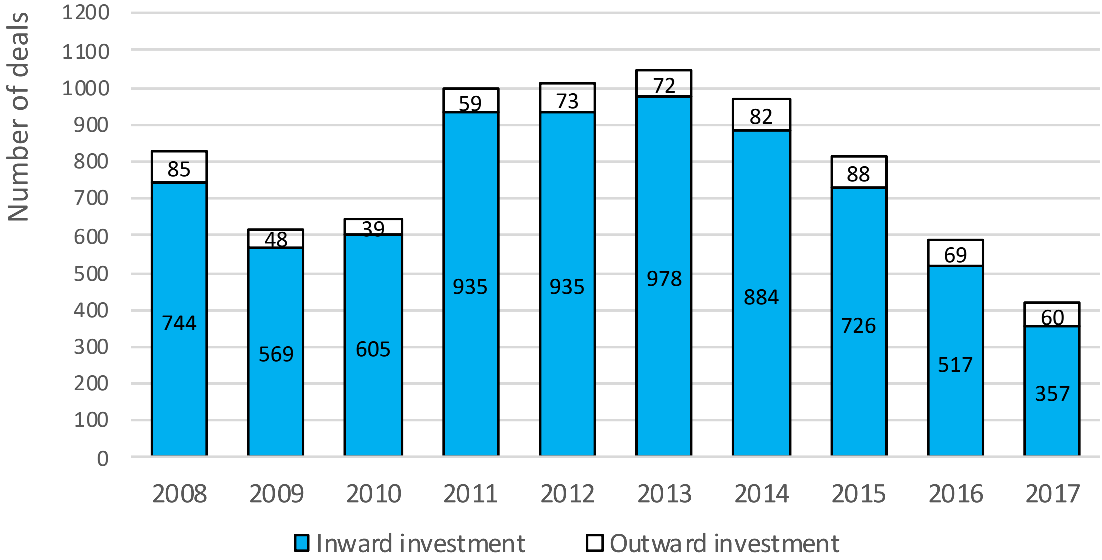


Source: Annual Report on European SMEs 2017/2018, based on BvD Zephyr.

Between 2008 and 2017, an annual average of 642 intra-EU cross-border M&A transactions took place with an average deal value of EUR 6 million (Figure C-1). In 2013, the number of deals reached a peak (791 deals). A steady decline then followed, with the lowest number of transactions in 2017 (418 deals).

In addition to intra-EU SME cross-border deals, deals involving non-EU counterparties were analysed, distinguishing between *inward* and *outward* SME cross-border M&A transactions. Inward investments are investments in EU SMEs made by enterprises from non-EU counterparties. Outward investments are investments made by EU SMEs into non-EU enterprises. An annual average of 725 inward deals and 68 outward deals were observed between 2008 and 2017. As was the case for intra-EU SME cross-border transactions, inward deals peaked in 2013 (978 deals). After 2013, inward deals trended downwards, reaching the lowest number of deals in 2017 (357 deals). The observed number of outward deals – with an annual average of 67 deals between 2007 and 2017 – was relatively low compared to intra-EU or inward deals. Furthermore, the number of outward investments was more constant over time compared to inward investments. This may be due to the comparatively high stability of the European economy. Investors from outside the EU might be more volatile in their investment behaviour depending on their overall economic strength.

Figure C-2:
Cross-border M&A involving EU SMEs and non-EU counterparties, 2008-2017



Note: Volume on inward deals in 2010 was missing. Its value was estimated backwards based on the annual average information given in the original text.

Source: Annual Report on European SMEs 2017/2018, based on BvD Zephyr.

C.3.2. Country specificities regarding cross-border M&A

This part of the analysis focuses on M&A transactions by Member State in the period between 2015 and 2017. Spain, the UK, Germany, Poland, and France were the most active cross-border SME M&A hubs in the EU, with over 200 transactions in each country (Table C-1). While the cross-border SME M&A activity in Poland originated largely from within the EU, the other four countries experienced a large number of transactions involving non-EU counterparties. The US was the source country for almost half of all extra-EU investments into Spain, Germany and France, and almost 60% of all extra-EU investments into the UK. The other key source country was Switzerland, accounting for approximately a quarter of all extra-EU investments into Germany and France. At the EU-28 level, 40% of investments originated in the US and 15% in Switzerland. The UK, followed by Germany, France, Sweden, Luxembourg, and the Netherlands were the countries making the most investments in other Member States, as well as outside the EU, in the form of SME M&A. Outside the EU, more than half of Sweden's investments entered Norway, while more than 40% of the UK’s investments were made in the US. Other Member States' extra-EU investments were not focused on particular destinations.

Table C-1:
Number of cross-border SME M&A by host and source Member State, 2015-2017

	Number of cross-border SME M&A from 2015-2017							
	by host Member State				by source Member State			
Country	Intra-EU	Extra-EU	Total	Ranking	Intra-EU	Extra-EU	Total	Ranking
ES	367	378	745	1	45	6	51	11
UK	160	348	508	2	232	63	295	1
DE	121	123	244	3	215	29	244	2
PL	145	59	204	4	27	4	31	15
FR	81	120	201	5	172	18	190	3
NL	107	68	175	6	148	10	158	6
CZ	106	50	156	7	16	1	17	18
SE	78	72	150	8	147	33	180	4
EE	37	97	134	9	12	1	13	21
FI	54	62	116	10	54	4	58	9
IT	53	34	87	11	58	5	63	8
DK	56	29	85	12	47	2	49	13
BE	52	25	77	13	78	8	86	7
BG	33	37	70	14	5		5	23
AT	27	18	45	15	45	9	54	10
RO	23	10	33	16	4		4	25
PT	20	11	31	17	21	2	23	17
IE	16	13	29	18	50		50	12
LU	15	12	27	19	145	14	159	5
HU	17	8	25	20	8	1	9	22
LV	19	5	24	21	4	1	5	24
SI	11	8	19	22	1	1	2	27
SK	13	4	17	23	27		27	16
LT	11	2	13	24	14		14	19
HR	8	4	12	25	2	1	3	26
CY	5		5	26	45	3	48	14
MT	2	3	5	27	13	1	14	20
EL					2		2	28

Note: Data on deals in Greece does not exist.

Source: DIW Econ, based on Annual Report on European SMEs 2017/2018 and BvD Zephyr.

C.4. Cross-border business transfers: A deep-dive into German SMEs

The previous section revealed the evolution of cross-border M&A transactions with the involvement of at least one European SME. The analysis also revealed that Germany is one of the five most active Member States in terms of cross-border SME M&A transactions. Germany also produces datasets allowing the analysis not only of M&A activity, but also of cross-border business transfers. Therefore, based on the case of Germany, it is possible to gain a deeper understanding of the phenomenon of cross-border business transfers.

The analysis of cross-border business transfers of German SMEs, involving a change in ownership from domestic to foreign ownership and vice versa, was carried out with reference to the following questions:

- What is the magnitude of SME cross-border business transfers in Germany?
- What kind of German SMEs are affected? What are the characteristics of targeted firms?
- What is their economic footprint in terms of employment and turnover?

C.4.1. Data: IAB Establishment Panel

The IAB Establishment Panel is a representative employer survey of individual establishments that have at least one employee subject to social security contributions. Many other firm-level datasets have restrictions concerning the industry, the size or other firm properties. The IAB Establishment Panel does not have any of these limitations and allows for a more thorough analysis of cross-border business transfers of German SMEs. The sample size for the survey is about 16,000 establishments per year. It is stratified according to firm size, industry, and state (Bundesland) in which the firms are located and represents around two million establishments in Germany on an annual basis. The percentage of returned surveys is about 75%. Most of the interviews are conducted at the establishment's site by an interviewer interacting directly with the responsible individuals. Consequently, the dataset is highly representative, is of high quality and is more reliable than many (commercial) datasets, such as Amadeus. The main focus of the survey is firm-level labour demand. Each year, there are additional topics included, of which some are repeated every second or third year. The key variable of interest is ownership status (domestic or foreign) as well as changes in ownership of the firm.[17]

However, some methodological aspects need to be discussed. Firstly, the unit of observation in the survey is an establishment, which is a local production facility. This definition is not identical to the definition of a firm which can include one or more establishments. However, nearly 90% of all establishments in the survey are also firms. Secondly, the protection of data privacy has to be taken into account, therefore the dataset is anonymised so that it can only report aggregated descriptive statistics.[18]

For the purpose of this case study, the surveys of several years (i.e. 2008 to 2018) were merged into a panel dataset. The surveys include data on the ownership status of the firms. Firms answered questions as to whether they were of Western German or Eastern German origin and whether they had a public or foreign majority ownership or whether there was no majority ownership at all. The information obtained about majority ownership at firm-level allows examination of the special features of firms in foreign ownership compared to domestic firms. Additionally, in 2008 the survey started to collect information on the management type of the company, i.e. whether the firm was managed solely by the proprietors, family members of the proprietors or solely by employed managers, or both.

C.4.2. Overview on cross-border business transfers in Germany

The basic population of the IAB Establishment Panel covers slightly more than a total of two million German enterprises[19] with at least one employee subject to social insurance contributions, accounting for more than 31 million employees.[20] SMEs in the IAB Establishment Panel account for 99% of all enterprises, while large enterprises account for the remaining 1%, with little variation over time (Figure C-3).

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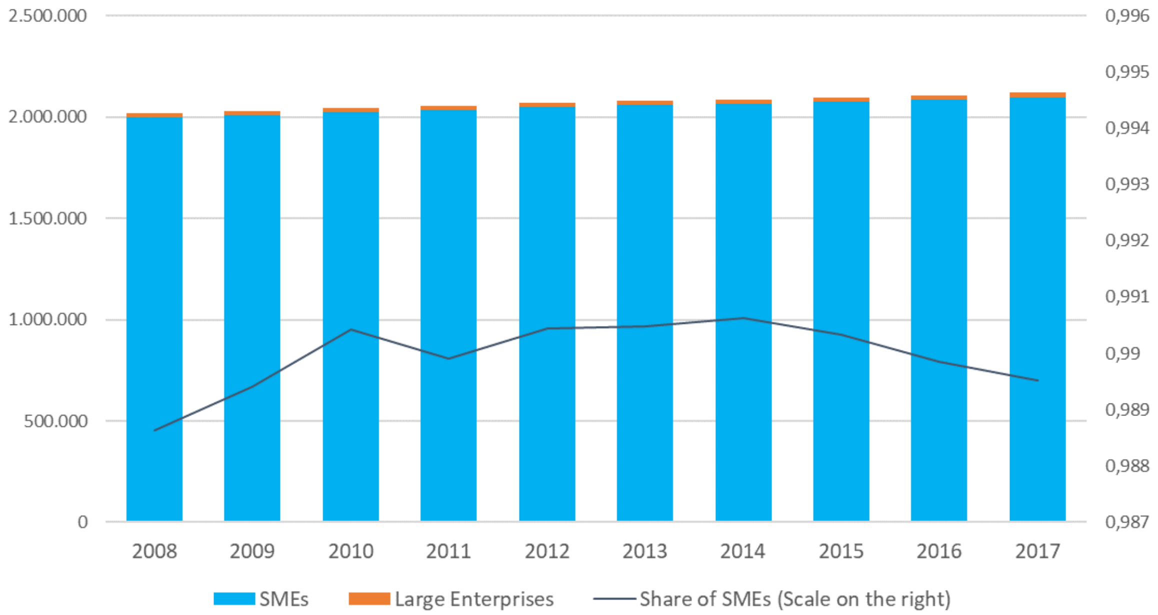
[17] For more information regarding the data set, its properties, and its availability, see Fischer et al. (2008).

[18] The dataset is anonymised in such a way that the name and exact location of the firm is hidden. Especially for large firms in small industries or states, this may not be sufficient to secure the firms' interest in data privacy. In such cases, only aggregate number can be reported.

[19] Strictly speaking, the IAB Establishment Panel covers establishments and not firms, but in most cases this is congruent, especially when considering SMEs (see argument in the previous chapter). Therefore, both terms are used synonymously.

[20] IfM Bonn (2019) reports 3.46 million German SMEs for 2017. However, the IfM uses the German business register and includes establishments without employees subject to social insurance contributions, e.g. one-person businesses or establishments employing only civil servants or marginally employed persons (geringfügig Beschäftigte). These are not included in the IAB Establishment Panel.

Figure C-3:
Number of establishments in Germany, 2008-2017

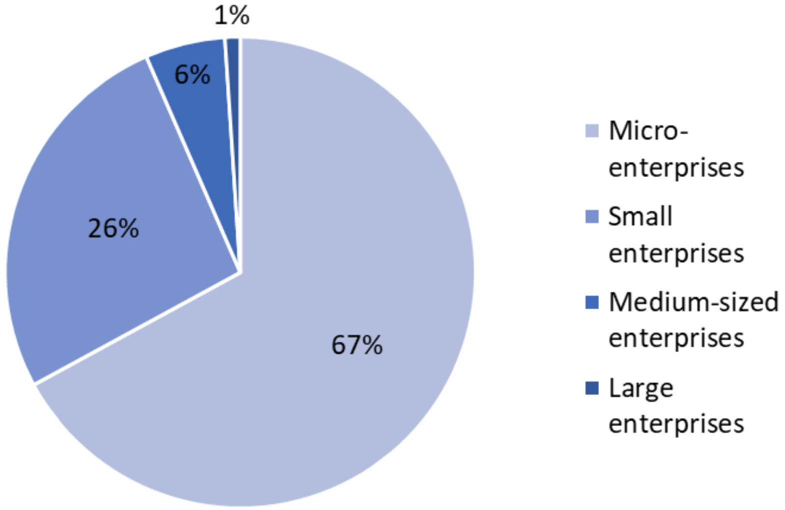


Source: DIW Econ, based on IAB Establishment Panel (2020).

Figure C-4 reports on the distribution of German firms in 2018 by size class. Size classes are defined according to the recommendation of the European Commission from 2003, covering micro, small, medium-sized and large enterprises.[21] Based on this classification, the majority of firms were micro-enterprises, accounting for 67% of all firms. 26% were small enterprises, 6% were medium-sized enterprises and 1% were large enterprises.

[21] The IAB Establishment Panel only contains information on annual turnover and not on the balance sheet. Micro, small and medium-sized enterprises (SMEs) are defined as enterprises which employ fewer than 250 people and have an annual turnover not exceeding EUR 50 million. Within this category, a small enterprise is defined as an enterprise which employs fewer than 50 people and whose annual turnover does not exceed EUR 10 million. A micro-enterprise is defined as an enterprise which employs fewer than 10 people with an annual turnover not exceeding EUR 2 million. Large enterprises have 250 employees or more and an annual turnover exceeding EUR 50 million.

Figure C-4:
Firm-size distribution in the IAB Establishment Panel in Germany, 2018

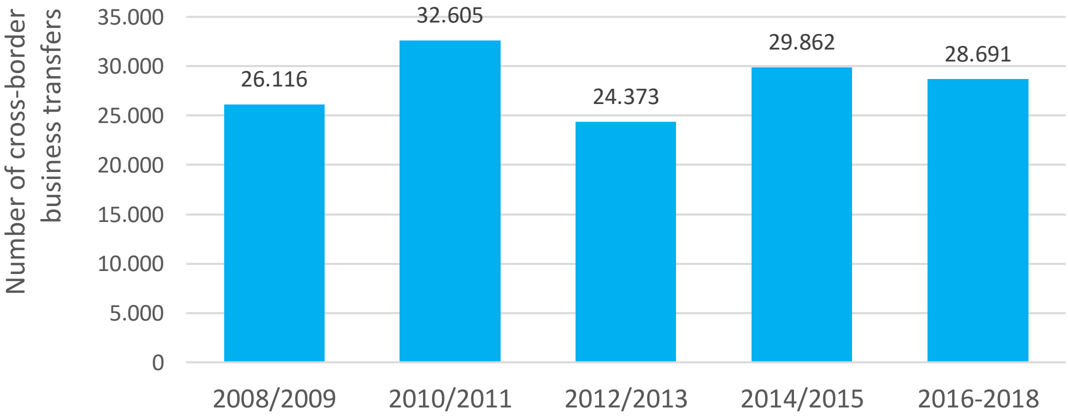


Source: DIW Econ, based on IAB Establishment Panel (2020).

Over the period 2008 to 2018, a total of 141,647 cross-border business transfers took place, involving both changes in ownership from domestic to foreign and changes from foreign to domestic ownership. This corresponds to an annual average of 0.62% of all enterprises in Germany.

Figure C-5 reports on the evolution of cross-border business transfers over time at two-yearly intervals. The basis for this time interval is that firms receive the survey question regarding ownership every two years.[22] As in 2016/2017, only newly included enterprises were asked the ownership question. The years 2016 to 2018 are combined in order to make the data more comparable with previous intervals.

Figure C-5:
Number of cross-border business transfers in Germany, 2008-2018



Source: DIW Econ, based on IAB Establishment Panel (2020).

The development of cross-border transfers was quite stable between 2008 and 2018 in Germany, amounting to roughly 28,700 cross-border transfers in 2016 to 2018. This figure accounts for almost a third of the successions, purchases and leaseholds recorded

[22] This question was asked during the survey panels in 2009, 2011, 2012 and 2015 and will be asked again in 2018. One exception is the firms that have recently joined the panel survey. They receive the survey question regarding ownership annually.

in the trade register[23] in Germany in the same period, suggesting that cross-border business transfers are a relevant phenomenon in Germany.

According to this register, a total of 94,200 successions, purchases and leaseholds took place in 2016 to 2018 in Germany. However, the latter number should be treated with caution and understood as a rough approximation, because as well as including transfers by succession or purchase, it also includes transfers by leasehold, which is not a transfer.

C.4.3. Characteristics of German SMEs subject to cross-border business transfers

This section investigates more thoroughly what types of SMEs are targeted for cross-border business transfers. In particular, it will explore the following characteristics of targeted firms: **firm size, management type, legal form, and socio-economic importance in terms of employment and turnover.**

Based on the IAB Establishment Panel, cross-border business transfers can be determined if a firm's ownership changes from domestic to foreign and vice versa. However, the IAB Establishment Panel does not collect information on concrete timing of the change, e.g. whether a firm has changed ownership within the past twelve months. Therefore, it is not possible to compare the characteristics of cross-border versus domestic transfers at the time of transfer. Instead, firm characteristics of firms subject to cross-border business transfers can be compared with firm characteristics of all other firms in Germany.

Large enterprises are disproportionately more likely to be targeted by a cross-border business transfer than SMEs (Table C-2). Although large enterprises account only for 1.1% of all enterprises in Germany, the share of large enterprises being subject to a cross-border business transfer amounts to 2.2% of all cross-border transfers. This result seems plausible from a theoretical perspective as larger enterprises are usually better equipped to handle the transaction costs and information asymmetries related to cross-border transfers.

Table C-2:
Targeted firms for cross-border business transfers: SMEs vs. Large Enterprises

	SMEs	Large Enterprises
Cross-border business transfers	97.8%	2.2%
Distribution of firms (complete universe)	98.9%	1.1%

Source: DIW Econ, based on IAB Establishment Panel (2020).

Out of all size classes of SMEs, micro-enterprises are the size class most often targeted for cross-border business transfers. Micro-enterprises account for 69% of all cross-border transfers (**Figure C-6**). This is slightly higher than the 68% share of micro-enterprises in the general SME population.

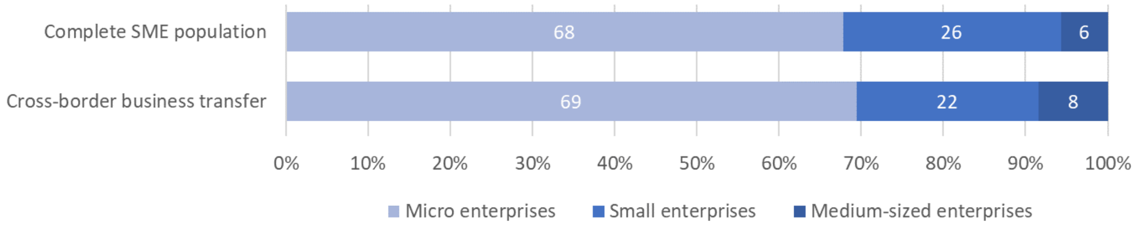
Small firms seem to be less often subject to a cross-border transfer than would be expected based on their large share in the total SME population. 22% of all cross-border transfers involve small firms. This is lower than the 26% share of small firms in the general SME population.

[23] Available at: https://www.destatis.de/DE/Service/Bibliothek/_publikationen-fachserienliste-2.html

The opposite holds true for medium-sized enterprises. 8% of all cross-border transfers involve a medium-sized enterprise, whereas medium-sized enterprises account for only 6% of all SMEs.

The fact that micro-enterprises are more frequently selected for cross border transfers might contradict the statement that "businesses with less than five employees are usually transferred to owners that need to work in the business every day [and] restricts the potential for a new owner to operate from a distant location" (CSES, 2013, p.125). However, micro-enterprises are classified as enterprises with less than 10 employees. Therefore, a more detailed analysis in which micro-enterprises are further differentiated in terms of employment above and below 5 employees is needed.

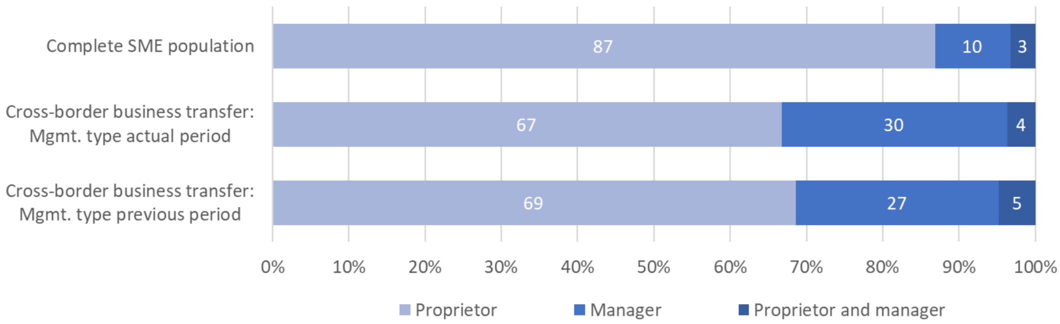
Figure C-6:
Cross-border business transfer distribution by SME category, 2008-2018



Source: DIW Econ, based on IAB Establishment Panel (2020).

The majority of cross-border business transfers involve proprietor-managed SMEs, but SMEs managed by an external manager are disproportionately more likely to be subject to a cross-border business transfer. Figure C-7 shows that the likelihood of being part of a cross-border business transfer increases if the enterprise is operated by an external manager and not by the proprietor. However, when looking at the management type in the same period of the cross-border business transfer event, it could also be that the formerly proprietor-operated SMEs was operated by a manager after the transfer. In order to avoid this fallacy, the management type in the period prior to the cross-border business transfer event was investigated. The results of this research (Figure C-7) confirms, however, that SMEs operated by an external manager are indeed more likely to be targeted by cross-border business transfers. One explanation for this could be that "family firms are sometimes reluctant to report income [or to] make use of transparent accounting practices" (CSES 2013, p. 126). The rationale behind this argument is that external managers are more likely to disclose the financial situation of a company in a transparent manner and make the due diligence process for potential buyers easier.

Figure C-7:
SME cross-border business transfer distribution by management type, 2008-2018



Source: DIW Econ, based on IAB Establishment Panel (2020).

Most of the cross-border business transfers occurred in the hospitality, retail and wholesale and automobile trade/repair sector. Although the retail sector and wholesale and automobile trade/repair sector are large German industries, SMEs in the hospitality sector seem to be particularly important for cross-border business transfers (Table C-3).

Table C-3: SME cross-border business transfer distribution by industry classification, 2008-2017

No.	Industry type (Industrial classification)	Cross-border business transfer	Complete SME population	Delta
1	Agriculture/forestry	0.3	2.7	-2.4
2	Mining, energy, waste disposal, water supply	0.4	0.8	-0.4
3	(Luxury) foods	0.9	1.4	-0.4
4	Consumer goods	0.6	1.2	-0.6
5	Production goods	2.9	1.1	1.8
6	Capital goods	3.1	5.0	-1.9
7	Construction	7.0	10.9	-3.9
8	Wholesale & automobile trade/repair	15.4	8.1	7.3
9	Retail	17.1	12.1	4.9
10	Transport, warehousing	4.4	4.0	0.4
11	Information & communication	2.1	2.7	-0.6
12	Hospitality	27.1	7.2	19.9
13	Finance & insurance services	0.2	3.0	-2.8
14	Economic, science & self-employment services	10.8	17.8	-7.0
15	Education & teaching	0.6	2.9	-2.3
16	Healthcare & social services	1.0	10.5	-9.5
17	Other services	5.8	5.2	0.6
18	Non-profit organisations	0.4	2.1	-1.8
19	Public administration	0.0	1.3	-1.3
	Total (percent)	100.0	100.0	0.0

Source: DIW Econ based on IAB Establishment Panel (2020).

Table C-4 reports on the legal form of SMEs in general and of those targeted by cross-border business transfers. Individual companies and limited liability companies/limited partnerships (GmbH/GmbH & Co.KG) are the most prominent legal forms for SMEs. Correspondingly, these are the legal forms most often involved in cross-border business transfers.

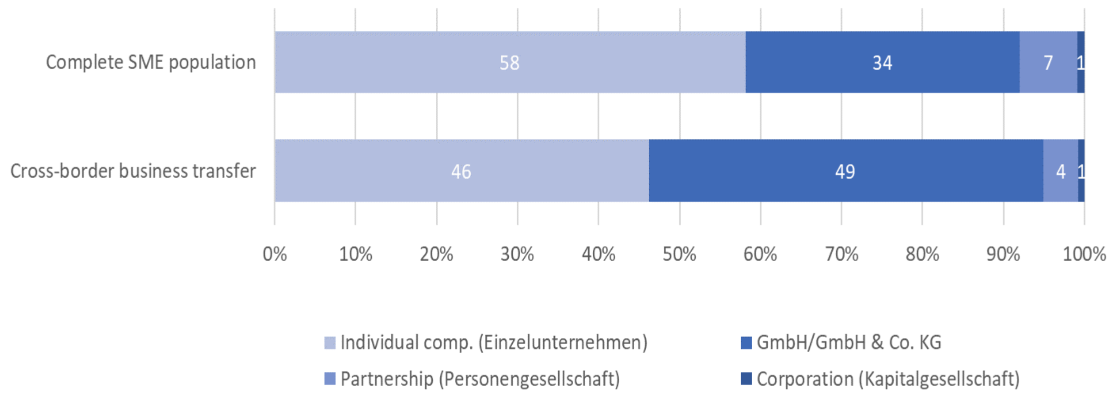
Table C-4:
SME cross-border business transfer distribution by German legal form, 2008-2018

German Legal Form	Cross-border business transfer	Complete SME population
Individual companies (Einzelunternehmen)	46	58
Partnership (Personengesellschaft)	4	7
Limited liability companies/limited partnerships (GmbH/GmbH & Co.KG)	49	34
Corporation (Kapitalgesellschaft)	1	1
Total (%)	100	100

Source: DIW Econ, based on IAB Establishment Panel (2020).

Overall, limited liability companies/limited partnerships were, relative to their share of the total SME population, more attractive for cross-border business transfers than individual companies (Figure C-8).

Figure C-8:
Legal forms of SMEs with cross-border transfer versus SME population, 2008-2018



Source: DIW Econ, based on IAB Establishment Panel (2020).

SMEs subject to a cross-border transfer employed, on average, more people and generated a higher turnover than those that were not subject to a cross border transfer. In terms of SMEs as a whole, Table C-5 shows that SMEs subject to a cross-border transfer employed an average of 15 people, compared to only 12 people in SMEs which had not been subject to a cross-border transfer. Only in small firms were the employment levels roughly similar. Similarly, average turnover for SMEs as a whole was higher in firms subject to a cross-border transfer. This was true for both small and medium-sized enterprises, but for micro-enterprises there was only a marginal difference in employment numbers and no difference in terms of turnover.

Table C-5:
Employment and turnover of SME cross-border business transfer targets

		Mean number of **employees**				Mean **turnover** in EUR million		
		Cross-border business transfer				Cross-border business transfer		
Firm categories		Yes	No	Delta		Yes	No	Delta
Micro-enterprises		4.1	4.3	-0.2		0.3	0.3	0.0
Small enterprises		19.0	18.7	0.3		3.1	2.0	1.1
Medium-sized ent.		91.9	88.0	3.9		16.7	13.1	3.6
Total		14.8	12.1	2.4		2.4	1.4	1.0

Source: DIW Econ, based on IAB Establishment Panel (2020).

In total, the 142,000 SME cross-border business transfers involved around 2 million employees and around EUR 340 billion in annual turnover. Compared with the total population of enterprises (SMEs and large enterprises), these transactions accounted for 0.50% of total employment and 0.56% of total annual turnover.

C.4.4. Direction of SME cross-border business transfers in Germany

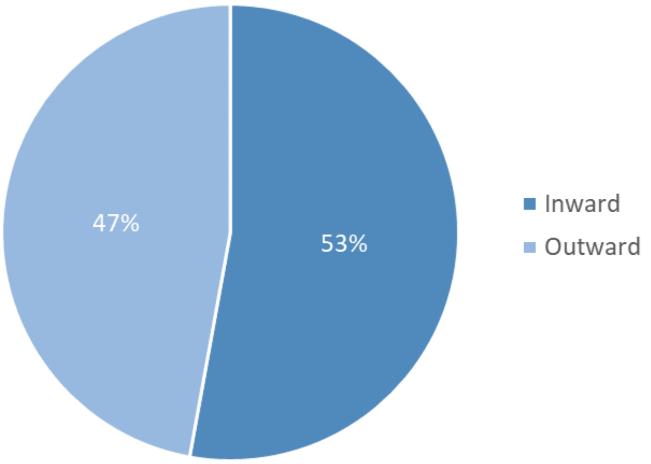
In line with the definition provided in the section on M&A, a further differentiation can be made between directions of cross-border business transfers:

An **inward** cross-border business transfer represents a change in ownership of a German SME to a foreign party.

An **outward** cross-border business transfer represents a change in ownership of a foreign SME to a German party.

Inward investments were more frequent than outward investments. 53% of cross-border transfers involved a foreign party taking over a German SME, whereas only 47% of cross-border transfers involved an outward investment (Figure C-9).

Figure C-9:
Direction of cross-border SME business transfers in Germany, 2008-2018



Source: DIW Econ, based on IAB Establishment Panel (2020).

Foreign transferees of German SMEs and German transferees of foreign SMEs both prefer enterprises with high revenues and a high number of employees.

However, foreign transferees tend to be more focused on turnover than German transferees, whereas the number of employees seems to be slightly more relevant to German transferees taking over foreign firms. (Table C-6). One potential explanation could be that the goal of inward investments tends to be that of acquiring skilled local employees, in contrast to the focus of outward investments, which is more on gaining market share.

Table C-6:
Employment and turnover of cross-border SME business transfers by direction, 2008-2018

Type	Inward / Outward	Mean number of **employees**	Mean **turnover** in million Euro
Cross-border business transfer	Inward: Takeover of German SMEs by a foreign party	14.80	2.64
	Outward: Takeover of foreign-owned SMEs by a German party	14.78	2.20
Non-cross-border business transfer	-	12.21	1.40

Source: DIW Econ, based on IAB Establishment Panel (2020).

C.5. Conclusion

Small and medium-sized enterprises constitute a substantial share of all enterprises in the European Union and in Germany. This holds also true when analysing cross-border transfers. About 98% of cross-border business transfers in Germany involve SMEs.

The analysis revealed that Germany is one of the five most active countries in terms of cross-border SME M&A transactions. Taking into account the wider concept of business transfers, the analysis suggests that the cross-border business transfer of ownership is a significant phenomenon in Germany. Over the period of 2008 to 2018, a total of around 142,000 cross-border business transfers took place in Germany, corresponding to an annual average of 0.62% of all enterprises in Germany. The bulk of these transfers were SME transactions (around 138,000 transactions). The socio-economic footprint can be quantified in terms of employment and turnover. SME cross-border business transfers accounted for 0.50% of total employment and 0.56% of total turnover.

Moreover, the analysis has enabled a precise picture to be drawn of the characteristics of firms targeted by a cross-border transfer. **Micro-enterprises were the SME size class most often targeted by cross-border business transfers. The majority of cross-border business transfers involved proprietor-managed SMEs, but SMEs managed by an external manager were disproportionately more likely to be subject to a cross-border business transfer**. However, the question as to whether this is due to a "stronger hesitation" of proprietors to disclose relevant financial information or whether there are other factors behind this finding cannot be answered definitively and should be further analysed.

Despite the many difficulties and challenges that hamper cross-border business transfers, they are already an important phenomenon. However, an increase in the trend of cross-border activity, as has been suggested by other studies (CSES, 2013), could not be identified based on this data.

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