The economic significance of market exits and the survival of companies

English Summary

In 2023, there were around 36,800 company closures in Austria, around 5,400 company insolvencies (2024: 6,600) and around 7,400 company takeovers. This illustrates that the largest share of market exits is due to voluntary closures of solvent companies, with the majority of voluntary closures also being due to economic reasons. In recent years (2022 and 2023), following declines during the coronavirus pandemic, the number of company closures, insolvencies and company takeovers has risen. In an international comparison, Austria is characterised by a comparatively low exit rate (4.9 % compared to 7.6 % EU-wide on average for the years 2016 to 2020) and high survival rates (53.7 % compared to 46.1 % EU-wide for the 5-year survival rate of companies founded in 2015).

Determinants of Market Exits and Business Survival

Company exits are determined by various factors that may relate to characteristics of the company ('micro factors') or characteristics of the external environment ('macro factors'). Factors that reduce the probability of company exits or increase survival are efficiency and productivity of companies, high quality and accessibility of financing, the corporate form of the family business, the experience and know-how of the entrepreneurs and high capital intensity. Conversely, market exits are more likely and the survival time of companies is shortened by factors such as intense competition, many newcomers and low profitability. In addition, start-ups are more likely to exit the market. Literature and data analyses also indicate that an inefficient design of insolvency law can lead to low exit rates or prevent rapid exits. The factor of innovation and technological change has an ambivalent effect - it leads to higher market exits at macro level, while high innovation activities at company level enable companies to survive for longer.

Factors Influencing Market Exit Rates

Effect	Factors
Reduces Exits / Increases Survival Rates	▶ Efficiency and productivity of businesses/sectors ▶ High quality and accessibility of financing ▶ Family businesses ▶ Entrepreneurial experience/competence/know-how ▶ High capital intensity in the sector
Increases Exits / Reduces Survival Rates	▶ High competitive intensity (e.g., many newcomers) ▶ Low profitability of enterprises ▶ Higher exit probability for start-ups
Ambivalent Effects	▶ Innovation and technological change: Strong technological change increases exits, high business-level innovation performance reduces exits

Macroeconomic Significance and Impact of Market Exits and Survival Rates

Market exits and survival rates are in a certain area of tension with regard to their overall economic significance. Company closures are initially directly associated with negative effects, which vary depending on the size of the company, its position and role in value chains. Market exits lead to a loss of jobs (and therefore purchasing power), skills and expertise, which can result in high social and economic costs, particularly in decentralised locations. Company closures can also lead to friction in the various markets, increase market concentration and have an overall negative effect on GDP - especially if larger companies are affected by the closure. Longer survival periods promote economic stability and form the basis for the development of skills and expertise within organisations. They enable the development of larger companies that can use economies of scale to realise productivity gains and have sufficient resources available to invest in innovation and R&D.

In the medium to long term, however, it is important from a macroeconomic perspective that inefficient and unproductive companies exit the market and that the freed-up resources are utilised more productively in new or existing companies. Market exits thus improve the allocation of resources, which is a prerequisite for innovation processes, technological progress and economic growth. This is also relevant against the backdrop of the current green and digital transformation of the economy. The results of this study show that higher market dynamics in terms of entry and exit rates go hand in hand with a positive development of GDP and multi-factor productivity.

Low exit rates can be a problem in particular when so-called ‘zombie companies’, or underperforming or ‘covertly over-indebted’ companies, do not exit the market or are restructured, but continue to exist over a longer period of time. Zombie companies can affect overall productivity and economic growth both directly and indirectly and delay recovery after crises. They have a direct impact through their low productivity, lower investment and weaker employment dynamics. Indirectly, they lead to crowding-out effects, as they tie up resources such as human capital that could be utilised more productively elsewhere. They also burden bank balances and make it more difficult for healthy companies to access credit, which can reduce the profitability of entire sectors and increase financing costs. Through competition-distorting effects such as price pressure and reduced profit margins, they inhibit investment, innovation and start-ups.

Against this backdrop, it is crucial to maintain productive companies in order to optimise exchange within the company population, while unproductive companies should be quickly restructured or exited from the market in an orderly manner.

Evaluation of the Situation in Austria

In Austria, it is generally rare for productive companies to cease operations. Market exits of otherwise productive businesses tend to occur, for example, in cases where no successor is found for business owners retiring due to age, or in other situations where the reasons for closure are rooted in personal circumstances of the business owners. These cases likely account for a (still) small proportion of all closures, but they could gain importance due to demographic trends. Additionally, challenges related to business succession are becoming increasingly significant due to the rising number of successions outside family structures. These external successions are typically associated with financial transactions, and potential successors often lack the necessary capital to finance the acquisition. Prolonged operation of unproductive companies can also be linked to business succession, for instance, when the transfer process is delayed. In such cases, the current owner may postpone investments necessary to maintain productivity due to the impending handover.

To ensure the continued existence of these (generally productive) businesses, it is crucial to establish appropriate conditions for the transfer of companies to new owners. This includes support measures and markets for business transfers, as well as tax incentives, suitable financing instruments, financial support schemes, and advisory services.

Market exits of productive businesses can also occur in connection with specific investment needs (e.g., modernisation or replacement investments) and a lack of financing options to meet these needs. In this regard, well-functioning financial markets are essential, providing capital in such cases to prevent closures.

A significant proportion of business closures are due to economic reasons (lack of economic sustainability), although only a relatively small share of these cases involve insolvency or go through formal insolvency proceedings. Ensuring a high level of competence among self-employed individuals and business leadership, as well as fostering high innovation capacity within companies, represents two further key areas of action. These factors are particularly vital in times of transformation and technological change and can contribute to the sustainable continuation of productive businesses.

The analysis of the share of zombie companies in Austria reveals that, while it has increased slightly in the most recent period (2023), it has shown a significant decline over the longer term. This indicates that the prolonged existence of unproductive or unsustainable businesses is relatively rare in Austria today. Compared to other countries, Austria also reports low shares of zombie companies.

Nevertheless, a higher level of dynamism in the business landscape – with more start-ups and business closures – could be beneficial from a macroeconomic perspective, as previously outlined. One factor that could foster greater entrepreneurial dynamism lies in socio-cultural norms. Periods of business restructuring and closures remain rarely addressed in economic policy measures and are often considered taboo or stigmatised in both political discourse and society at large. These norms constitute a significant barrier to higher rates of business entry and exit.

The stigmatisation of entrepreneurial failure leads to many people avoiding the risk of starting a business out of fear of failure. It also results in entrepreneurs not seeking early support when facing economic difficulties, or in relevant support services being either unknown or underutilised. Furthermore, this stigmatisation can result in the postponement of necessary restructuring measures or the closure of unprofitable businesses. Additionally, the stigma inhibits failed entrepreneurs from starting new businesses, thereby missing valuable learning opportunities that could significantly enhance the success of subsequent ventures.

An awareness that restructuring and closure are integral parts of the business lifecycle, as well as key drivers of economic dynamism and renewal, is essential for improving the economic framework. Raising awareness and fostering a "culture of failure" or a "second chance culture" could play a vital role in initiating a cultural shift that, in the long term, provides positive momentum for economic dynamism.

Austria's insolvency system is considered relatively effective and well-targeted by experts, as it enables the continuation or restructuring of fundamentally viable businesses while effectively allowing unproductive companies to exit the market. The comparatively low share of zombie firms in Austria also indicates a well-functioning insolvency system.

Approaches to further increasing the efficiency of the insolvency system, such as those suggested by the OECD based on the OECD insolvency indicator, typically come with both advantages and disadvantages. The design of insolvency systems operates within a field of tension, where a balance must be struck between procedural efficiency and enabling a swift fresh start on the one hand, and protecting the rights and interests of all stakeholders (such as suppliers, customers, and employees) on the other.

Facilitating access to Austria's insolvency system could be achieved by pre-financing the minimum capital requirement of €4,000 (through public funding or alternative financing models) for cases that would otherwise be rejected due to insufficient assets. This measure could reduce the relatively high proportion of insolvency proceedings—around 40%—that are not opened and, at the same time, generate long-term economic benefits. Access to capital before and during restructuring or recovery processes could also be improved to enable necessary investments. Simplifying and making the existing pre-insolvency restructuring procedure more attractive could also be considered. In particular, reducing the preparation and cost intensity of this process could encourage greater acceptance and usage by businesses.

Beyond the insolvency framework, effective and well-targeted financial markets also play a critical role, as does the design of business support schemes that minimise the subsidisation of unproductive companies (based on case-by-case evaluations).

Economic policy in Austria continues to focus largely on the early stages of the business lifecycle. The start-up phase is supported by a wide range of assistance measures, and the legal framework is generally perceived as relatively straightforward. In contrast, there are fewer support measures available for periods of business difficulty and closure, or these may be less well known, despite the fact that legal regulations are more complex and often can only be navigated with external assistance.

One initiative addressing this gap is the “Perspektive Zukunft” ("Future Perspective measure”), which provides micro-enterprises and small businesses with subsidised, tailored advice during crises. Companies can also access advisory and informational services offered by Austria's Chambers of Commerce (WKO), such as guidance on profitability and financial restructuring measures.