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There is still a substantial need for reform in the euro area. A current position paper issued by ZEW offers proposals for action.

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Research Findings
Family Businesses Create More Jobs Than DAX Companies

Supplement M&A Report
German M&A Index Declining Since Year-End

Q&A
European Industrial Policy – What Should Europe Tackle Next?

Ten Priorities for EU and Eurozone Reform

The threat of Brexit, declining popularity, wrong priorities in the budget and serious structural errors in the economic and monetary union – the EU is currently facing enormous challenges. Following the European elections, the new EU Parliament now has the chance to set a new course for Europe and bring the EU community back on track for success. On the basis of its research work, a position paper issued by ZEW proposes ten points which should be given priority in the reform of the EU.

The EU and the eurozone have failed to deliver on many of their promises in recent years, as the paper points out at the beginning. Economically speaking, Europe was rather unsuccessful, which is why the integration process has lost much of its support. The highest priority must therefore be given to restructuring the Brussels budget in favour of policy fields which have "European added value". European policy adds value whenever the EU can perform a task at a lower cost or, in the widest sense, is able to achieve something that would otherwise exceed the capabilities of the individual Member States. Policy areas where considerable European added value could potentially be created are migration, defence, environmental issues, climate change and international development. Poorly coordinated national responsibilities in all of these areas produce unsatisfactory policy outcomes and, moreover, incur unnecessarily high costs. Given the new priorities for the EU and the potential loss of a key net contributor as a result of Brexit, it is essential to rein in costly policy areas that lack European justification in Brussels' budget. The direct payments made to farmers under the Common Agricultural Policy are a prime candidate for such cuts. Cohesion policy, which aims to promote the development of poorer regions and Member States, should also be put to the test. The priority here must be to target cohesion funds more carefully on poor regions in the future. In addition, the ZEW position paper states that any support payment should be conditional on an independent judiciary and a reliable anti-corruption system in the recipient country.

The paper rejects proposals to give the EU its own right of taxation and to abandon the unanimity requirement in European tax policy. The current financing system of the EU budget with its contributions proportional to the economic performance of the Member States is fair, transparent and reliable in its performance. On the other hand, majority decisions in tax policy could jeopardise political cohesion in the EU, since a majority of countries could incur high costs for the losing minority. In the worst case scenario, this could prompt other Member States to turn their back on the EU, as did the UK, if they are outvoted on important tax issues.

The paper continues that there is still a substantial need for reform in the euro area. The eurozone institutions in their current form are unable to cope with a new financial and debt crisis. Furthermore, the eurozone has become vulnerable to blackmail from uncooperative populist governments, since they are considered as being "too big to fail". To address this issue, the new European Parliament should concentrate on four priorities.

Cutting the bank-sovereign nexus

First, it must finally endeavour to dissolve the fateful relationship between public financing and banking stability. National banks should from now on observe common large credit limits and capital adequacy rules when purchasing government bonds from their own EU country. A single country's debt crisis would then become an isolated problem, and EU support could be made credibly conditional on whether the crisis-hit country cooperated or not. In addition, Europe must aim to develop a credible and viable insolvency system for heavily indebted euro states. The advantage of insolvency procedures is that private creditors are forced to bear some of the losses that they themselves have helped to cause as a result of their lending. This improves the incentives for potential creditors to lend cautiously and for eurozone countries to pursue sound fiscal policies. Establishing an insolvency code for the euro area will be difficult, time-consuming and not without risk. It is therefore essential that preparations get under way during the next legislative period. Blueprints for a functioning system and how to achieve it are available and assign a key role to the European Stability Mechanism.

Package solution to protect Europe against macroeconomic shocks

In addition, new stabilisation instruments such as a eurozone budget should only be implemented as part of an overall package including the elements already mentioned above (an end to the bank-state nexus, and an insolvency code for overindebted countries). Only such a package deal can ensure that the problem of excessive national debts is resolved by carefully targeted debt restructuring rather than a transfer solution. Finally, the position paper recommends to replace the European Commission with the European Fiscal Board (EFB) as the main guardian of European debt rules due to the Commissions' overly politicised interpretation of the Stability Pact. The independence of the EFB should be strengthened and its remit broadened. It should be given responsibility for deciding on the existence of excessive deficits and for evaluating the Pact's many exemption clauses.

Strategies to create sense of European identity

Apart from the measures for a more efficient EU budget and a functioning euro area, closer attention should also be paid to the "soft" factors that contribute to a successful integration. While programmes such as Erasmus for students have a positive impact on developing a sense of European identity, they tend to only reach those people for whom interacting with other European cultures is already part of their everyday life and that already identify with Europe. This calls for new ideas, such as exchange programmes aimed at workers who would otherwise have little chance of getting to know other EU countries.

The complete paper is available to download at: *http://ftp.zew.de/pub/zew-docs/gutachten/ZEW_EP_Elections_2019.pdf*

Prof. Dr. Friedrich Heinemann, friedrich.heinemann@zew.de

German Family Businesses Create More Jobs Than DAX Companies

Family businesses have a major influence on Germany's economy. Approximately nine out of ten private companies in Germany were family businesses in 2017. They employ almost 60 per cent of all workers in the private sector. Between 2007 and 2016, the 500 largest family enterprises created more jobs than the DAX companies, making a sustainable contribution to job growth in Germany and worldwide.

These are the findings of a recent study on the economic importance of family businesses which is carried out regularly by ZEW and the University of Mannheim's Institute for SME Research (Institut für Mittelstandsforschung, ifm) on behalf of the Foundation for Family Businesses in Germany and Europe. The study provides an overview of the corporate structure in Germany and the particular features of family-run businesses based on Mannheim Enterprise Panel (MUP) data from 2017. A company is defined as family-run if it is majority-owned by a limited number of natural individuals. The study shows that the private sector is dominated by family businesses, with more than 90 per cent of private companies being controlled by families and as much as 86 per cent being owner-managed family businesses.

Great number of new jobs created

On average, family businesses have fewer than ten employees. All in all, however, more than half of the employees and turnover generated in the private sector can be attributed to them. Broken down by sectors, family businesses in Germany are mainly active in the construction and trading sectors, to a somewhat lesser extent in mining, energy and water supply and disposal, as well as in financial and insurance services.

In addition to the large number of small family businesses, the study also identifies and analyses the 500 largest family businesses in Germany between 2007 and 2016. In the period under review, the number of employees in Germany working for these companies rose from 2.07 million to 2.54 million, an increase of 23 per cent. By contrast, the total number of employees subject to social insurance contributions in Germany grew by 16 per cent in the same period, while the number of staff in the DAX-27 companies (DAX companies excluding family businesses in the German share index) grew by only four per cent.

Also on a global scale, the 500 largest German family businesses created a great number of new jobs. In 2016, more than five million people worked for these companies, which corresponds to an employment growth of 27 per cent since 2007. A similar development can be observed in the turnover figures: in 2016, the turnover of the 500 family companies with the highest turnover amounted to 1,106 billion euros, which is equivalent to a turnover growth of 36 per cent in the period under review.

Familiy management versus external management

In addition, the study examined for the first time whether the largest family businesses are still managed by the entrepreneurial family or the owners themselves, or whether the operational management is in the hands of an external management. Of all 600 family businesses with the highest turnover and employment in Germany, 413 are run by family members and 187 by external managers. Family-run companies are significantly smaller than family-owned companies managed by third parties, both in terms of the number of employees and the turnover volume. During the period under review, family-run companies generated on average around one third of the turnover of non-family-run businesses.

ZEW and ifm Mannheim have regularly carried out the study on the economic significance of family businesses for the Foundation for Family Businesses in Germany and Europe since 2009. It provides an overview of the quantitative importance of family businesses in Germany. The 500 largest family companies in Germany are analysed and compared with the largest listed non-family companies in the German share index DAX.

The study can be downloaded at (German only): *https://www.familienunternehmen.de/media/public/pdf/publikationen-studien/studien/Die-volkswirtschaftliche-Bedeutung-der-Familienunternehmen-2019_Stiftung_Familienunternehmen.pdf*

Dr. Sandra Gottschalk, sandra.gottschalk@zew.de

IN THIS ISSUE

Q&A: European Industrial Policy – What Should Europe Tackle Next?

"It Is Important to Offer a Total Package of Innovation-Friendly Policies"

To judge by recent discussions about European industrial policy, Europe has been slow to adopt new digital technologies and is facing terrifying competition from China. Christian Rammer, the deputy head of the "Economics of Innovation and Industrial Dynamics" Research Department at ZEW, tells us whether Europe's industrial sector is in as bad shape as conventional wisdom suggests and what the EU can do better in the future.

The EU increasingly sees China as a rival in areas that underpin the growth of many industrialised countries, such as information technology, artificial intelligence and energy-efficient vehicles. Should Europe's economy be afraid of the Middle Kingdom?

China has become an incredibly important market for European industry. Demand from China has been and continues to be a major economic pillar for the EU economy, while European consumers benefit from cheap Chinese products. At the same time, China has invested heavily or acquired controlling interests in many European companies. Moreover, China's investment in cutting-edge technology and its focus on crucial, future-shaping issues offer new opportunities for cooperation. Modern industrial production requires specialisation and a narrow division of labour. As Chinese companies produce more high-tech goods, they need more high-tech inputs, and producers in Europe can benefit from cheap and high-quality intermediary products made in China. In the medium term, this intra-industrial trade will lead to productivity gains – and rising prosperity – for everyone involved.

What should the EU do about China and global competition to strengthen its industrial competitiveness?

The strength of Europe's industry ultimately comes down to innovation. This involves not only developing new technologies and new products, but also improving services, creating more efficient and better organised processes and exhausting the possibilities of digitalisation. Nation- and EU-based programmes to promote innovation often focus on new technologies. But it is also important to offer a total package of innovation-friendly policies that keep in mind user needs and societal conditions with regard to education, infrastructure, bureaucratic regulations and open markets.

China's state-owned companies have ballooned into seemingly all-powerful economic giants in various industries including energy, transport and chemicals. Is this the model Europe needs to be competitive in the global and digitised world of tomorrow?

Industrial consolidation in China has to be seen against the backdrop of the country's enormous size. The dominance of large companies in many sectors is not nearly as strong as it is in Europe or the USA. In automobiles, chemicals, pharmaceuticals, food and many other industries, Europe already has very large corporations, with some of the world's leading companies among them. More mergers in these industries may be detrimental to competition in Europe. At the same time, it is by no means certain that so-called European champions will be better suited to compete with Chinese companies. With size also comes inertia; large companies are often slow to respond to new developments. Rather than relying on European champions, therefore, the EU would be better off improving growth opportunities and market access for small and medium-sized companies.

It is widely believed that Europe's digital business models are lagging behind their US competitors. Why has the US managed to bring innovations to the market faster and more successfully than Europe? What adjustments must Europe make to keep up?

US companies enjoy the huge advantage of a home market that is large and linguistically and culturally homogeneous. This encourages the use of network effects and the rapid upscaling of digital business models and allows other markets to be handled more easily. By contrast, Europe cannot serve as a single market for many digital applications in the B2C sector due to its linguistic diversity and varying demand patterns. This makes life more difficult for digital startups in Europe relative to those in the US. In Europe, it makes more sense to focus on B2B and industrial applications in the digital domain. When it comes to Industry 4.0, however, Europe is by no means worse off than the US and Asia.


Photo: ZEW

Dr. Christian Rammer
is deputy head in ZEW's Research Department of "Economics of Innovation and Industrial Dynamics". His research activities include empirical research on innovation in firms, technology transfer, and research policy. Christian Rammer is director of ZEW's annual Innovation Survey, the Mannheim Innovation Panel (MIP), which is the German contribution to the Community Innovation Surveys of the EU. Before joining ZEW in the year 2000, he worked as a senior researcher at the Austrian Research Center Seibersdorf and as an assistant professor and lecturer at the Department for Economic Geography at the Vienna University of Economics and the University of Linz.

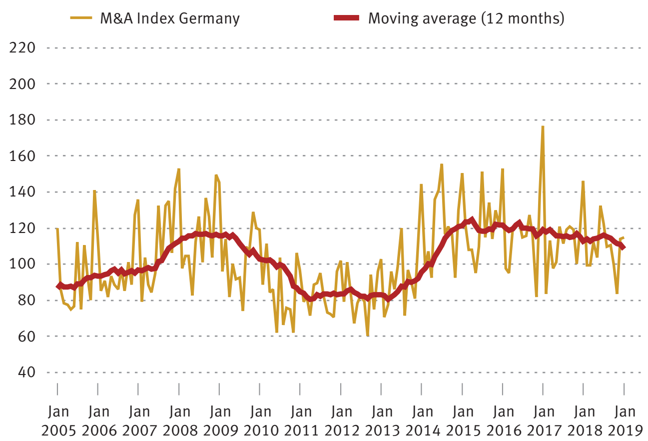
christian.rammer@zew.de

M&A REPORT

German M&A Index Declining Since Year-End

The number of mergers and acquisitions (M&A) involving German firms fell slightly in the second half of 2018. Transaction volumes were especially low in the fourth quarter of 2018, with M&A activity particularly weak in November, which saw the lowest monthly level for two years and the second-lowest volume in six years; only November 2016 had seen even fewer mergers and acquisitions. However, December 2018 and the beginning of the year 2019 were not much busier either and failed to compensate for the lacklustre autumn. This trend is reflected in the ZEW-ZEPHYR M&A Index, which has been calculated twice a year since 2005 and tracks the number of M&A deals completed in Germany. Although the twelve-month moving average had been edging up until August 2018, it has been declining ever since.

ZEW-ZEPHYR M&A-INDEX GERMANY



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

Abertis' takeover of Hochtief AG for 28 billion euros marked largest deal

By far the largest deal in the second half of 2018 – amounting to some 28 billion euros – was the acquisition of Abertis, a Spanish toll-road operator, by Germany's building and infrastructure construction group Hochtief AG, headquartered in Essen. Hochtief in turn, however, forms part of Atlantia, an Italian holding company in which the Benetton family is a major shareholder. With this acquisition, Hochtief has increased its international presence as well as diversifies its portfolio. Following the acquisition, earnings increased by 20 per cent in the first quarter of 2019.

Further transactions in the billions included the acquisition of the real estate developer SSN Group AG – headquartered in Zug, Switzerland – by Berlin-based Consus Real Estate AG, which was a deal worth just over one billion euros. With this takeover, Consul Real Estate AG aims at strengthening its position as Germany's largest property developer. The acquisition of CIT RAIL Holdings (Europe) by the wagon hire and rail logistics company VTG AG based in Hamburg amounted to a transaction value of just under one billion euros. The deal increased this railcar leasing company's fleet to 94,000 railcars worldwide.

M&A activity in Germany weakened slightly in the considered period, which is fully consistent with the general economic climate. Experts recently forecast lower growth for the Germany economy in 2019. However, they were merely predicting slightly weaker business activity rather than a sharp economic downturn.

Dr. Niklas Dürr, niklas.duerr@zew.de

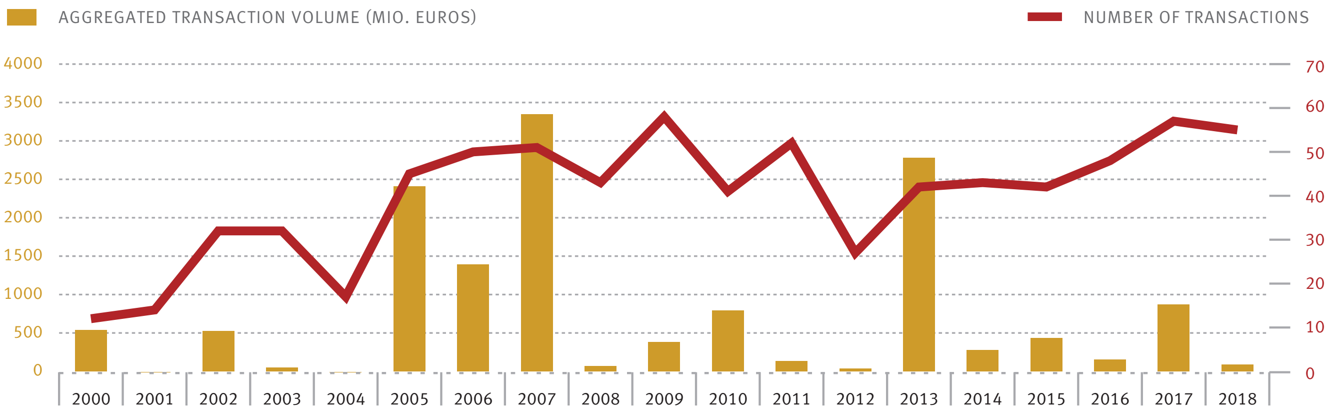
The **ZEW-ZEPHYR M&A-Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international buyer companies are considered, provided that the target companies are active in Germany. The M&A Report is a biannual publication issued by ZEW and Bureau van Dijk. It uses the Zephyr database to report current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over 1.9 million mergers and acquisitions, IPOs, and private equity transactions around the world.

BUREAU VAN DIJK
A Moody's Analytics Company

M&A Activity in the German Construction Sector Remains Fairly Robust

The German building industry is booming: its order books are full, construction prices are rising and the workforce size per company is growing, with job vacancies also at record levels. The number of M&A transactions is high as well. In terms of the buyers and takeover targets available in Germany there were 55 deals last year, which was only slightly fewer than at their peak in 2009 (58 transactions). From 2009 onwards there were growing signs of the recession that had previously been mitigated by the first and second economic stimulus packages. The number of transactions prior to 2005 had been far lower, with an average of only 21 deals between 2000 and 2004.

M&A TRANSACTIONS IN THE GERMAN CONSTRUCTION SECTOR



Source: Zephyr database, Bureau van Dijk, Thomson Reuters Datastream

This sluggish activity can be attributed to the reduction of excess capacity following the building projects undertaken as part of the reconstruction needed in the post-reunification in former East Germany – a process which started after 1995 and continued until 2005/2006.

Few deals due to small cohort of potential partners

However, the number of transactions must be seen in context. The number of construction companies in Germany varies around 390,000 since 2006. Just under 80 per cent are engaged in the finishing trade, while the remainder operate in the main construction trade. Moreover, firms with fewer than ten employees account for 90 per cent of the total. The absolute number of companies with more than 250 employees is in the hundreds. Furthermore, only around one-third of construction firms in Germany are legally constituted as public companies. Partnerships play a minor role, accounting for less than ten per cent of the total. The vast majority of small firms are sole traders. The cohort of potential buyers is therefore fairly limited, which explains the low number of deals.

Transaction volumes present a mixed picture

Transaction volumes – which are not known for all deals and therefore tell only part of the story – do not give a consistent picture. The aggregated deal volumes mostly amount to less than one billion euros except for the years of upheaval from 2005 to 2007 and in the year 2013. The average transaction value during the period under review came to roughly 130 million euros. The three largest deals were the purchase of Viterra AG by Deutsche Annington for seven billion euros in the year 2005, the sale of GBW AG to institutional investors for 2.45 billion euros in 2013, and the acquisition of ThyssenKrupp Wohnimmobilien by Corpus Immobiliengruppe and Morgan Stanley for 2.1 billion euros in 2004.

The picture looks different if we exclude companies that are at least partly involved in real estate (i.e. its sale, rental or management). In this case an average of only 19 deals per year have been completed. The pertinent average transaction volume amounts to a much more modest 60 million euros – a long way off the record sum of 28 billion euros paid by Gemany's building and infrastructure construction group Hochtief to acquire Spanish toll-road operator Abertis.

Michael Hellwig, michael.hellwig@zew.de

M&A Activity Between Companies with Large Patent Portfolios Is Refrained From

A number of recent empirical studies have documented how, over the course of several decades, the market power of companies – and as a consequence – average price margins have steadily grown. An often cited possible cause for this trend is the concentration of ownership over key technologies, that is, a greater share of technology belonging to fewer companies. This phenomenon could, among other things, be the result from active M&A strategies pursued by highly innovative companies that acquire equally highly innovative rivals. The consequence is a highly concentrated technology market.

A widely used metric to capture the concentration of markets is the Herfindahl-Hirschman Index (HHI). To measure technological concentrations, a "Patent-HHI" is calculated by summing the squared patent market shares (as fractions) of each company. The chart below on the left shows that this Patent-HHI reveals a monotonically increasing trend overall (in yellow) of the concentration of patented technologies owned by German companies since the early 2000s. Similar patterns emerge if only the top 100 most intensively patenting companies are considered in the calculations of the Patent-HHI (in red). In both cases, we observe a slight weakening of this trend.

Although not shown graphically, the share of total patents belonging to the top 100 and 250 companies with the largest patent portfolios also reveals a similarly positive (and slightly weakening) trend. This heightened concentration of innovation (as captured by firms' patenting activity) in Germany does not appear to be caused by firms' M&A strategies however, as there is no evidence that M&A activity has brought about any significant change in the Patent-HHI. A major reason for this is the fact that there is relatively little M&A activity between companies that both have large patent portfolios. Highly innovative companies generally do not seem to acquire equally innovative rivals. The data used in the M&A Report does, on the other hand, indicate a clear trend towards smaller portfolios being acquired by larger ones (see chart below on the right).

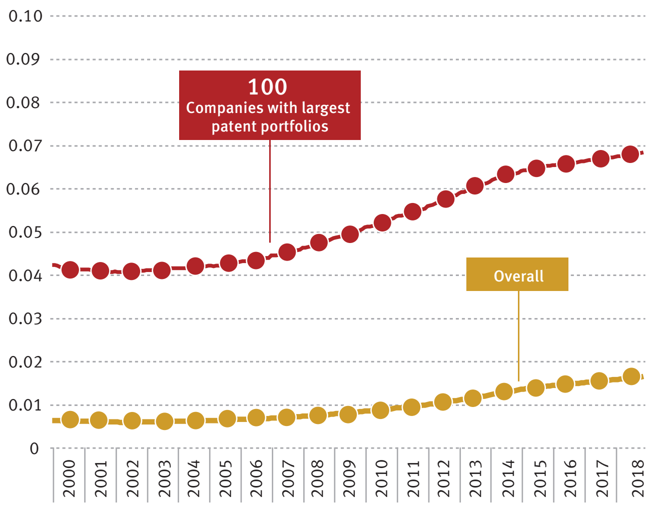
Companies with smaller patent portfolios are frequent takeover targets

Values greater than 0.5 on the vertical axis of the chart denote acquisitions of smaller portfolios by larger ones, while values lower than 0.5 indicate the opposite. The yellow curve shows the twelve-month moving average and the thin grey curve shows the monthly averages. The data make a convincing case: patent-rich companies target firms with smaller patent portfolios. When including company size as an additional criterion, this trend becomes even more evident (red curve).

We find little compelling evidence thus far to suggest that M&A activity has caused technology in Germany to become increasingly concentrated among fewer and fewer companies. Our discussion draws a very simplified preliminary picture and more thorough economic analysis should help clarify this matter.

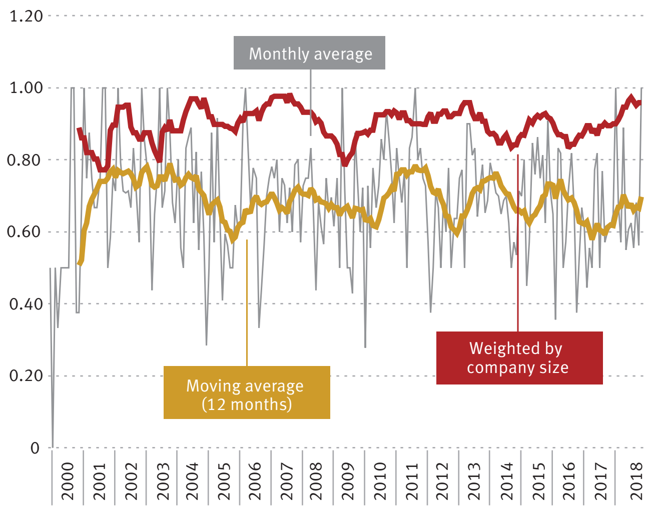
Vanessa Behrens, vanessa.behrens@zew.de
Dr. Bernhard Ganglmair, bernhard.ganglmair@zew.de

PATENT HERFINDAHL-HIRSCHMAN INDEX, PATENT-HHI, FOR GERMANY



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

TAKEOVERS BY PATENT-RICH COMPANIES



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

Email Reminders Have a Positive Effect on Physical Activity

Although it is known that sport increases well-being and fitness, while contributing to better health, it is difficult for most people to do enough exercise in everyday life. A recent ZEW study shows that short reminders via email increase the likelihood of people going to a gym.

In Western countries, the share of people that do not exercise enough has steadily increased over the past few decades and currently amounts to more than 40 per cent. This may be due to the fact that sports activities and the effort they involve take place in the present, while the majority of the associated benefits, such as health benefits, only occur in the future. It is therefore often the case that people make plans to do sport, but then fail to do so and postpone it until later. A ZEW study examines whether a weekly reminder encourages members of a large gym to do more sports.

Foto: © iStockphoto.com/skynesher

A ZEW study showas that simple email reminders have the potential to stimulate individuals to exercise more.

The study was carried out in collaboration with one of the largest health clubs in Gothenburg, Sweden. The club is a non-profit organisation, has four facilities and records over 800,000 visits per year. Three facilities offer free workout areas, as well as more than 200 exercise classes per week led by fitness instructors. The fourth facility is a large climbing hall. Access to each of the four facilities requires the scanning of an electronic membership card. Participation in a group exercise class requires an additional scan. It is therefore possible to closely monitor the members' sporting activities.

The study considered all members with a 12-month contract and a valid email address, which were a total of 2,463 persons. The members – about 58 percent of them were men, the average age being 30 – were randomly divided into a group receiving a reminder ("treament group") and a control group that did not receive a reminder.

From 9 January to 9 April 2017, the members of the treament group received a weekly email from the gym, encouraging them to come by and exercise. The message included up to three sentences of text in Swedish and English, a photo from the fitness area and a link to the studio's website. Text and images changed weekly. Of course the members had the possibility to unsubscribe from the email reminder at any time. Up until the end, 91 per cent of the initial members of the treament group were still on the mailing list for the weekly reminder. On average, all members visited the gym about once a week. Before the reminders were sent for the first time, the members of the control group visited the studio slightly more often than the members of the treament group. As soon as the gym started to send email reminders, however, this trend reversed and the members of the treament group were the ones visiting the studio more frequently.

According to the ZEW study, the emails led to a 13 per cent increase in weekly fitness studio visits. The reminders particularly led to a rise of bookings of exercise classes, which increased by 17 per cent, whereas visits for free training increased by 12 per cent. This is due to the fact that members not only booked more courses, but also cancelled them less often. A course booking therefore seems to increase the self-discipline of members to also attend the booked course.

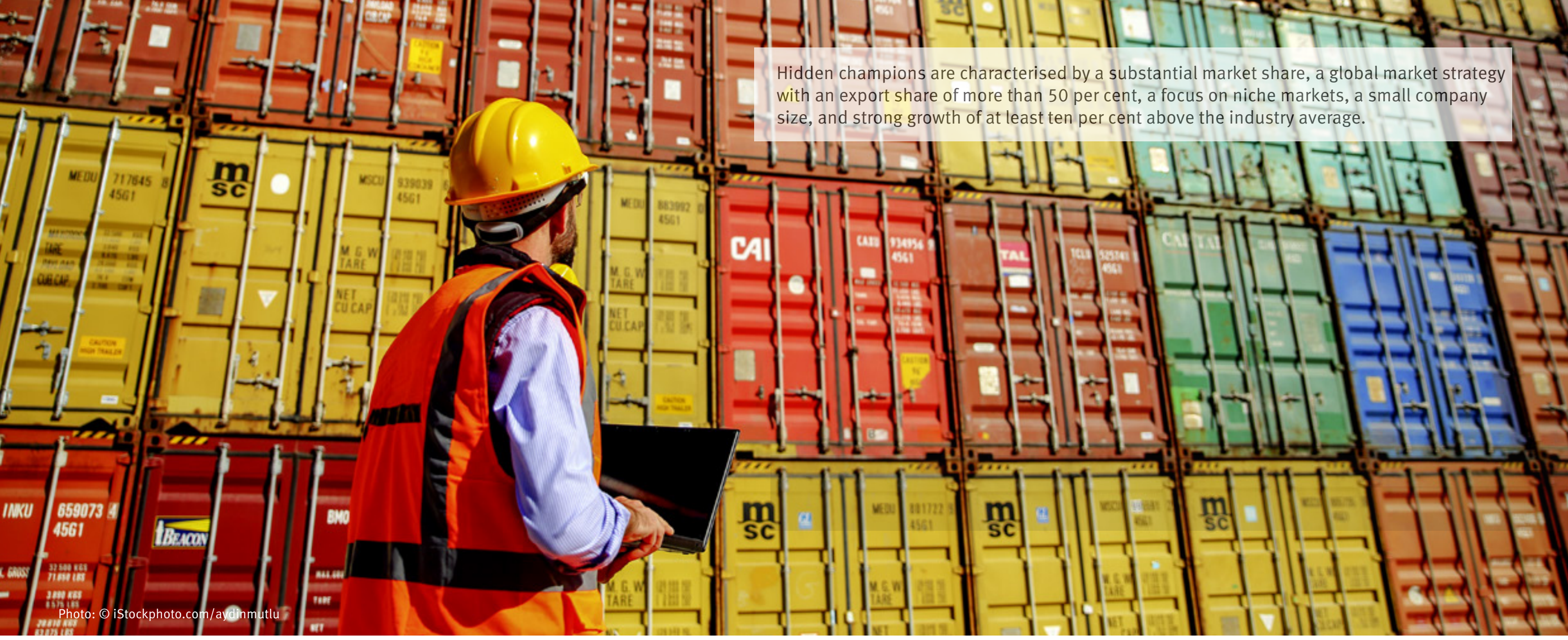
Positive effects on all groups of people

The positive effects are not limited to a certain group of people, but can be found among all members – women and men, young and old, as well as students and employees. It is also remarkable that the reminders not only led to more gym visits in the short term but also in the longer term. This may be due to the fact that the weekly reminders helped the members to establish a certain routine when visiting the gym and to incorporate it permanently into their everyday lives.

Since the results of the ZEW study do not only apply to a specific group of people (e.g., students), but rather to a broadly diversified group of people with very different characteristics, they suggest that regular email reminders are an extremely cost-effective way to encourage individuals to become more physically active. This has positive effects both for the health of the members and for the gym itself.

The study is available to download at: *www.zew.de/PU80226-1*

Dr. Wolfgang Habla, wolfgang.habla@zew.de



Hidden champions are characterised by a substantial market share, a global market strategy with an export share of more than 50 per cent, a focus on niche markets, a small company size, and strong growth of at least ten per cent above the industry average.

Photo: © iStockphoto.com/aydinmutlu

Hidden Champions: Efficient Innovation and Strong Skills Development

Hidden champions are relatively unknown small and medium-sized global market leaders that operate in niche markets. They are among the most successful small and medium-sized enterprises (SMEs) in Germany. One determinant of their success is that they combine innovative technology with tailor-made solutions for their customers. Although hidden champions do not invest more in innovation than firms of a similar size in the same sectors, they achieve greater market success with their innovations.

One reason for this result is that hidden champions design their innovation processes to be open without compromising their control over product development. At the same time they invest much more in the skill development of their staff. These are among the findings of a study conducted by the Mannheim-based ZEW, which for the first time has used representative base data to empirically document, compare and evaluate the key characteristics of hidden champions. This study is based on the annual ZEW Innovation Survey of firms' innovation activities in Germany.

Hidden champions specialise in market niches

Hidden champions generally specialise in narrowly defined market niches, are strongly export driven and have a large share in the global markets. As this study shows, by pursuing this strategy they are much more productive and substantially more profitable than a peer group. A matching approach was used to compile the peer group. This involved comparing each hidden champion with a firm of (virtually) the same size and same age from the same sector.

The study's authors have identified two main reasons for hidden champions' success. First, they forge very close customer relationships and adapt innovative technologies to meet their clients' specific needs. To this end, hidden champions invest strategically in research and development (R&D). Secondly, they target investment specifically at the recruitment and training of their staff to provide them with the necessary skills. The proportion of employees with a university degree, for example, is five percentage points higher than the peer-group average, while the cost of training and development per employee per year is 610 euros, which is 140 euros more than in the peer group.

The combination of premium technology and customised solutions makes these firms hidden champions – i.e. global market leaders – that operate in niche markets and are therefore relatively unknown to the general public. Hidden champions on average achieve a two percentage-points wider profit margin and a 29 per cent higher productivity than other SMEs of same size, age and industry. Being in niche markets, hidden champions obviously operate in a comfortable environment in which they are exposed to less price competition and fewer new entrants. However, they also derive a competitive advantage from the optimum way in which they pool and use their resources. This is particularly true of staff training and development.

According to the study, there were approximately 1,800 firms classified as hidden champions in Germany in 2016. They employed roughly 490,000 people and generated total revenues of around 285 billion euros. Over the ten-year period surveyed (from 2006 to 2016) the researchers found that, on average, 0.6 per cent of firms – or 1,637 firms – met the criteria to be classified as hidden champions.

These criteria include a substantial market share, a global market strategy with an export share of more than 50 per cent, a focus on niche markets, a small company size with fewer than 10,000 employees, and strong growth of at least ten per cent above the industry average for five successive years. The largest number of hidden champions in Germany can be found in the mechanical engineering sector (more than 400 firms), followed by the electrical engineering industry (roughly 200 firms).

The study can be downloaded at: *http://ftp.zew.de/pub/zew-docs/dp/dp19012.pdf*

Dr. Christian Rammer, christian.rammer@zew.de

ZEW and University of Mannheim Receive 1.7 Million Euros for Joint Tax Research

The Leibniz ScienceCampus “Mannheim Taxation” (MaTax), a joint science project of ZEW and the University of Mannheim, will receive 1.1 million euros in research funding from the Leibniz Association over a period of four years. This research grant was approved by the Senate of the Leibniz Association at the beginning of April 2019. In addition, the State of Baden-Württemberg will support the ScienceCampus with 0.6 million euros. During the same period, the University of Mannheim and ZEW will invest a further 2.4 million euros in tax research carried out within the framework of MaTax.

In the new funding phase, research at the ScienceCampus will focus on a) taxation, innovation, digitisation and growth, b) tax avoidance and evasion, c) tax incidence and (re)distribution, and d) European fiscal policy. The research alliance MaTax regularly holds conferences and workshops in Mannheim, which offer distinguished researchers from nationally and internationally renowned universities the opportunity to network with young economists, and provide a platform for specialist lectures, debate and the mutual exchange of ideas. The next Annual MaTax Conference will take place in September 2019.

MaTax is funded jointly by ZEW, the University of Mannheim, the State of Baden-Württemberg and the Leibniz Association, of which ZEW has been a member since 2004. The ScienceCampus further collaborates with the Institute for Financial and Tax Law of Heidelberg University. MaTax currently involves 15 professors and 60 junior researchers.

ZEW Economist Irene Bertschek Appointed to R&I Expert Commission

Prof. Dr. Irene Bertschek

Professor Irene Bertschek, head of the Research Department “Digital Economy” at ZEW, has been appointed as a new member of the Commission of Experts for Research and Innovation (EFI) as of 1 May 2019. EFI’s task is to provide scientific policy advice to Germany’s federal government. “The appointment of Irene Bertschek is a testament to her great work and an accolade for ZEW,” says ZEW President Professor Achim Wambach. “The German government is pursuing ambitious plans in the coming years to promote digitalisation and artificial intelligence. A proven expert in these fields such as Irene Bertschek is therefore the right person for this important position.”

Irene Bertschek’s research deals with the question of how digitalisation changes economic processes and how it affects the productivity and innovation behaviour of companies. The EFI counts six renowned experts in the field of economics and submits annual reports on research, innovation and technological performance in Germany.

The report builds on comprehensive analyses of the strengths and weaknesses of the German innovation system in an international and temporal comparison. On the basis of state-of-the-art scientific studies, the perspectives of Germany in terms of research and innovation are evaluated and proposals for optimising national R&I policy are developed.

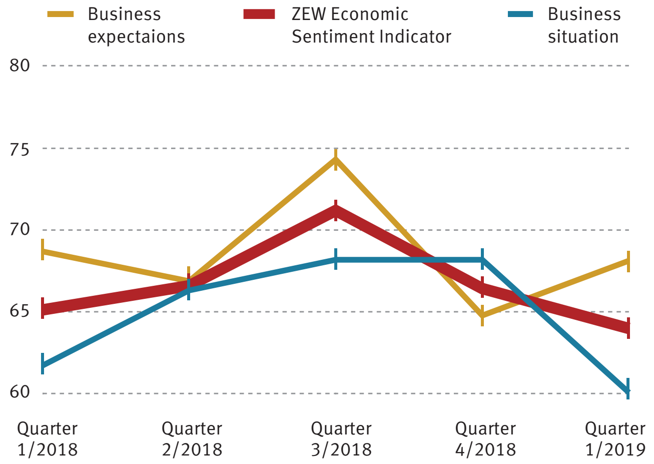
Chinese Managers to Get Trained at ZEW

Once again this year, 22 managers from the People’s Republic of China attended the ZEW training programme “Fit for Partnership with Germany” from 18 March to 12 April 2019. During the programme, ZEW’s training experts provided managers from various sectors of the Chinese economy with the necessary knowledge for collaborating with German SMEs in numerous training and coaching sessions.

This year, the programme welcomed the 30th management group from China to Germany. It was the seventh time that the programme was run by ZEW on behalf of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the German Federal Ministry for Economic Affairs and Energy. The aim of the programme is to promote German foreign trade. Before coming to ZEW, the participants attended an introductory workshop in China, where they were prepared for the programme and discussed their ideas for cooperation in individual interviews. The training was continued and successfully completed in Germany. Topics such as sustainable management, intercultural management and the fundamentals of the German economy helped the managers to gradually achieve their respective cooperation goals.

Participants of the ZEW manager training programme “Fit for Partnership with Germany”

German Information Economy: Subdued Economic Outlook

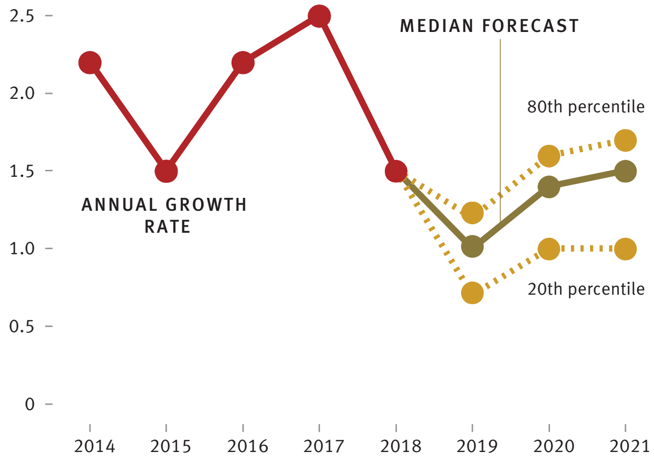


Source: ZEW

After having already made a rather cautious start to 2019, companies in the German information economy have found that the economic situation has since cooled further in the first quarter of the year. This assessment is based on the latest reading of the ZEW Economic Sentiment Indicator for the Information Economy, which saw a decline from 66.4 points in the last quarter of 2018 to a reading of 64.0 points in the first quarter of 2019. The ZEW Economic Sentiment Indicator is the result of a survey among companies in the German information economy, conducted by ZEW in March 2019. This drop in the sentiment indicator can largely be attributed to negative development in the business situation. Compared to the previous quarter, the corresponding sub-indicator fell by 8.1 points in the first quarter of 2019 and now stands at 60.1 points. Unlike the business situation, expectations regarding economic development improved slightly in the second quarter of 2019, with the corresponding sub-indicator currently standing at 68.1 points.

Dr. Daniel Erdsiek, daniel.erdsiek@zew.de

Long-Term Growth Expectations for Germany Decrease Once Again



Source: ZEW

As special question of the Financial Market Test conducted in May 2019, experts were asked for their assessment of German economic growth in the period from 2019 to 2021. Compared to the previous special question from January 2019 concerning long-term economic development in Germany, the current forecasts are less optimistic. For 2019, the median expectation for the growth rate of the German economy is 1.0 per cent. In January, 1.4 per cent were expected. The median expectation for 2020 is 1.4 per cent, which is 0.1 percentage points lower than in the January survey. According to the surveyed experts, the main reasons for this worsened outlook are unfavourable developments in export markets (about 65 per cent), disapointing economic data for Germany (about 61 per cent), international trade disputes (about 59 per cent), and the current state of the Brexit negotiations (about 59 per cent) – multiple responses were possible. By contrast, exchange rates and monetray policies only had a minor impact on experts' assessment.

Frank Brückbauer, frank.brueckbauer@zew.de

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Sixth Annual MaTax Conference

The sixth edition of the Annual MaTax Conference will take place in Mannheim on 12–13 September 2019. Topics related to tax research, including papers from economics, accounting, law, political science, and interdisciplinary contributions will be discussed. We are very happy to announce that Alan Auerbach (UC Berkeley) and Jake Thornock (Brigham Young University) will be this year's keynote speakers. The conference is organised by the Leibniz ScienceCampus "MannheimTaxation" (MaTax), which is a joint initiative of the University of Mannheim and ZEW.
For further information: *www.zew.de/VA2822-1*

11th ReCapNet Conference

The ZEW Network on Real Estate Markets and Capital Markets (ReCapNet) focuses on the interactions between real estate markets and capital markets. The eleventh conference of the network will take place at ZEW in Mannheim on 14–15 November 2019. The main theme of the conference will be "Real Estate Asset Pricing". We solicit papers on these and related areas at the intersections of real estate finance and real estate economics (submission deadline: 14 July 2019). We are very happy to announce that Jacob Sagi (University of North Carolina) will be this year's keynote speaker.
For further information: *www.zew.de/VA2816-1*


Photo: ZEW

A European Appeal Procedure for Mergers – Many Questions Remain

In February, the economy ministers of Germany and France, unhappy with the decision of the EU Commission to block the planned merger of Siemens and Alstom, presented a joint manifesto for a new European industrial policy. Among other things, they recommended that the EU consider whether to adopt an appeal procedure for corporate merger decisions similar to the one used by Germany's Ministry of Economic Affairs.

Germany's procedure, which has been in place since 1973, allows companies whose merger has been blocked by the Federal Cartel Office to file an appeal with the Ministry of Economic Affairs. The economy minister then reviews the case by weighing the harm to competition against the potentially positive effects on industry and the common good in general. One appeal whose decision is still pending contains some clues about whether the creation of an appeal procedure at the EU level would be a good idea.

That appeal, which was filed by two bearing manufacturers, Zollern BHW and Miba, is only the twenty-third case to be heard since the ministerial procedure was instituted. So far, the German economy ministry has overturned the rulings of the Federal Cartel Office only nine times. The procedure is designed to prevent frivolous appeals. The economy ministry relies on a report prepared by the Monopolies Commission and its decision is subject to judicial review. Currently, no comparable appeal procedure exists at the European level.

Zollern BHW and Miba are medium-sized companies though companies of any size can file an appeal with Germany's Ministry of Economic Affairs. The tricky question in this case is whether the German economy ministry must take into account the positive effects on the common good in other EU countries when making its ruling. (Miba is headquartered in Austria.) The Monopolies Commission has argued that it should not on the grounds that the German Federal Government is a constitutional institution committed to the German public, not Europe.

The creation of an EU appeal procedure for mergers would not eliminate this problem. It would just shift it to another level. In most cases, mergers of EU companies generate an unequal regional distribution of advantages and disadvantages. Some EU Member States benefit more from the positive societal effects of the mergers, while others lose out. A government committed to its own national interest could not support an EU-level appeal if it thought that the merger was going to have negative effects at home.

The exact nature of the positive societal effects evinced to justify a merger at the ministerial level has always been a contentious issue. Miba and Zollern argue that the merger would strengthen their international competitiveness. But strengthening international competitiveness is not itself a reason to support a merger appeal, unless it benefits the common good at home. Another societal benefit, one might argue, is if the planned merger generates pooled knowledge that is particularly valuable for society as well as for the companies. For instance, in 2008 Germany's then economy minister approved the merger of two hospitals because it benefited research and teaching. Unfortunately, "the common good" does not have a fixed legal definition. Rather, it is subject to change over time and between jurisdictions.

As it happens, the Monopolies Commission found that the arguments put forth by Miba and Zollern BHW either did not meet the requirements of the ministerial appeal procedure or were unconvincing, and recommended that the economy minister rule against the appeal. Peter Altmaier, the current economy minister, has until mid-June to make a decision, unless a later deadline is set.

There are many reasons that speak for the ministerial appeal procedure in Germany, not least because it allows space in specific instances for other policy priorities than competitive considerations. Moreover, since the procedure has been instituted appeals have been rare and positive rulings, rarer still. Nevertheless, the establishment of an appeal procedure at the EU level is not a good idea. Instead of helping matters, it would create a whole new set of problems for which there are no practical solutions.

President of the ZEW, Prof. Achim Wambach, PhD

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L 7, 1 · 68161 Mannheim · Germany · www.zew.de
President: Prof. Achim Wambach, PhD · Director: Thomas Kohl

Editors: Gunter Grittmann (V.i.S.d.P) · Phone +49 621 1235-132 · gunter.grittmann@zew.de
Sarah Tiedemann · Phone +49 621 1235-135 · sarah.tiedemann@zew.de
Kathrin Böhmer · Phone +49 621 1235-128 · kathrin.boehmer@zew.de

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