



Enterprise policy

2000



The European Observatory for SMEs **Sixth Report**



European
Commission

2000

The European Observatory for SMEs
Sixth Report



European
Commission

Report submitted to the Enterprise Directorate-General of the Commission of the European Communities by:

KPMG Consulting and EIM Small Business Research and Consultancy

in co-operation with:

ENSR — European Network for SME Research

Intomart

This Sixth Report of The European Observatory for SMEs is available in English, French and German.

The previous five Annual Reports are still available and can be ordered at: EIM Small Business Research and Consultancy, PO Box 7001, 2701 AA, Zoetermeer, The Netherlands (phone: + 31 (0) 793413634, fax: + 31 (0) 793415024, e-mail address: info@EIM.NL).

These are the abbreviations used in this report for the Europe-19

A	(Austria)
B	(Belgium)
DK	(Denmark)
D	(Germany)
EL	(Greece)
E	(Spain)
F	(France)
FIN	(Finland)
IRL	(Ireland)
I	(Italy)
L	(Luxembourg)
NL	(Netherlands)
P	(Portugal)
S	(Sweden)
UK	(United Kingdom)
EU	(European Union)
IS	(Iceland)
LI	(Liechtenstein)
NO	(Norway)
EEA	(European Economic Area)
CH	(Switzerland)
Europe-19	(EEA plus Switzerland)

A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (<http://europa.eu.int>).

Cataloguing data can be found at the end of this publication.

Luxembourg: Office for Official Publications of the European Communities, 2000

ISBN 92-828-8614-X

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Printed in Italy

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FOREWORD

by Erkki Liikanen

**Member of the European
Commission responsible
for Enterprise
and Information Society**



The timing of the publication of the 6th report of the European Observatory for SMEs is well chosen. It follows the announcement of the Commission's new enterprise policy as outlined in the Communication adopted on 26 April 2000.

At the Lisbon European Council in March this year, the European Union set itself a new strategic goal for the next decade 'to become the most competitive and dynamic knowledge-driven economy in the world, capable of sustainable economic growth with more policy and better jobs and greater social cohesion'. Enterprise policy will play a key role in progress towards the achievement of these objectives. It will pay particular attention to the conditions in which SMEs, as the main providers of economic growth and job opportunities, operate.

The European Observatory for SMES is a valuable tool to analyse the current situation in the SME sector. Quantitative information on SMEs is combined with analysis of key issues affecting the competitiveness of SMEs. These include electronic commerce and access to finance. Improved survey methods give a far better view of how small and medium-sizes companies perceive their environment. A CD-ROM version complementing the report will provide more detailed data on SMEs and give an overview of SME policy measures at national level.

Previous reports have been considered as unique reference documents among a wide audience consisting of decision-makers responsible for enterprise policy at national and Community levels, researchers, economists and SMEs themselves. I hope that you will find this 6th Report of the Observatory a valuable addition to what has gone before.

A handwritten signature in black ink, appearing to read 'Erkki Liikanen'.

ERKKI LIIKANEN

EXECUTIVE SUMMARY

Introduction

This is the executive summary of the Sixth Report of the European Observatory for SMEs. The project was established in 1992 by the European Commission. The aim of the project is to prepare *an independent report*, which provides a structured and up-dated overview of European small and medium-sized enterprises (SMEs as used in this Report include craft enterprises and the social economy), in both quantitative and qualitative terms.

Over the years, the number of countries covered by the report has been expanded. The First and Second Report covered the then 12 Member States of the European Union and the Third Report included the 15 Member States and Norway. Since the Fourth Report, all EU Member States plus Iceland, Liechtenstein and Norway (that is all countries of the European Economic Area) and Switzerland are considered. These countries are referred to as Europe-19.

The general objectives of this Sixth Report are:

- To analyse the current and foreseeable performance and behaviour of SMEs in their business environment;
- To analyse the recent and foreseeable impact of the completion of the Internal Market on the performance and behaviour of SMEs;
- To identify the objectives and measures of enterprise policies likely to affect the SME-sector.

The report is divided into five parts. In Part I, the position and development of SMEs is analysed, after which, in Part II, enterprise behaviour in relation to the environment is studied. In this year's report attention is paid to: functioning of markets for products and services, labour market issues, access to finance, e-commerce, access to Community programmes and the role of associations and foundations in the social economy. Part III deals with enterprise policies, whilst, in Part IV, two in-depth thematic studies are presented: Continuing Vocational Training and SMEs and New Services. In Part V, the performance and behaviour of SMEs are analysed in the framework of the Internal Market.

This independent report is prepared by a consortium lead by KPMG Consulting and further consisting of EIM Small Business Research and Consultancy, Intomart and the European Network for SME Research (ENSR). ENSR is a network of leading organisations which specialise in SME research. There is at least one partner organisation in the network in each Member State of the European Economic Area. The report is mainly based on the following sources of data:

- European and national statistics;
- The ENSR Enterprise Survey 1999, a telephonic survey among 8 000 enterprises in the 19 countries covered;
- European enterprise databases;

- Literature, qualitative data, legislation and policy documents;
- ENSR-expert and external expert information.

Part I The performance of SMEs

Enterprise structure and key indicators at the European level in 1998

In 1998, the number of enterprises in the non-primary private sector in Europe-19 grew up to almost 20 million, with a positive effect on employment. These enterprises were providing a job for 117 million persons. As Table 1 shows the vast majority of these enterprises are SMEs, enterprises with less than 250 employees. SMEs are responsible for two thirds of total employment (see Chapter 1 of this report).

Table 1 Main indicators of non-primary private enterprises, Europe-19, 1998*

		SME				LSE	Total
		Micro	Small	Medium-sized	Total		
Number of enterprises (1 000)	EU	18 040	1 130	160	19 330	38	19 370
	Non-EU	425	45	10	480	2	480
	Total	18 465	1 175	170	19 810	40	19 850
Employment (1 000s)	EU	38 360	21 320	14 870	74 550	38 680	113 230
	Non-EU	970	820	770	2 550	1 190	3 740
	Total	39 330	22 140	15 640	77 100	39 860	116 970
Average enterprise size:							
• Employed persons per enterprise	EU	2	20	90	4	1 010	6
	Non-EU	2	20	90	5	780	8
	Total	2	20	90	4	1 000	6
• Turnover per enterprise (million euro)	EU	0.2	3	23	0.5	215	1.0
	Non-EU	0.3	3	16	0.8	135	1.3
	Total	0.2	3	23	0.5	215	1.0
Share of exports in turnover (%)	EU	6	13	16	11	22	16
	Non-EU	12	14	16	14	20	16
	Total	7	13	16	11	22	16
Value added per occupied person (1 000 euro)	EU	30	50	95	45	90	60
	Non-EU	55	50	60	55	85	65
	Total	30	50	90	45	90	60
Share of labour costs in value added (%)	EU	40	53	43	45	38	42
	Non-EU	36	60	52	48	53	50
	Total	40	53	43	45	39	42

* Due to rounding, one cannot derive totals from adding subtotals and one cannot derive average enterprise size from the data on employment and the number of enterprises.

Note:

- Micro enterprises are enterprises which employ less than 10 employees. Enterprises without any employees, which thus only provide an income for the self-employed (and perhaps unpaid family workers), constitute a special category within this size-class;
- Small enterprises are enterprises which employ 10-49 employees;
- Medium-sized enterprises provide employment for 50-249 persons.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

An average European enterprise provides employment for 6 persons. This figure differs with respect to size: an SME provides, on average, employment to 4 persons, while the average number of occupied persons in a large enterprise (LSE) amounts to 1 000.

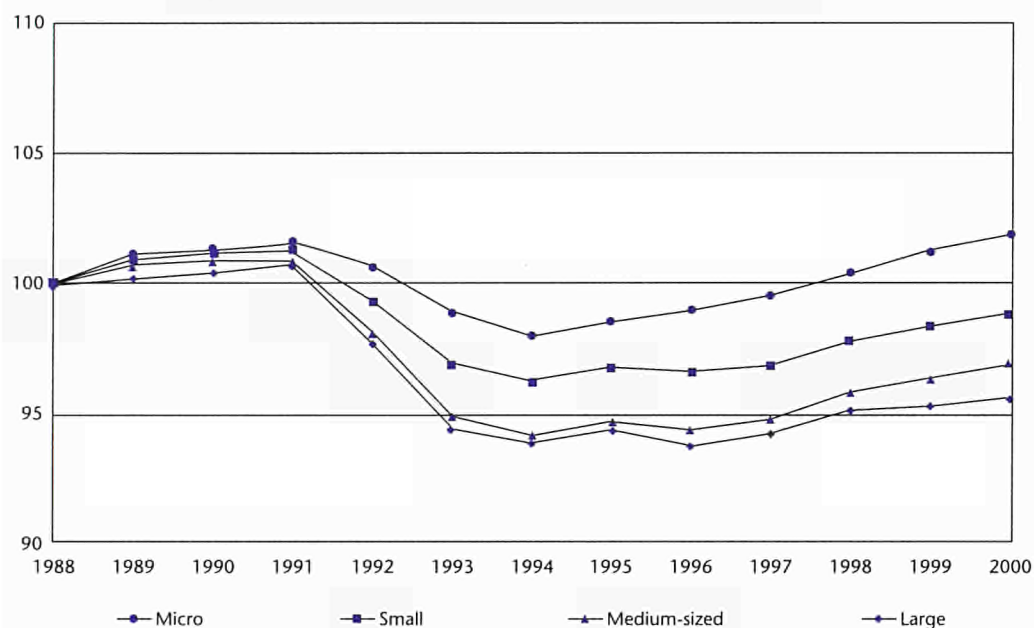
Average turnover per enterprise amounts to 500 000 euro in SMEs, and to 215 million euro in LSEs. Also labour productivity, defined as value added per occupied person, increases with enterprise size: in micro enterprises, an occupied person creates on average 30 000 euro value added, while in large enterprises, labour productivity is up at 90 000 euro.

Trends regarding key indicators, 1988-2000

Figure 1 shows the development of employment, in non-primary private enterprise in Europe-19 over the 1988-2000 period. On the one hand, the total number of jobs declined during the nineties, but on the other hand, the development of employment has been most favourable in micro enterprises. Also employment recovery started in micro enterprises from 1995 onwards while employment growth in small, medium-sized and large enterprises only significantly increased from 1997.

The number of enterprises in Europe-19 has increased significantly during the last decade. For instance, the latest data available, referring to 1995, show that almost 2 million new enterprises arose, while over 1½ million enterprises ceased to exist. So, entry and exit amounted to 11 % and 9 % of the total stock of enterprises, respectively. Employment associated with entry was equal to over 2½ million. As exiting enterprises are slightly larger than new enterprises, the employment associated with exits amounts to 2½ million persons, even though the number of exiting enterprises was lower than the number of new enterprises.

Figure 1 Development of employment in micro, small, medium-sized and large enterprises, Europe-19, 1988-2000 (index: 1988= 100)



Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Table 2 Labour productivity, unit labour costs and profitability in non-primary private enterprise, Europe-19, 1988-2000

	1988/1990	1990/1993	1993/2000	1988/2000
Average annual change in %				
Labour productivity*				
– SMEs	2.1	1.9	2.1	2.1
– LSEs	2.0	3.0	2.8	2.7
– Total	2.0	2.3	2.4	2.4
Unit labour costs**				
– SMEs	4.3	3.8	1.0	2.3
– LSEs	4.6	2.7	0.5	1.7
– Total	4.5	3.4	0.8	2.0
Average annual change in %-points				
Profitability***				
– SMEs	0.2	0.3	0.4	0.4
– LSEs	0.2	0.3	0.4	0.4
– Total	0.2	0.3	0.4	0.4

* Real value added per employed person.

** Labour costs per employee, adjusted for labour productivity.

*** Difference between value added and labour costs, adjusted for the imputed wage of self-employed, as percentage of value added.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Table 2 shows how labour productivity growth in SMEs has been fairly stable over time, at slightly over 2 % annually. In LSEs, however, labour productivity growth during the nineties is significantly higher than in 1988-1990.

Labour costs per employee increased at the same rate in both SMEs and LSEs (at about 4.5 % annually), but as a result of higher labour productivity growth, unit labour costs growth was smallest in LSEs. The development of profitability, however, was the same in SMEs and LSEs, irrespective of the stage of the business cycle. This implies that SMEs have been able to pass on higher unit labour costs into price changes. It can be concluded that lower productivity growth of SMEs has limited their competitiveness vis-à-vis LSEs.

Developments of the Craft Trades

In this Observatory report the monitoring of the craft trades that started in the Second Annual Report of the European Observatory for SMEs has been continued. Taking into account the classification of countries according to the way the craft sector is defined, the following developments have taken place.

- Austria, Germany, Iceland, Liechtenstein and Luxembourg follow the *profession approach* (the definition of craft is based on professional criteria). In Austria and Luxembourg, the size of the craft trades was quite stable over time while in Germany, the size of the craft trades tended to decrease. For the other countries (Iceland, Liechtenstein), data availability does not permit a clear judgement on the development of the craft trades.
- France, Italy and the Netherlands follow the *sector/size approach* (craft is defined on the basis of size and sector criteria). In France, the size of the craft

trades has decreased in the first part of the nineties, but from 1995 onwards, the sector seems to have recovered. In Italy and the Netherlands, the number of craft enterprises tended to increase, but on the other hand, employment gradually declined.

- In Spain, the *artist approach* (craft enterprises are exclusively involved in artistic activities) is followed. The number of enterprises is seen to be quite stable. However, after an increase in employment in the beginning of the nineties, job losses have occurred since 1995.
- Belgium, Finland, Ireland, Portugal, Switzerland and the United Kingdom follow *other approaches*. Data for Ireland point to a gradual employment increase since 1993.

Developments of the Social Economy

The role of the organisations in the social economy is increasing (also called CMAFs, i.e. Co-operatives, Mutuals, Associations and Foundations). However due to differences between countries regarding the definitions used, no comparable data for these activities are available. The available statistical information on the social economy however roughly suggests that at the European level the number of enterprises belonging to this sector is equal to 5-10 % of the total enterprises. As regards employment, the social economy is - by and large - equivalent to over 5 % of European employment.

Part II The business environment and behaviour of SMEs

The functioning of markets for product and services

Regulatory reform affects small and large enterprises very differently. Specific effects of regulatory reform on SMEs are that regulation may hamper one of the strengths of SMEs, namely their flexibility, that regulation can lead to administrative burdens which are disproportionate to SMEs, that SMEs face less qualified competitors when entry barriers are lowered so that self-regulation has to be set up, and that regulation is often followed by mergers and acquisitions so that SMEs face larger enterprises with greater market influence.

However, not all regulations and deregulations are aimed at improving the competitiveness of private enterprises. There is also regulation and deregulation aimed at stimulating the welfare of consumers and the economic growth. Such regulations and deregulations might have, especially in the short run, a negative impact on SMEs.

In Chapter 2 of the report two case studies are presented. The first focuses on the impact of a deregulation aimed at enhancing the consumer welfare and economic growth, i.e. the liberalisation of opening hours for retail shops, The second shows the effects of a regulation aimed at, amongst others, improving the entry of enterprises to and increasing the transparency of the market for public procurement.

Liberalisation of opening hours for retail shops

The liberalisation of opening hours for retail shops appears to accelerate the diminishing market share of SMEs, by decreasing profitability (costs rise more than

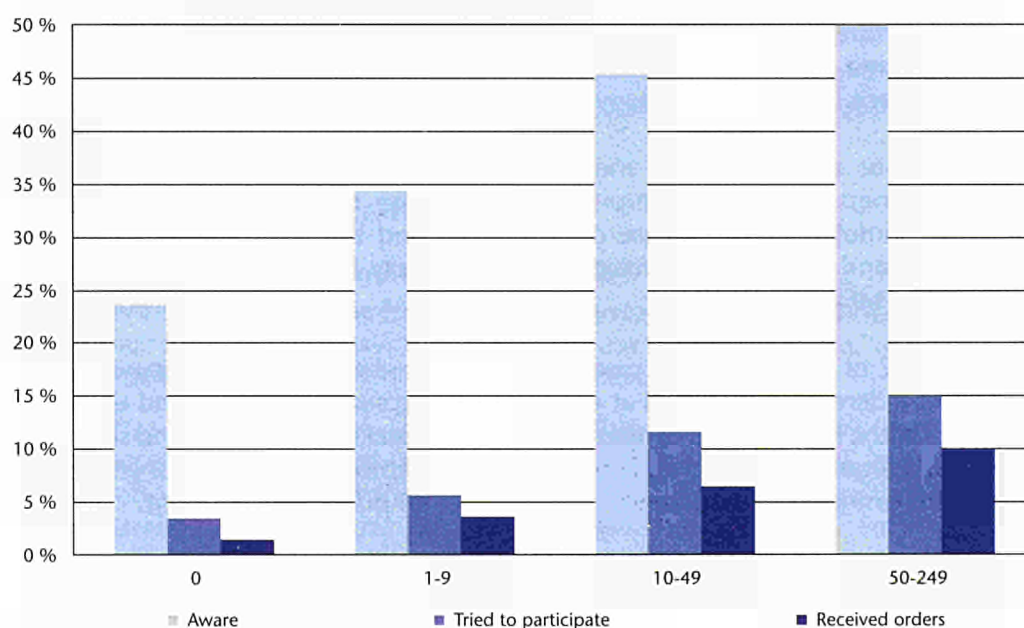
turnover). Large enterprises are more able to take advantage of extended opening times since these enterprises have a greater managing capacity, such as organising job rotation shifts and pools of part-time workers. Small shops simply cannot pay an extra employee and/or small speciality goods shops cannot hire inexperienced cheap part-timers since a certain level of experience is needed to serve the customers correctly.

Opening-up the market for public procurement

New opportunities for SMEs emerge as a consequence of another relatively recent regulation: the opening-up of the market for public procurement. The ENSR Enterprise Survey 1999 reveals that in 1999, on average, one third of SMEs is aware of the possibilities for enterprises like themselves to participate in tender procedures for supplying goods, services or construction works to local, national or European administrations and public bodies. Also, one third of them face more opportunities due to the opening up of the market for public procurement although country differences exist. SMEs in France, Belgium, Portugal, Switzerland and Luxembourg experience substantially more opportunities, whereas enterprises in the Netherlands, Ireland, Spain and the United Kingdom do not see any additional opportunities.

One sixth of the enterprises that are aware of public tenders tried to participate in European tenders during the past three years (see Figure 2). Of all enterprise sizes considered, the medium-sized enterprises seem to be more aware of tender procedures and also tried to participate most. About half of the SMEs that tried to participate in one or more European tenders in the past three years did receive an order following their participation in such tender procedures. All in all, between

Figure 2 Percentages of SMEs being aware of the possibilities of public tender procedures, trying to participate in European tenders in the past 3 years and receiving an order, per enterprise size class, 1999



Source: ENSR Enterprise Survey 1999.

2 and 3 % of all SMEs stated to have received orders during the past three years following their participation in European tender procedures. The results of the ENSR Enterprise Survey 1999 do not allow calculating accurately the absolute number of tenders actually won by SMEs. However the available data clearly suggest that a considerable part of all European tenders are won by SMEs.

Among the barriers still hampering SMEs, lack of information is by far the largest problem. However, this barrier seems to reduce when a high percentage of employees within an enterprise has direct access to the Internet. Once the information gap is filled, other barriers appear: the projects are too large for SMEs, high administrative burdens and high costs of preparing a bid.

Labour market issues

Skill shortages

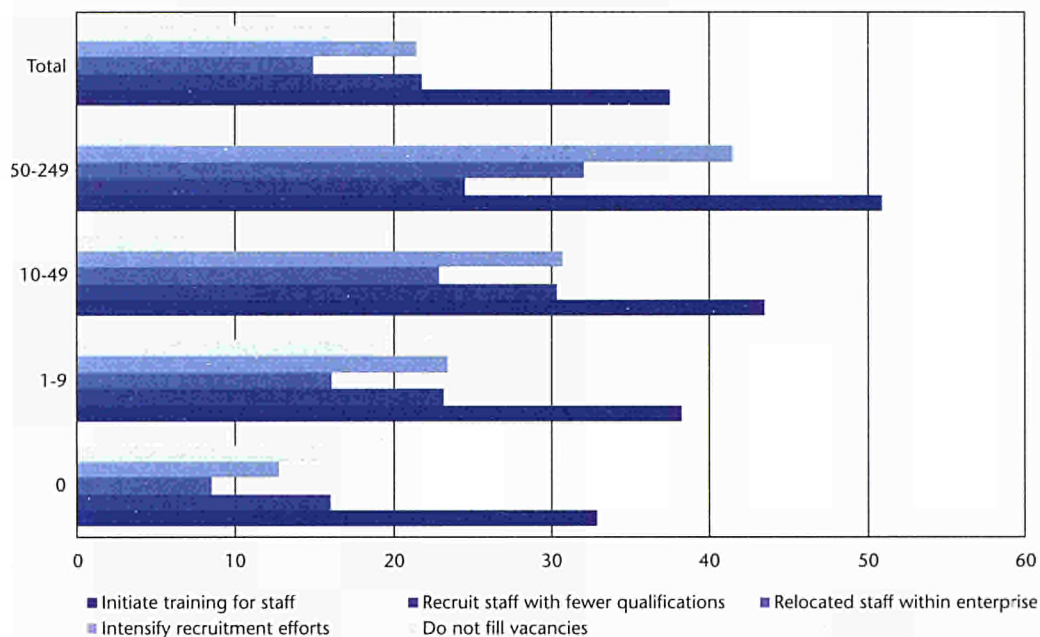
The Third Report of the European Observatory for SMEs (1995) revealed a general reduction of the extent of both the quantitative and the qualitative lack of labour in the period 1991-1994, primarily because of low business activity. Since then, the economic trends have improved and an increase of the problem of skill shortages has been recorded, especially among SMEs. Lack of skilled labour is now felt as a major constraint on business performance by almost 10 % of SMEs. This problem is considered as more severe the larger the number of employees in the enterprise is, ranging from 4 % for enterprises without employees to 23 % of medium-sized enterprises (see Chapter 3).

Over the past year, more than a quarter of all SMEs have often or from time to time experienced difficulties in filling vacancies. Medium-sized enterprises face the largest problems and in this size-class only one third of the enterprises have not experienced difficulties in filling vacancies. Recruitment is not felt as a severe problem for the small enterprises, although almost half of them have often or from time to time faced some difficulties. This issue seems to involve all occupational groups. In fact, recruitment problems related to low and semi-skilled workers are as widespread as recruitment problems related to technicians and engineers. Almost a fifth of SMEs have given up trying to fill their vacancies.

Among those SMEs who adopted actions to overcome these difficulties, training of staff already employed is generally the preferred strategy (see Figure 3). When the different size-classes are studied, a clear trend emerges: the more people employed, the higher the proportion of enterprises providing training for existing staff. This trend reflects the fact that large and medium-sized enterprises are generally more active in offering training to employees than micro and small enterprises are. See also the section on continuing vocational training later on in this summary.

In this Sixth Observatory report the actions are described which public authorities take to deal with skill shortages. Most of the 19 countries covered by this report have developed systems to monitor the existing skill shortages, but only a few are taking action to anticipate skill shortages before they become a problem. Most of the corrective actions taken to overcome recruitment problems are indirect in nature since their aim is to secure a flexible labour market by upgrading the skills/qualifications of the labour force, and by promoting high mobility and transparency. Although examples exist of initiatives to identify skill shortages within specific areas, these are more rare.

Figure 3 Percentage of enterprises* that take specific actions to overcome difficulties in filling vacancies, by enterprise size



* The percentages shown in the chart refer to those enterprises that experience difficulties. This group comprises 30 % of all enterprises, 70 % for medium-sized enterprises, 58 % of small enterprises, 39% of micro and 18 % of enterprises without employees.

Source: ENSR Enterprise Survey 1999.

Mobility of the labour force

One way for enterprises to overcome recruitment problems and skill shortages is to employ staff from other western European countries. However, the potential for migration and cross-border commuting has not yet been fully exploited in Europe, especially when compared to the situation in the USA, and certain mechanisms work to hinder the mobility of labour. As a consequence, in the last three years only about 4 % of SMEs have employed staff from another western European country. The main barriers are the related administrative burdens and the problems with arranging labour permits.

Taxation policies to solve recruitment problems

Reduced taxation on labour is not used extensively enough for it to be a strategy for overcoming increasing problems of skill shortages. Nine Member States (Belgium, Denmark, France, Germany, Ireland, The Netherlands, Portugal, Spain and the UK) are now using elements of their taxation system, or are implementing actions to reduce the non-wage labour costs and to stimulate the creation of employment. In most countries, tax reforms include both a general reduction of the tax on labour and a special focus on a reduction of taxes on low-paid employees.

The reasons for not introducing reduced taxation on labour in employment generation drives differ from country to country, as the fundamental criteria for the use of such strategies differ. The three main explanations are budgetary constraints, low unemployment rate and doubts about the effectiveness of the strategy.

Access to finance

SMEs encounter specific problems in their attempts to access finance. Chapter 4 gives insight into the importance of such problems. The financial structure of an enterprise seems to depend more on the financial system and financial habits of the country in which it operates than on any other characteristics of enterprises such as size, sector, age and even profitability. Moreover, the smaller the enterprise, the greater are the international differences in its financial structure. In other words, there seems to be a generalised convergence in financing patterns for larger enterprises.

Access to finance appears among the most important constraints for the development of an SME: in almost all countries, the access to finance appears among the three most important constraints. Three groups of countries can be distinguished in this regard:

- In Denmark, Greece, the United Kingdom, Italy, Spain, Sweden and Norway access to finance comes out as the main constraint impeding the performance of enterprises;
- In Portugal, France, Iceland, Germany, Switzerland and Finland access to finance is the second strongest constraint;
- In the remaining six countries, Austria, Liechtenstein, Luxembourg, Belgium, Netherlands and Ireland, the constraint access to finance comes in third or fourth place.

The absolute importance of the 'access to finance' constraint as well as its rank seems to be negatively correlated with the enterprise size. Enterprises with 1-9 employees rank this constraint higher compared to other constraints than enterprises with 10-49 employees do.

These data give an overall indication about the perceived frustrated demand for finance by enterprises, but they do not specify what kind of finance the responding entrepreneurs had in mind (was it debt financing or own capital financing coming from formal or informal sources) nor do they allow to draw any conclusion about the reasons of this state of affairs. On the other hand, the data derived from the ENSR Enterprises Survey 1999 allow for a closer look at the relationship the European SMEs have with banks as providers of credit. Bank credit is the most common, and for many enterprises the only external source of financing. Although these data do not differentiate among credit types, they show that the proportion of enterprises currently having a bank credit varies widely across Europe.

The fact of having a bank credit does not prevent many enterprises from feeling constrained in their access to finance. This feeling may come either from the insufficient volume of the credit or from its unsatisfactory conditions.

A comparative analysis by group of enterprise

In the development of financial support measures for SMEs, the results of the Report of the Business Environment Simplification Task-force (BEST), should be taken into account. As stated in the BEST report, SMEs are not homogeneous, therefore different kinds of support measures should be developed for different categories of enterprises. In this Observatory report four categories of enterprises have been analysed: Early Stage Enterprises, Small Mature Enterprises, Highly Innovative Enterprises and Expanding Enterprises.

Early Stage Enterprises experience the highest level of constraint regarding access to finance, almost one out of four enterprises in this category feels constrained mainly by finance (see Table 3). Apart from bank credit, informal sources including friends and relatives as well as Business Angels are important financiers of these enterprises. Business Angels are not only providing financial means but also commercial skills, entrepreneurial experience and business know-how.

Small Mature Enterprises are, out of the four groups, the least constrained by access to finance (the rate for this category is almost half of the rate for all SMEs), most probably because they have established their financial basis over a long period and they are not, structurally speaking, in need of additional or new financing.

Table 3 Access to finance, bank credit and collateral, by target groups, Europe-19

	<i>Early Stage</i>	<i>Small Mature</i>	<i>Highly Innovative</i>	<i>Expanding</i>	<i>All enterprises</i>
Enterprises with access to finance as major constraints	22 %	8 %	16 %	19 %	15 %
Enterprises with a bank credit (rate of bankarisation)	40 %	40 %	44 %	48 %	40 %
Enterprises with bank credit guaranteed by collateral:					
• Owner's or relatives' property as collateral	25 %	26 %	36 %	39 %	28 %
• Fixed assets of enterprise as collateral	4 %	5 %	5 %	7 %	5 %

Source: ENSR Enterprise Survey 1999.

Highly Innovative and Expanding Enterprises seem, by and large, to have better access to bank credit than the average European SME. This would suggest that banks have more interest in providing finance to these two groups of enterprises probably because of the enterprises' dynamic profile.

Three main reasons can be suggested to explain why the financial sector can be reluctant to finance Highly Innovative Enterprises through traditional channels: the uncertainty of expected returns, the benefits can not be fully retained in the enterprise and the indivisibility of the investment. The main sources of finance for this group of enterprises are apart from bank credits, venture capital and Business Angels.

The most common sources of finance for Expanding Enterprises are bank loans. High Growth Enterprises have, like their innovative counterparts, a privileged access to other channels, for example venture capital funds or Business Angels.

The collateral policy used by banks when they extend credit lines to the different groups of enterprises also shows some degree of differentiation. The frequency with which banks ask for collateral, especially property, is significantly higher for Highly Innovative and Expanding Enterprises than for the two other groups.

Electronic Commerce and SMEs

Opportunities and barriers for SMEs

The use of Internet technology for supporting co-operation and managing information among enterprises has recently become more frequent for SMEs,

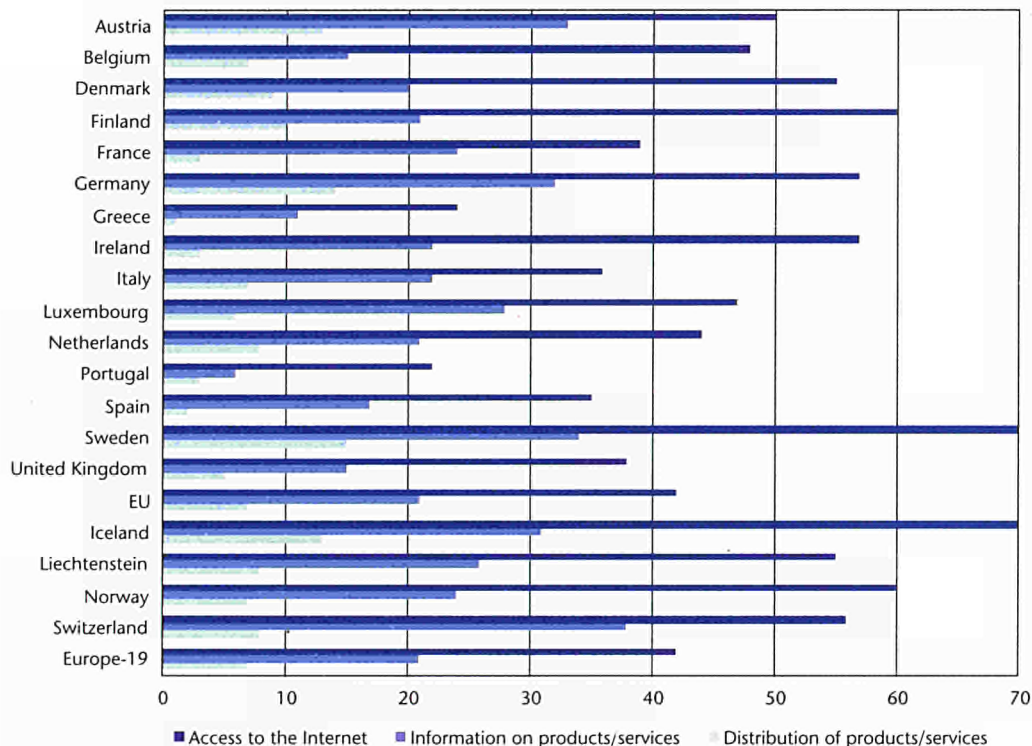
opening up markets so far only accessible to the larger enterprises. This is because e-commerce, based on the Internet, is gradually changing the way business is conducted throughout the entire process: in many cases all trade transactions, marketing, ordering, payment, delivery, and customer support can nowadays be carried out digitally (see Chapter 5).

Entering the electronic market can for many SMEs be a natural way of expanding into a nationally or even internationally oriented business from being a regional one, especially because a virtual store is more flexible and in most cases less costly than acquiring a physical new store or sales office. Small SMEs without large sales organisations have an advantage over larger organisations when restructuring the organisation for using e-commerce. However, to face this new way of conducting business additional new skills are needed by SMEs, both for technically launching and maintaining a commercial application and sometimes for expanding the market into new regions with another language or culture.

The share of SMEs that have direct access to the Internet is equal to 42 % of the total (see Figure 4). This percentage is highest in Sweden and Iceland, followed by Finland and Norway. The lowest percentages are found in Portugal and Greece. In Europe as a whole the percentage of SMEs connected to the Internet is increasing by size of enterprise.

Among the on-line business activities pursued by SMEs, distribution of information on their products or services is by far the most widespread use of the Internet for commercial purposes. Swiss, Swedish and Austrian SMEs are the most active in using the web for presenting information on their products and services.

Figure 4 Percentage of SMEs having access to the Internet, and its use for the two most widespread commercial purposes, by country



Source: ENSR Enterprise Survey 1999.

The share of SMEs who are distributing their product or service itself on the web is equal to 7 % on average. Sweden and Germany are closely followed by Austria and Iceland as the most advanced countries in this regard.

Co-operation over the Internet

Co-operation among enterprises over the Internet for jointly offering products or services is also influenced by the size of the enterprise. There is a trend indicating that older enterprises tend to use this option more than younger ones do.

Sectors involved

The commercial use of the Internet varies not only among nations but also among business sectors. To some extent this is caused by the different methods of pursuing business. The share of SMEs presenting and distributing their products on the Internet is higher in the business sector of 'Banking, finance and insurance', whereas the 'Business services sector' is the leader concerning the use of the web for distributing products.

In spite of the expansion of the Internet, e-commerce for SMEs in Europe does not seem to have really taken off yet. Barriers derive from different sources, namely the characteristics of SMEs themselves, the consumers, technology and the legal framework. The most important reason for not using the Internet for selling products or services is the perception that *it does not apply to the enterprise*. This explanation is more important for the smaller SMEs than for the larger ones and it is least apparent in Liechtenstein, Denmark, and Austria. On the other hand, Portugal, Greece, and France are the countries where this viewpoint is most frequently expressed. Lack of information and lack of awareness of good examples concerning e-commerce, may cause the perception that selling products or services via the Internet does not apply to the enterprise. The three most important barriers following after this one are: doubts about return on investment, lack of skilled personnel and lack of consumer access to the electronic market. Distrust in technology and lack of security seem to be seen as minor barriers to the use of the Internet for selling products and services.

In addition to the above-mentioned perceived barriers, language is still a prevalent barrier for international trade in Europe today, especially when considering the fact that within the European Union almost half of all commercial web sites are not available in English. The Internet, primarily being an English speaking arena, is therefore largely out of reach for many potential customers with another native tongue.

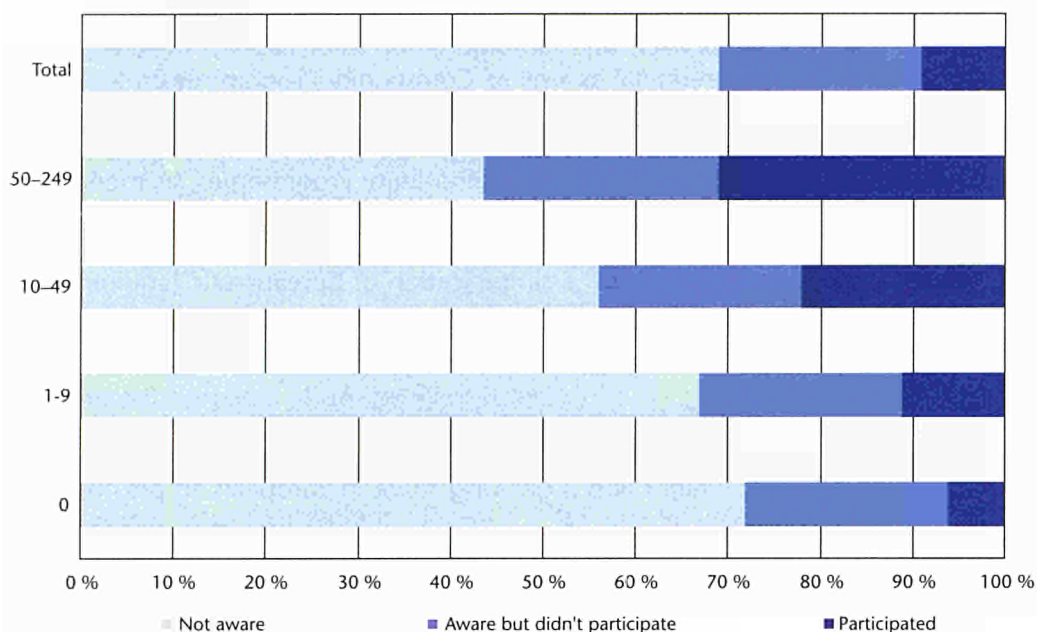
Access to Community Programmes

Awareness and participation

In the last five years, one tenth of the SMEs in the 19 countries covered by this report have participated in a support programme in the field of financial assistance, training support, consulting or information offered by regional, national or European institutions (see Figure 5). Almost three quarters never considered an application to a Community Programme since they were not even aware of the existence of such schemes. Another fifth of the SMEs, although aware of a programme, refused or had been refused participation (see Chapter 6).

There is strong evidence that both the rate of participation as well as the rate of awareness (or, put differently, the probability that a particular enterprise is aware

Figure 5 Percentage of SMEs being aware of and participating in support schemes, by enterprise size



Source: ENSR Enterprise Survey 1999.

of or participates in a support scheme whose essential requirements fit the enterprise) significantly and positively depend on enterprise size. Larger enterprises appear to be better informed and can more easily deal with hindrances. But, remarkably, the relative importance of other reasons preventing SMEs from participation, i.e. the difference between the participation rate and the awareness rate, remains more or less constant over size classes.

A differentiation of size patterns by types of programmes reveals that participants in Community Programmes are, on average, distinctly larger compared to participants of schemes offered by national or regional governments. Hence, obstacles to EU-programmes, be it awareness or other reasons, seem to be particularly high for smaller enterprises.

Obstacles of SMEs which have never participated in support programmes

One out of five SMEs, which are aware of European support schemes but have not yet participated, believe that it might be too complicated to take part in Community Programmes. Another 15 % lack information on how to participate. Furthermore, one out of five state that there is no appropriate programme at the European level, thus emphasising the need of properly promoting SME-relevant support schemes and implementing a bottom-up approach when developing support measures in favour of SMEs.

Obstacles of SMEs that have experience with support programmes

Some of these obstacles are similar to those named by SMEs, which have already, within the last five years, participated in any kind of regional, national or European programme. A comparison between Community, national and regional programmes shows that the relative importance of bottlenecks faced by participating enterprises is similar for both types of programme. However, barriers seem to vary with regard to their intensity, being more binding in the case of Community Programmes.

Obtaining information is also a major obstacle for the access of SMEs to support programmes. This seems especially the case for Community Programmes, where this has been mentioned as a bottleneck by more than half of the participating enterprises. Lacking availability and ambiguity of information, however, is a problem for national and regional as well as Community Programmes.

The time lag between application and project start is another important barrier to overcome for SMEs when participating in Community Programmes, as mentioned by a third of the SMEs. Closely related to this is the complexity of application procedures and administrative requirements as experienced by SMEs. It is important to concentrate further on a simplification of bureaucratic requirements, including less demanding reporting requirements in order to improve future participation by SMEs.

Associations and foundations in the Social Economy

An increasing economic weight and a growing share in European employment

Associations and foundations play an increasing role in all the sectors of the economy in Europe. Although countries show some differences, mainly due to history, cultural and policy reasons, associations and foundations are particularly active in the provision of health- and social services and in the fields of education and training, sports, culture, humanitarian aid and co-operation for development as well as in the field of environment, advocacy and civil rights (see Chapter 7).

The fact that this sector provides an increasing share of jobs in many countries, and that employment in this sector has continued to increase whereas employment has decreased in other sectors, have led to a growing or renewed interest both by policy makers and researchers.

Government policy

In all 19 countries covered by this report, the freedom of association is recognised either by the Constitution or by fundamental, possibly unwritten laws. There exist however many differences regarding general policies towards the 'sector', mostly depending on the type of relationship governments have developed with associations and foundations especially in the framework of education, health and social policies. The characteristics of these relationships range from the Scandinavian concept of the welfare society (the third sector is seen as complementary to the public sector) to the subsidiarity principle applied in Belgium and Germany (where, on the contrary, the public sector's supply of services complements the non-profit sector).

In most countries, the main regulating and funding ministries are de facto the authorities in charge of the policy applying to this sector. Of course, in some countries where policy is highly decentralised (e.g. Germany, Spain and Switzerland), regional and local authorities play an important role in policy creation and relationships with associations and foundations. Only France, the United Kingdom and Italy have appointed a specific authority in charge of co-ordinating, at least part of, the national policy concerning this sector

The main national policy instruments encouraging associations and foundations are related to: special legal forms and regulations, a favourable tax system taking into account the non-profit character of these organisations, financial support in the form of grants and subsidies and incentives in favour of fund raising, support to stimulate

voluntary work and support to stimulate job generation. Also, authorities often provide indirect support to associations and foundations by putting public infrastructure such as premises or sports infrastructures at their disposal.

Job generation

Some European countries (Finland, France, Belgium, Germany and Ireland), that have a high unemployment rate and/or where policy makers pay great attention to the job generation potential of the social economy as well as to their role in the field of social integration, have developed specific employment support that apply only to non-profit organisations. However, the final objective of these schemes is not to provide support to these organisations but either to provide employment and training opportunities for specific categories of unemployed or to develop new services and/or satisfying needs, which are not adequately satisfied by commercial suppliers or government itself.

Volunteer work

Associations and foundations depend a lot on volunteers. The share of the population involved in voluntary work differs a lot, ranging from one out of ten in Austria to almost one out of two in the United Kingdom. In some countries, efforts are made to promote and encourage voluntary work. Voluntary work can be assisted by the granting of paid days off to employees (as in France) or by giving a tax exemption for reimbursed expenses to volunteers to carry out their mission (as in Germany, in the sport sector only, and in the Netherlands). Provisions have been made that allow the unemployed to do voluntary work providing that it does not prevent them from looking for a job (e.g. in France and Germany). However, a clear statute for volunteers is still lacking in most countries.

Financing

Public finance is the major source of revenue for these organisations, although there are considerable disparities both between countries and sectors of activity, as well as between size classes.

In addition to the common means of financial support to associations and voluntary organisations (i.e. remuneration of services, favourable VAT rates or other tax exemptions and the distribution of grants), national or local authorities use specific instruments to generate and/or secure revenues for associations and foundations. Countries in the north of Europe encourage private giving through public lotteries whereas countries of the south prefer a mix of specific funds and encouragement of private donations through tax exemptions. The United Kingdom is in an intermediary situation with the development of all possible instruments whereas Greece has almost no tools in this field.

The reduction of the public budget in most countries, new rules of allocation of public funds, such as systems of co-financing and in some cases also the will to preserve their autonomy, push associations and foundations to search for an increase of their private sources of finance. New tools are developed such as 'produits partage', ethic finance and long-term relationships with private donors.

Smaller associations and foundations face more problems with collecting the financial means for their activities than the larger ones do: lack of information, the public authorities' annually based financial support, bureaucracy and incoherence of rules, delay of payments of public funds, increasing competition in attracting private donations and poor access to bank loans.

Cross border co-operation

Many associations and foundations participate in European partnerships and networks that are very active in lobbying, in exchanging and supplying information, in developing joint research projects, and exchanges of best practices. Nevertheless, there are still many barriers to the development of cross-border co-operation, especially because of the lack of harmonisation of regulations and the differences in national policy for associations and foundations.

Part III Enterprise policies

New Developments in SME Policy

Recent policy development and best practices in SME specific fields by country

Table 4 provides an overview of actual or planned new developments in the national/federal SME policy by country, for the period May 1997 to end 1999. In Chapter 8 new measures and programmes are analysed taking into account the following fields: business environment, financial environment, internationalisation and information services, innovation and R&D, labour, training and fostering entrepreneurship and encouraging enterprise culture. Almost all the countries have introduced new measures, amended existing ones or have plans to do develop measures in these fields.

Table 4 Implemented and planned national actions by fields and countries, May 1997-end 1999

Country	Business environment		Financial environment		Internationalisation & Information		Labour, training & innovation		Fostering entrepreneurship
	Administrative burdens	Late payment	Finance	Internationalisation	Information	Labour training	R&D innovation		
A	X		X	X	X	X	X	X	X
B	X		X	X	X	X	X	X	
DK	X		X	X	X	X	X	X	X
D	X	X	X	X	X	X	X	X	X
EL	X		X	X	X	X	X	X	X
E	X		X	X	X	X	X	X	X
F	X		X	X	X	X	X	X	X
FIN	X		X	X	X	X	X	X	X
IRL	X	X	X	X	X	X	X	X	X
I	X	X	X	X	X	X	X	X	X
L	X		X	X	X	X	X	X	
NL	X		X	X	X		X	X	X
P	X		X	X	X	X	X	X	X
S	X		X	X	X	X	X	X	X
UK	X	X	X	X	X	X	X	X	X
IS	X	X	X	X		X	X	X	X
LI	Only general economic policies; no direct support measures for SMEs								
NO	X	X	X	X	X	X	X	X	
CH	X		X	X	X	X	X	X	X

Source: ENSR, 1999.

Administrative modernisation in most countries is one of the key elements for promoting SME development. Measures have been taken to reduce administrative overheads for fiscal, social-security, and statistical requirements and to simplify the bureaucratic structure for creating and expanding businesses. This process also comprises measures to decentralise and rationalise administrative apparatus and to develop One-stop Shops for service to businesses.

The difficulty SMEs have in access to finance entails the adoption of policies for promoting the start-up of new businesses and increasing the capital of existing ones through recourse to financial engineering tools (venture capital, seed capital, etc.) and tax incentives.

The internationalisation of SMEs has been accompanied by specific measures to provide information services and market research assistance as well as subsidies and support services, often provided by specialist agencies, to promote products and businesses, the search for foreign partners, and investment abroad.

The new scenario of competition arising from globalisation has affected action in support of R&D and the dissemination of innovation among SMEs, although very often the programmes in this sector are not specifically keyed to small businesses. There are instruments to foster the creation of innovative SMEs (financial tools and incubators) as well as direct incentives (subsidies) and indirect ones (programmes for co-operation and technology transfer, giving new energy to national systems of innovation), and the acquisition of innovative technology. Also there is much effort to enhance the quality of human capital alongside legislative changes concerning the use and cost of the labour factor.

To foster the competitiveness of small enterprises and to reduce unemployment by favouring self-employed, many countries have been promoting enterprise knowledge and culture in the school system by introducing specific courses as well as fostering new business in areas of society that are particularly subject to exclusion (young people, women, and the jobless).

Part IV In-depth thematic studies

Continuing Vocational training and SMEs

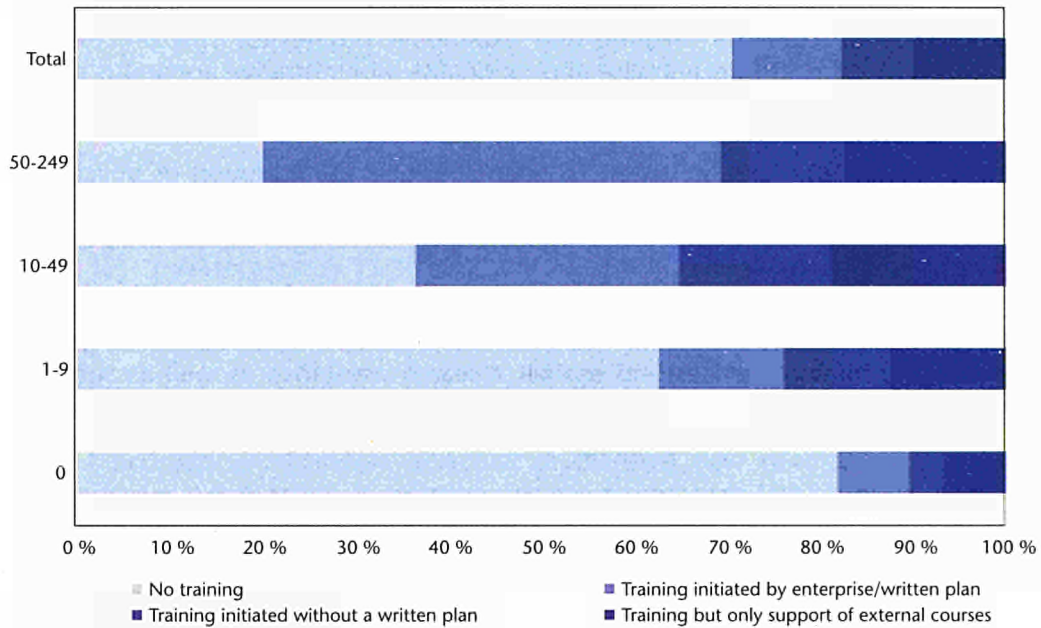
Lifelong education and training is receiving more and more attention from policy makers, employers and employees. The new competitive scenario derived from a globalised economy, the dawning of the information society and the relentless march of science and technology are resulting in a higher dependence of the European economy's success on improving the quality of its labour force.

As described in Chapter 9, Continuing Vocational Training (CVT) can be seen as one of the key means to cope successfully with these challenges. CVT includes any type of post-initial training and lifelong learning received by people currently working, either at their own personal initiative or at the enterprise's initiative.

Training of employees

Provision of CVT is directly influenced by enterprise size. The share of enterprises offering training to their employees is higher the larger the enterprise: it ranges from 19 % for enterprises without employees up to 79 % for medium-sized enterprises.

Figure 6 Type of training given to personnel during 1998, by enterprise size (percentage of enterprises)



Source: ENSR Enterprise Survey 1999.

A significant share of the European SMEs effectively active in CVT have written training plans, in comparison with the share of enterprises where training is done either at the request of the personnel or the management, respectively, with no formal training plan (see Figure 6).

Notwithstanding this enterprise-size effect, training efforts measured as a percentage of total wage costs seem to be similar in all enterprise sizes. However, the efficiency of any investment in CVT activities does not only depend on the amount of devoted resources, but also on other issues such as a well-defined and implemented general enterprise strategy or a coherent training policy.

CVT activities in SMEs are very often of an informal nature, in the sense that they are in-house training activities provided by personnel of the enterprise itself. SMEs resort to the training market when they need to obtain concrete skills and abilities that are not available in-house. Moreover, they are much more interested in custom-made courses that are exactly tailored to the enterprises’ needs than in open courses. The objectives pursued in the training are very often different for employers (the enterprise’s interest) and employees (professional mobility, higher wage).

SMEs, specially the smallest ones, suffer from specific internal obstacles that hamper the development of training activities. These internal barriers include the high burdens caused by the absence of employees, ‘mental barriers’ from the SME managers, lack of professionalism and difficulties to identify the concrete training needs. There are also external barriers that hamper training of employees. These barriers include high (direct and indirect) costs of training, the related administrative procedures and the lack of transparency for most of the existing European training markets.

Training for managers

SME managers and owners only participate in training when they face really serious problems, then it must be possible for them to translate the information

obtained and the knowledge gained immediately into daily working practice. They very often prefer other means than formal training to acquire knowledge and competencies, such as resorting to external advice, networking, exchange of experiences with other managers in, for example, entrepreneurs' clubs.

Most SME managers consider difficulties with delegating their work and lack of time as major problems for attending a training activity. These difficulties result in an obvious demand for short and flexible courses. Training costs seem to be less relevant as a barrier for management training in comparison to other issues such as location, duration or contents of the course.

ICT and training

Information and Communication Technology (ICT) opens up significant prospects in the world of lifelong learning and education. Despite these possibilities, the limited empirical evidence suggests that SMEs currently make a very limited use of ICT for training purposes. Barriers to this include the general deficiencies of SMEs as far as their use of ICT is concerned, the low speed of communications, the high costs of ICT, the difficulties in differentiating the myriad of providers, the frequent changes in technology and, finally, the lack of skills for successfully using ICT effectively.

New services

The European economy can be labelled as a service-dominated one. In 1998, the service sector represented 75 % of all enterprises, 63 % of total employment and 73 % of gross value added generated by the European economy as a whole. The majority of new enterprises started in the service sector and created over 80 % of all new jobs in Europe during the past decade. Chapter 10 of this report pays attention to the so-called new services.

Main trends

Technological factors, economic trends, socio-cultural, socio-demographic and institutional factors create new needs and change the ways of doing business, thus pushing the evolution of the service sector through the emergence of new services (See Table 5). These new services are difficult to assess statistically, due to continuously emerging new developments and the absence of any precise definition.

Two trends have a strong impact on the new service sector. The emergence of ICT has greatly changed the characteristics of services and their dependence on location and time. Opportunities for innovations in new and renewed services are developing, often moving from services where the knowledge rests with the provider to ones where, perhaps reduced, knowledge rests with the consumer, and from labour-intensive to almost labour-free services.

The demand for personal services is increasing due to several socio-economic shifts such as the government retrenchment on many service areas, the increase of double-income families and an ageing population.

Demand for new services by SMEs

One of five SMEs in the countries covered by this report did buy new services over the past few years, whereas as much as 80 % expect consumption to grow in the coming 3 years. This implies that a majority of enterprises expect to start using new services

Table 5 New service developments in Europe

<i>Factors underpinning new services</i>	<i>Push factors</i>	<i>Examples of new services provided</i>
Technological factors	Development of Information and Communication Technology	E-commerce, Internet providers, computerisation and advanced telecommunication services, development of knowledge-intensive services
Economic factors	Globalisation, spread of self-employment, knowledge-intensive economies, outsourcing processes, flexible working practices	Innovative business-related-services, technological services
Socio-demo-cultural factors	Development of double-income families, multi-cultural societies, growing elderly society, increasing individualisation and importance of leisure time	Elderly and baby-caring services, environmental services, new entertainment and tourism services, household services
Institutional factors	Privatisation and deregulation processes, environmental protection	Private provision of previously public services, development of the third economy

Source: Elaborated by Centro Studi sull'Imprenditorialità 'Furio Cicogna', Bocconi University.

for the first time. Usage ranges from more than 20 % in manufacturing, wholesale trade and business services to only 11 % in retailing and 7 % in repair. In most sectors well over 80 % of all SMEs expect consumption to grow, only in manufacturing and other services are figures relatively low, around 70 %.

Barriers for start-ups

Because of the characteristics of these services, new services are often provided by new enterprises. The most dynamic sub sectors in the service industry, in terms of employment generation and business dynamics, during the past decade have been the non-market service sector, the business-related services and the ICT-related sector.

But several barriers still hamper the start-up and growth of SMEs in new services. Major problems are perceived in the access to finance and administrative burdens. Problems also relate to sales activities, lack of skills, acquisition and, finally, cultural obstacles. Administrative burdens and obstacles to sales are seen as the main barriers in the case of personal services, while financial difficulties and lack of skills are considered as being particularly relevant for technologically driven new services.

Government support to new services

In general, there are no specific government support measures to stimulate the development of enterprises in new services, although there are some policies that indirectly address this issue, such as measures focusing on services in general and measures in the field of ICT.

In addition new opportunities occur for the creation of SMEs in the new services area due to the initiatives carried out through joint efforts of local and regional authorities, and national governments. The aim of these so-called local initiatives is to provide services in areas where needs are not being met because of the deterioration of social and welfare services, sometimes due to reductions in public expenditure. These initiatives, focused on development and job creation, are however not restricted to social services, but they also extend to leisure-related and tourism-related services and, sometimes, to business-related services as well.

Part V Monitoring

SMEs in the European Single Market

Perception of the Single Market by SMEs

Since the previous report of the European Observatory for SMEs, significant progress towards improving the functioning of the Single Market and making it a reality for citizens and business has been achieved by the Single Market Action Plan.

Chapter 11 examines the perception of the Single Market by SME entrepreneurs. Considering both advantages and disadvantages of the Single Market, one third of SMEs see, on balance, more advantages compared to just one tenth that see more disadvantages.

Larger SMEs, exporting and fast growing enterprises are more positive than other SMEs. More than half of the SMEs do not recognise any major advantage or disadvantage of the Single Market, many of these are likely to be operating on a local scale only. This perception is strongly related to the size of the enterprise, smaller enterprises see fewer effects.

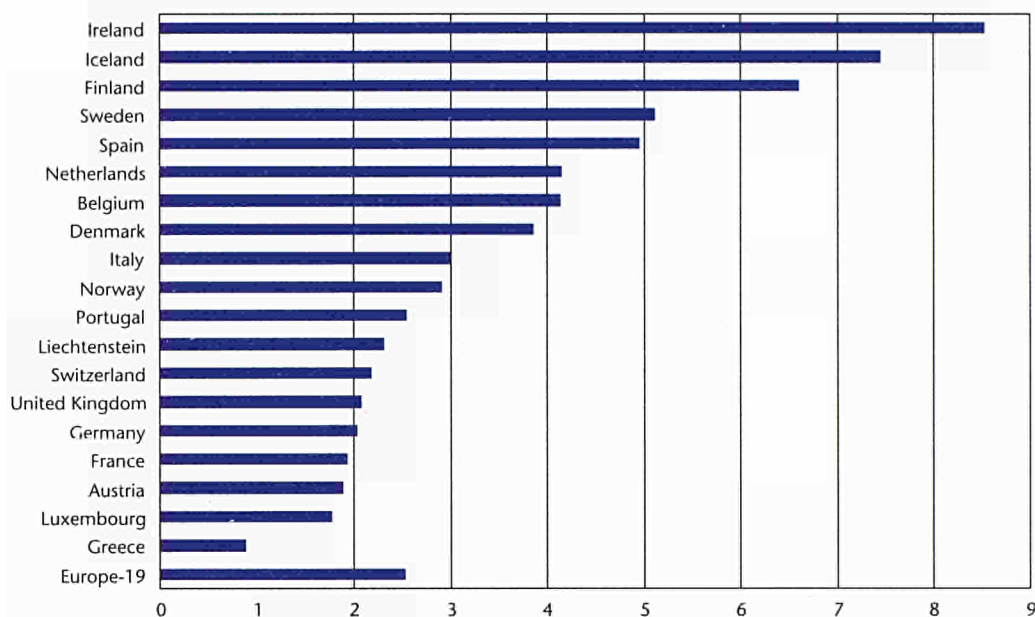
Large country differences exist, as shown in Figure 7. Finland, Iceland and Ireland are very positive with 6 to 8 times more positive enterprises than negative ones. Relatively negative are France, Austria and Luxembourg with a factor of less than 2. In Greece more SMEs perceive more disadvantages than advantages.

On average, the four major advantages associated with the Single Market by SMEs are: larger selling market, simplified international co-operation, the introduction of the euro and larger markets for inputs. The two major disadvantages most frequently identified by SMEs are: greater competition and increased regulations. Higher production costs and the costs of introducing the euro are also mentioned.

The introduction of the euro

On this issue, the analyses revealed that one third of the enterprises without employees and three quarter of the medium-sized enterprises have already considered the consequences of the euro. These percentages are expected to increase steadily up to the year 2001. The share of SMEs that are or plan to be fully euro-compatible, increases from a low initial value in 1999 to well over 90 % in 2002 in euro countries and to about 50 % by the end of 2002 in non-euro countries. Exporting enterprises are getting ready for the euro well in advance of non-exporting ones.

Figure 7 The relation between the share of SMEs seeing mainly advantages and the share of SMEs seeing mainly disadvantages of the Single Market, countries ranked from positive to negative



Source: ENSR Enterprise Survey 1999.

The share of SMEs having made a detailed analysis of the impact of the euro on their business increases with enterprise size from only 4 % of the enterprises without employees to about 35 % of the medium-sized enterprises. The same trend has been recorded with regard to the share of enterprises having designed a detailed strategy to deal with the change-over to the euro.

Less than one fifth of the SMEs expect a negative impact of the euro, as shown in Figure 8. The share of enterprises expecting positive effects increases from just over 20 % for enterprises without employees to over 45 % for medium-sized enterprises. Enterprises which did make a detailed analysis of the effects of the euro on their business come to a more positive conclusion than the enterprises that did not carry out an analysis.

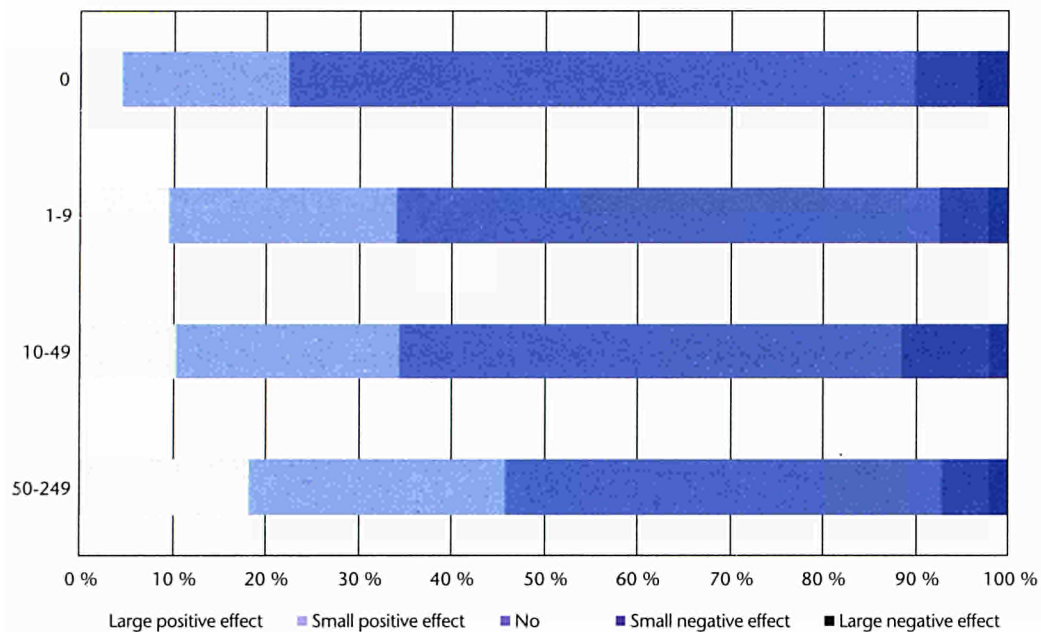
International business contacts

The number of international business contacts reported by SMEs is still increasing. On average 25 %, but even more than half of medium-sized enterprises, report such an increase.

Competition

An analysis was made of the competition SMEs encounter by enterprises from within their own country, elsewhere in western Europe and elsewhere in the world. It shows that for each type of competition the same pattern exists: the larger the SME the more likely it is to have experienced increasing competition. Especially competition by domestic enterprises is increasing. Exporters report increasing competition mainly by international enterprises, whereas non-exporters perceive more increases in competition by domestic enterprises.

Figure 8 Anticipated effect of euro on business, by enterprise size (percentage of SMEs)



Source: ENSR Enterprise Survey 1999.

A comparative analysis by rate of turnover growth

If enterprises are ranked in five classes ranging from fast shrinking to fast growing turnover, it shows that exporters are mainly found in the fast growing and fast shrinking groups (20 to 25 % of enterprises exporting), whereas in the group with stable turnover only 7 % export. Export seems to be related to more turmoil in development of turnover over the years.

A relation exists also between the enterprise's perception of the Single Market Programme and the growth rate of its turnover. Fast growing enterprises do have a more positive opinion of the Internal Market.

INTRODUCTION

All over the world, policy makers are now paying attention to the role Small and Medium-sized Enterprises (SMEs) play in national and local economies as well as in the globalisation process. The contribution of SMEs to job creation, innovation, economic growth and well-being is widely recognised. There is no need to highlight this role here, as there is a wealth of information available about the role and position of SMEs in past years. The reports of the European Observatory for SMEs have tried to analyse the available data and to draw conclusions for the European policy makers.

To strengthen the competitive position of SMEs, and ultimately to safeguard existing jobs and to create new employment opportunities, a strong and direct focus of policy makers on SMEs is necessary in both the Member States and at European level. Policies in the Member States and at Union level now show an increased tendency to improve the economic environment for SMEs. In addition, there has been a considerable degree of convergence between these policies.

Detailed information about the SMEs is therefore indispensable for policy makers, at both national and European level. This information must be up-to-date, comparable between the individual Member States and available on a continuous basis. The European Observatory for SMEs, of which this is the Sixth Report, was established to meet precisely this need. As was stated in the Commission's Communications, the reports of the European Parliament and those of the Economic and Social Committee, the Observatory has developed into an important source of information on the European economy.

The first five reports

In 1992, Directorate-General XXIII (Enterprise Policy, Distributive Trades, Tourism and Co-operatives) of the European Commission decided to establish a European Observatory for SMEs. In this framework an independent report was prepared. The First Report was published in May 1993 and the Second Report was published in April 1994. Both these reports dealt with SMEs in the then twelve Member States of the European Union. The Third Report was published in March 1995 and included information on SMEs in the twelve existing Member States plus the three new Member States (Austria, Finland and Sweden) and Norway. The Fourth Report was published in July 1996 and included information on SMEs in all the countries of the European Economic Area, plus Switzerland. Finally, the Fifth Report was submitted to the EC in November 1997. Similar to the Fourth Report it included information on SMEs in all the countries of the European Economic Area, plus Switzerland, i.e. 19 countries.

Organisation

This independent report is prepared by a consortium lead by KPMG Consulting and further consisting of EIM Small Business Research and Consultancy, Intomart

and the European Network for SME Research (ENSR). ENSR is a network of leading organisations, which specialise in SME research. There is at least one partner organisation in the network in each Member State of the European Economic Area. Names and details of the partner organisations are listed in Annex III.

Each chapter of the report has been co-ordinated by a partner in the Network. Names of partner organisations responsible for chapter co-ordination are mentioned at the top of each chapter.

The project co-ordinators had frequent discussions with the European Commission. Mrs. Kirsi Ekroth-Manssila of the Enterprise DG, has put a great deal of effort in collecting valuable comments from experts in the Commission (in the Enterprise DG and in other DGs) both for the chapter outlines and for the draft chapters. The fact that the chapter co-ordinators have been in touch, bilaterally, with various specialists in the Commission has led to better understanding, amongst the researchers, of the extensive policy debate in 'Brussels' and to a wider dissemination of the Observatory project amongst officials of the Commission. Therefore, the contractors are very grateful to Mrs. Kirsi Ekroth-Manssila.

A Reference Group was established in the first year of the project, to reflect on research findings and to advise the ENSR. This Reference Group is composed mainly of representatives of *European* organisations who are active in the SME sector, the craft trades and business in general. The participating organisations in the Reference Group are listed in Annex II. The Reference Group met twice during the preparation of this report. The project co-ordinators are grateful to the members of the Reference Group, who have contributed useful input and comments for the report outline and the draft chapters.

Co-operation and information supply

One of the objectives of the Observatory project is 'networking'. The European Network for SME Research (ENSR) is the main network used within the framework of the project. The strengths of this network rest in the quality and experience of its partners, the large number of specialist SME researchers involved in it and its wide geographical base. Nevertheless, on specific issues, co-operation with other institutions also proved to be fruitful and contributed to the overall quality of the report.

The Eurostat project 'Enterprises in Europe' proved, once again, to be a cornerstone of the project. The co-operation with Eurostat has been of great help.

Similar to last year, the contribution of Switzerland has been financed by the Swiss State Secretariat for Economic Affairs. We would like to express our gratitude to this institution for facilitating the inclusion of Switzerland into the Report.

A major objective of the Observatory project is to collect data and other information already available, but often 'hidden' within organisations of the Member States. It is the task of the ENSR partners to trace this information and make it available to chapter co-ordinators. We are grateful to the officials of those organisations (chambers of commerce, ministries, national offices of statistics, universities, research organisations) for their efforts and willingness to co-operate.

A major difficulty in fulfilling the objective of the project is the scarcity of up-to-date and comparable data/information on the behaviour and performance of SMEs. In

order to overcome this, a telephone survey (the ENSR Enterprise Survey 1999) was carried out amongst SMEs in all the countries covered by this report. The set-up of this survey is described in Annex I. In the survey, carried out by Intomart, general information on SMEs was collected and specific information geared to each of the chapters. We would like to thank all the SMEs for their participation in this survey.

The report is based on information collected before 1 October 1999.

The contents of the sixth report

Part I The Performance of SMEs

Chapter 1: Position and development of SMEs in Europe-19

Part II The business environment and behaviour of SMEs

Chapter 2: The functioning of the markets for products and services

Chapter 3: Labour market issues

Chapter 4: Access to finance

Chapter 5: Electronic Commerce and SMEs

Chapter 6: Access to Community Programmes

Chapter 7: Associations and foundations in the social economy

Part III Enterprise Policies

Chapter 8: New developments in SME policy

Part IV In-depth Thematic Studies

Chapter 9: Vocational training and SMEs

Chapter 10: New services

Part V Monitoring

Chapter 11: SMEs in the European Single Market

The consequences of the completion of the Internal Market upon SMEs were one of the main issues dealt with in each of the previous five Reports. Similarly, this year's main findings are presented in a special chapter.

Chapter 12: The European SME Tally

Similar as in the previous report an overview of major indicators of the SME sector is included in Chapter 12. This overview is the follow up of 'The European SME Scoreboard' as included in the Fifth report.

Chapter 13: Policy recommendations

Each year, based upon the comprehensive outcomes of the project, the final chapter of the Report is intended to provide policy-makers with relevant ideas and future directions. This chapter is a synthesis and elaboration of the sections on policy issues presented in the various other chapters in this report.

Annex I: The set-up and analyses of the ENSR Enterprise Survey 1999

Annex II: Members of the Reference Board

Annex III: Names and addresses of the consortium partners

Continuity and innovation in the reports

The Reports of the European Observatory for SMEs address a set of topics, which are considered in a recurrent way, thus ensuring *continuity* in the project.

At the same time, during the course of the Observatory project, new topics have been, and will be, taken up, thus ensuring an *innovative* approach to the study of SMEs in the European Economic Area.

As can be seen in Table 1 from the Second Annual Report onwards each report has introduced new topics. Also, some of the in-depth thematic studies (on 'internationalisation' and 'the craft trades') have recurred in subsequent reports as 'ordinary' chapters.

Table 1 Topics* of the First, Second, Third, Fourth, Fifth and Sixth Annual Report

	1st report	2nd report	3rd report	4th report	5th report	6th report
Performance SMEs	x	x	x	x	x	x
Business environment	x	x	x	x	x	x
Enterprise policies	x	x	x	x	x	x
Impact Internal Market	x	x	x	x	x	x
Business dynamics and entrepreneurship	x	x	x	x	x	x
Labour market and employment	x	x	x	x	x	x
Capital and finance	x	x	x	x	x	x
Technology and innovation	x	x	x	x	x	x
E-commerce						x
Regional aspects	x	x	x		x	
Interdependency of large and small enterprises	x			x		
Education and training			x			•
Infrastructures			x	x		
Legal aspects			x			
Management in SMEs				x		
Transfer of SMEs				x		
Co-operation between SMEs					x	
External information and advice					x	
Failures and bankruptcies					x	
Enterprise dynamics			x	x	x	x
Exports and internationalisation	•		x	x	x	x
Craft trades		•	x	x	x	x
Administrative burdens			•		x	
Producer services/New services			•			•
Women in SMEs				•		
CMAFs/Social economy				•	x	x
Tourism					•	
Environment					•	
Functioning of markets for products and services						x
Access to Community Programmes						x

* These topics do not always exactly match with the names of the chapters of the report.

• In-depth thematic study.

**PART I THE PERFORMANCE
OF SMEs**

1 Position and development of SMEs in Europe-19

Co-ordinated by EIM Small Business Research and Consultancy

MAIN POINTS

Size and structure of European non-primary private enterprise

- In Europe-19 (the EEA-countries and Switzerland), there are almost 20 million enterprises, providing employment to 117 million people.
- The vast majority of these enterprises employ less than 250 persons, and therefore are small and medium-sized enterprises (SMEs). SMEs account for two thirds of total employment.
- SMEs and large-scale enterprises (LSEs) differ with respect to size. On average, an SME provides employment for 4 persons, while the average number of persons employed in an LSE is 1 000. Turnover per enterprise amounts to 500 000 euro in SMEs, and to 215 million euro in LSEs.
- Exports make up a relatively small percentage of the total turnover in SMEs compared with LSEs. SMEs in smaller countries have a greater tendency to export than SMEs in large countries; moreover, in small countries the difference between SMEs and LSEs regarding the tendency to export is relatively small.
- There is a positive correlation between enterprise size and labour productivity. Also, large enterprises are more profitable than small enterprises.
- European enterprises are, on average, small in comparison with Japanese and especially American enterprises.

Recent developments of European non-primary private enterprise

- Domestic demand in Europe-19 has developed favourably since 1993 and this trend seems likely to continue in the near future. Growth of international trade has developed even more favourable, and is now increasing much faster than GDP. The European GDP growth rate has, since 1993, been lower than the USA rate, while Japan has had to cope with a severe recession.
- Even though overall profitability improved, the relative position of SMEs and LSEs regarding profitability did not change during the last decade. Labour productivity growth increased with enterprise size. SMEs could only maintain relative profitability by raising prices faster than LSEs.
- Inflation in Europe has tended to stabilise below 2 %. Such stable, low inflation works out reassuringly for European enterprises, thus leading to a favourable business environment and macro-economic framework.
- In the nineties, SMEs lagged behind LSEs regarding real value added growth.
- The number of jobs declined during the nineties, as a result of unfavourable developments at the beginning of the period. However, micro enterprises

contributed positively to employment growth, while in the other size classes, employment decreased. During the 1990/1993 recession, this positive result for micro enterprises might partly be the result of small enterprises decreasing in size and therefore becoming micro enterprises. On the other hand, from 1994 onwards, employment in micro enterprises decreased, as a significant number of micro enterprises became small enterprises.

- The size-class pattern of employment growth differs significantly between Europe and the USA. Especially after the 1990/1993 recession, employment growth in the USA was greatest in LSEs.
- The number of enterprises in Europe-19 has increased significantly during the last decade. In 1995 for example, almost 2 million new enterprises arose, while over 1H million enterprises ceased to exist. So, entry and exit amounted to 11 % and 9 % of the total stock of enterprises, respectively. Employment associated with entry amounted to over 2½ million. As closing enterprises are slightly larger than new enterprises, the employment associated with exit amounted to over 2½ million persons as well, even though the number of closing enterprises was lower than the number of new enterprises.
- Even though significant statistical problems exist, there is no evidence that firm dynamics - defined as entry and exit of enterprises - is less in Europe than in the USA or Japan. On the other hand, the available data suggest a larger impact of entry of enterprises on employment in the USA compared with Europe-19.

A scenario of the future developments of SMEs and LSEs

- Even if trends from the last decade regarding the business environment continue, a number of factors make the business climate less favourable for SMEs. These are:
 - Growing international dependence of countries. Exports will continue to be the fastest growing final demand category, and the share of exports in total sales will increase. As SMEs have a lesser propensity to export, this is relatively unfavourable to SMEs.
 - Increasing competition in markets prohibits SMEs to increase prices significantly faster than LSEs.

Under these circumstances, turnover growth and real value added growth will be greater in LSEs.
- Labour productivity growth will continue to be positively related to enterprise size. SMEs and LSEs will contribute approximately the same to employment growth.
- Under these circumstances, relative profitability of SMEs will decrease.

This chapter provides an overview of the size and structure of non-primary private enterprise in Europe-19, its development during the last 10 years, and an analysis of possible future developments. Strong emphasis is on size aspects. First, the size and structure of non-primary private enterprise in 1998 will be presented (Section 1.1). This analysis starts at the macro-level, while also a comparison between Europe-19 and the United States and Japan will be made. Next, data at the Europe-19 level will be broken down by country and industrial sector. Section 1.2 discusses recent developments in the size-class structure of the European enterprise sector. In Section 1.3, a scenario exploring some aspects of the future development of the size class structure of European non-primary private enterprise

is presented. Finally, Section 1.4 presents some statistical information on the craft trades and the social economy¹.

In this chapter - as in previous Reports of the European Observatory for SMEs - SMEs are defined on the basis of the number of employees in the enterprise. Within non-primary private enterprises - all private enterprises excluding those in agriculture, hunting and fishing - SMEs are defined as all enterprises employing less than 250 employees. Within SMEs, the following size classes are distinguished²:

- Micro enterprises, which employ less than 10 employees. Enterprises without any employees - which thus only provide an income for the self-employed (and perhaps unpaid family workers) - constitute a special category within this size-class;
- Small enterprises, which provide a job for 10-49 employees;
- Medium-sized enterprises, which provide employment for 50-249 persons.

Large-scale enterprises (LSEs) make up the complement of enterprises, since these are defined as all enterprises employing 250 or more employees.

This chapter focuses on enterprises and their performance. Performance is measured using various variables: employment and job creation, turnover (especially paying attention to exports), value added and labour productivity, and profitability. Profitability is defined here in terms of the difference between value added and labour costs, the latter being adjusted for the wage attributed to the self-employed. This adjustment is necessary since - especially in micro enterprises - the self-employed make up a significant part of employment, but the entrepreneurial effort is not taken into account in the wage bill.

¹ For an in-depth discussion of some aspects regarding the social economy, see Chapter 7 of this Report; also see the Fifth Annual Report of The European Observatory for SMEs. An analysis of the position of the craft sector has been presented in that Report as well.

² In the 'Recommendation of the Commission' (Official Journal of the European Communities No. L 107/6, 1996), SMEs are defined on the basis of the number of employees, turnover (less than 40 million euro) or balance sheet total (less than 27 million euro), and economic independence. These additional criteria, however, are hard to cover in aggregate statistics, and therefore not taken into account in this chapter. The Recommendation also distinguishes micro, small and medium-sized enterprises.

Note to readers

In this chapter, statistical information regarding the size and structure of the European non-primary private enterprise is presented. This data has been harmonised to ensure comparability between countries³. However, one of the consequences of the harmonisation procedure is that data presented in this chapter does not coincide with data from national sources. Appendix I to this chapter presents more precise descriptions of definitions and concepts. The data presented in this chapter is the result of careful adaptation of data from Eurostat's Sixth Report of 'Enterprises in Europe'. However, data from the various Reports of 'Enterprises in Europe' is not directly comparable because of the introduction of improved methods of measurements. As a result, data presented in this chapter is not comparable with data from earlier Annual Reports of the European Observatory for SMEs.

Furthermore, Eurostat presents harmonised data describing the size and structure of European non-primary private enterprise, which refer to either 1992/1993 or 1995/1996. This data has been carefully adapted to make an assessment of the current size and structure of European non-primary private enterprise. These adaptations were made taking into account various macro-economic and sectoral sources of data. All calculations regarding this adaptation process were finalised in July 1999.

Finally, the calculations underlying the scenario analysis in Section 1.3 were finalised in July 1999.

1.1 Size and structure of non-primary enterprise in Europe-19, the USA and Japan

1.1.1 Analysis at the macro level

Europe-19

Table 1.1 summarises the available data regarding non-primary private enterprise in Europe-19⁴. From that data it appears that in 1998, almost 20 million enterprises were providing employment for 117 million people in Europe-19. Almost 100 % of these enterprises are SMEs. Over 18 million of these SMEs employ less than 10 persons, and thus are classified as micro enterprises. About half of these enterprises have no employees at all.

On average, a European enterprise provides employment for 6 persons. This varies between regions: for EU, average enterprise size amounts to 6 occupied persons, while in non-EU countries, an enterprise on average provides employment to 8 persons. Enterprise size can also be measured by turnover per enterprise. Turnover per enterprise varies between 0.2 million euro in micro enterprises and 215 million euro for large enterprises.

³ See the various reports of 'Enterprises in Europe', prepared by Eurostat and DG Enterprise. The database, which goes along the Sixth Report of 'Enterprises in Europe' (to be published in 2000), provides the statistical basis for this chapter. Also see Appendix I to this chapter.

⁴ This data is derived from data provided by Eurostat for 1993/1996, and carefully updated by EIM Small Business Research and Consultancy; see Appendix I to this chapter.

Table 1.1 Main indicators of non-primary private enterprises, Europe-19, 1998*

		SME				LSE	Total
		Micro	Small	Medium-sized	Total		
Number of enterprises (1 000)	EU	18 040	1 130	160	19 330	38	19 370
	Non-EU	425	45	10	480	2	480
	Total	18 465	1 175	170	19 810	40	19 850
Employment (1 000s)	EU	38 360	21 320	14 870	74 550	38 680	113 230
	Non-EU	970	820	770	2 550	1 190	3 740
	Total	39 330	22 140	15 640	77 100	39 860	116 970
Average enterprise size:							
• Employed persons per enterprise	EU	2	20	90	4	1 010	6
	Non-EU	2	20	90	5	780	8
	Total	2	20	90	4	1 000	6
• Turnover per enterprise (million euro)	EU	0.2	3	23	0.5	215	1.0
	Non-EU	0.3	3	16	0.8	135	1.3
	Total	0.2	3	23	0.5	215	1.0
Share of exports in turnover (%)	EU	6	13	16	11	22	16
	Non-EU	12	14	16	14	20	16
	Total	7	13	16	11	22	16
Value added per occupied person (1 000 euro)	EU	30	50	95	45	90	60
	Non-EU	55	50	60	55	85	65
	Total	30	50	90	45	90	60
Share of labour costs in value added (%)	EU	40	53	43	45	38	42
	Non-EU	36	60	52	48	53	50
	Total	40	53	43	45	39	42

* Due to rounding, one cannot derive totals from adding subtotals and one cannot derive average enterprise size from the data on employment and the number of enterprises.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

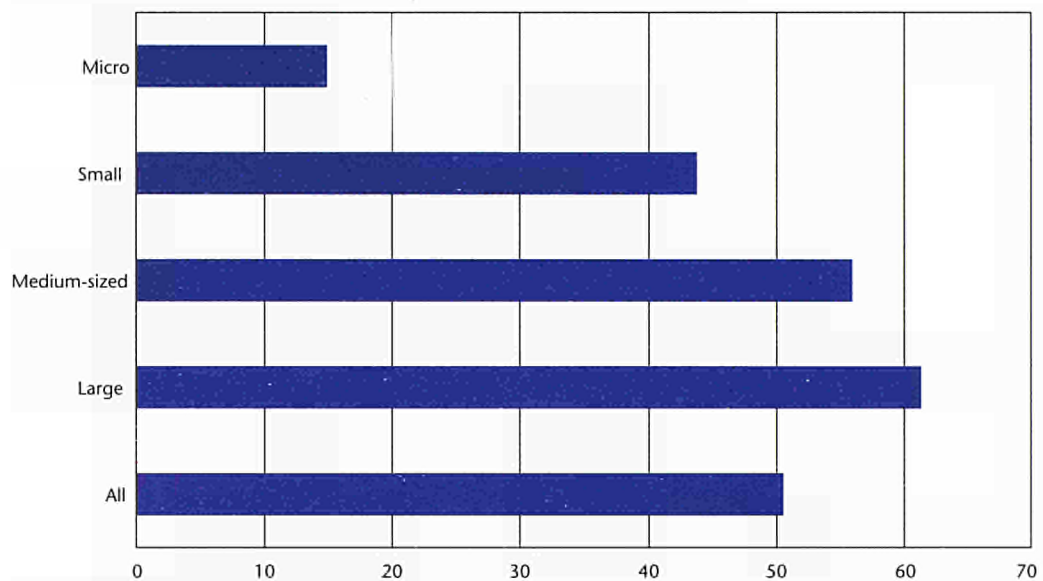
On average, exports account for 16 % of total turnover. However, the tendency to export varies between 7 % in micro enterprises and 22 % in LSEs. Differences between size classes are most significant in the EU. To a large extent this is the result of the fact that non-EU countries are relatively small and therefore open: also in small EU-countries the tendency to export by SMEs is greater than the EU average for SMEs. In fact, a negative correlation exists between the SMEs' propensity to export and country size - as measured by total employment in a country. Also a positive correlation exists between country size and the LSE/SME difference regarding the propensity to export. So, the smaller a country, the larger SMEs' propensity to export, and the lesser SMEs differ from LSEs regarding the propensity to export. These relations also hold when only EU-countries are included in the analysis.

Labour productivity - defined as value added per employed person - differs between size-bands. In micro enterprises, an occupied person creates 30 000 euro value added, while in large enterprises, labour productivity is up at 90 000 euro.

Within small, medium-sized and large enterprises, a negative correlation between enterprise size and the share of labour costs in value added terms exists: labour

costs make up 53 % of value added in small enterprises, while this share amounts to only 39 % in large enterprises. In micro enterprises the share of labour costs in value added amounts to 40 %. This remarkable difference is the result of the fact that the entrepreneurial effort of the self-employed is not reflected in the wage bill. However, if an adjustment is made for not including the entrepreneurial effort in labour costs - as the concept for profitability used in this chapter does -, results become different. From Figure 1.1 it can be seen that profitability is positively correlated with enterprise size, varying (approximately) between 15 % of value added in micro enterprises to over 60 % in large enterprises⁵.

Figure 1.1 Enterprise size and profitability*, Europe-19, 1998



* Profitability is defined as the difference between value added and labour costs, the latter being adjusted for the attributed wage of self-employed.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Comparison with United States and Japan⁶

Table 1.2 presents a comparison of the size and structure of non-primary enterprise in Europe-19, the USA and Japan. First of all, attention should be paid to the size of these economies: Europe-19 and the USA are of approximately the same size, measured by their employment, while the Japanese economy is about half the size of both Europe-19 and the USA. Differences regarding the size structure of these economies are striking: on average, an enterprise provides a job to 6 people in Europe-19, while the corresponding figure amounts to 10 in Japan, and even 19 in the USA. In Japan and the USA, there are relatively more LSEs, and on average, they are larger than European LSEs as well. So, European enterprises

⁵ See Audretsch, D.B., G. van Leeuwen, B. Menkveld and A. Thurik: Are small firms really sub-optimal? (EIM, Research Report 9902/E). In this paper it is shown that small firms in manufacturing generally operate at sub minimum efficient scale. This paper also explains strategies for these enterprises to cope with this sub-optimal scale.

⁶ Also see the Second Annual Report of The European Observatory for SMEs.

should be characterised as small-scaled compared with both Japanese and American enterprises. This is also reflected in the size distribution of employment: SMEs provide two thirds of total employment in Europe-19, while the SMEs' share of total employment amounts to slightly over 40 % in the USA.

Table 1.2 Employment in non-primary private enterprise, Europe-19, USA and Japan, 1996

	<i>Employment shares by size class</i>					<i>Total employment</i>	<i>Occupied persons per enterprise</i>
	<i>SME</i>				<i>LSE</i>		
	<i>Micro</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Total</i>			
	%					1 000s	
Europe-19	34	19	13	66	34	115 480	6
USA	11	19	12	42	58	105 240	19
Japan	n/a	n/a	n/a	33	67	57 345	10

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999, and National Accounts; Small Business Administration (Bureau of Advocacy); Japanese Small Business Research Institute.

1.1.2 Structure by country

Table 1.3 provides some information on non-primary private enterprise in the various countries within Europe-19. Enterprise size - measured by the average number of occupied persons per enterprises - varies greatly, between 3 to 4 in Greece, Iceland, Italy and Portugal, and 10 or more in Austria, Ireland, Luxembourg, the Netherlands and Switzerland. These differences are not the result of differences in industry structure. Instead, these differences are 'real' in the sense that they can be observed at the industry level as well. Average enterprise size is, amongst other things, affected by per capita GDP (the more prosperous a country is, the larger average enterprise size)⁷.

One can also classify countries with regards to their size-class structure using the concept of size-class dominance. A country is said to be micro-, SME-, or LSE-dominated if either micro, small and medium-sized (taken together), or large-scale enterprises have the largest share in total employment⁸. 5 countries are micro-dominated: France, Greece, Italy, Spain and Liechtenstein. 7 countries are SME-dominated: Austria, Denmark, Luxembourg, Portugal, Iceland, Norway and Switzerland. The remaining 8 countries (all in the EU) are LSE-dominated.

In Europe-19 as a whole, labour productivity as well as profitability tends to be lowest in SMEs. Table 1.3 shows that this rule applies to labour productivity in 17 out of the 19 countries. Only in Belgium and Iceland, is labour productivity in SMEs significantly

⁷ The First Annual Report of The European Observatory for SMEs and Carree, Martin, André van Stel, Roy Thurik, Sander Wennekers: Business Ownership and Economic Growth: An Empirical Investigation (EIM, Research Report 9809/E). The latter suggest that the relation between enterprise size and economic prosperity is in fact an inverted U-shape: if per capita GDP increases, first enterprise size increases as well, but from a certain level onwards, the correlation between per capita GDP and enterprise size becomes negative.

⁸ Note that at the macro-economic level, micro, small and medium-sized, and large enterprises each have a share of one third in total employment.

above average. Regarding profitability, the picture is slightly less clear-cut. In Belgium and Greece, profitability in SMEs is higher than in LSEs, while in Ireland, Italy, Luxembourg, Iceland and Liechtenstein, there is only a minor difference between profitability in SMEs and in LSEs. However, 12 out of 19 countries still have SMEs' profitability significantly below the macro-economic average.

Table 1.3 Size-class structure of non-primary private enterprise by country, 1998

	<i>Enterprises (1 000s)</i>	<i>Average enterprise size</i>	<i>Size-class dominance*</i>	<i>Relative labour productivity SMEs**</i>	<i>Relative profitability SMEs***</i>
Austria	285	11	SME	89	-5
Belgium	530	5	LSE	132	7
Denmark	150	8	SME	86	-16
Finland	210	5	LSE	71	-40
France	2 325	7	micro	66	-18
Germany	3 515	8	LSE	98	-5
Greece	620	3	micro	79	10
Ireland	85	10	LSE	70	1
Italy	3 940	4	micro	81	-3
Luxembourg	15	13	SME	97	2
Netherlands	450	12	LSE	93	-16
Portugal	690	4	SME	75	-20
Spain	2 510	5	micro	67	-10
Sweden	385	7	LSE	82	-9
United Kingdom	3 660	5	LSE	74	-14
Total EU	19 370	6	LSE	75	-11
Iceland	30	3	SME	125	2
Liechtenstein	3	6	micro	89	0
Norway	205	5	SME	81	-13
Switzerland	240	11	SME	77	-5
Total non-EU	480	8	SME	84	-3
Total Europe-19	19 850	6	LSE	76	-11

Note: As harmonised data is used, the data presented in this table is not comparable with data from national sources.

* A country is said to be micro-, small- and medium-sized-, or LSE-dominated, if either micro, small and medium-sized (taken together), or large-scale enterprises have the largest share in total employment.

** Labour productivity of SMEs, as percentage of country average.

*** Profitability in SMEs (difference between value added and labour costs, adjusted for the imputed wage of self-employed, as percentage of value added), as deviation from country average.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

1.1.3 Structure by industry

Table 1.4 provides information regarding the size and structure of the various sectors of industry in Europe-19: the number of enterprises, average enterprise size as measured by the number of occupied persons per enterprise, the size-class dominance of each industry, and two measures of the performance of SMEs in comparison with LSEs: relative labour productivity, and relative profitability of SMEs. In this section, first a general description of the characteristics of individual industries will be presented. Next, attention will be paid to the tendency to export by industry and size class.

Structure of individual industries

Extraction (including energy; NACE C, E)

Extraction is a large-scale industry, as can be concluded from both average enterprise size and the dominance of LSEs in employment. On the other hand, it is a small industry, with only 50 000 enterprises providing employment to 1¼ million people. Notwithstanding the large-scale nature of the industry (as a result of large capital intensity), SMEs generally outperform LSEs regarding both labour productivity and profitability. This might be the result of SMEs operating in very specialised markets with high profit margins.

Manufacturing (NACE D)

Manufacturing (accounting for about 25 % of total employment in Europe-19) is also a large-scale sector of industry. However, there is much variation between the industries within manufacturing. Especially more traditional industries, like manufacturing of food products, beverages and tobacco, textile and textile products, leather and leather products, and paper and paper-related products (including publishing) have an average enterprise size below the manufacturing average. On the other hand, chemical industry and metallurgical industries (incl. manufacturing of electrical equipment), which are very capital-intensive, can be characterised as large-scaled activities.

In most industries, SMEs do not perform as well as LSEs regarding both labour productivity and profitability.

Construction (NACE F)

There are 2 775 000 enterprises in construction, accounting for about 10 % of total employment in non-primary private enterprise. With on average 4 employed persons per enterprise, construction - together with retail trade - is the most small-scaled industry of the ones distinguished here. There is no significant difference between SMEs and LSEs with respect to labour productivity and profitability⁹.

Wholesale trade (NACE 51)

Approximately 1½ million enterprises are active in wholesale trade; on average, each wholesale enterprise provides a job for 5 persons. SMEs and LSEs do not show significant differences with respect to labour productivity and profitability.

⁹ It should be noted that when sectors of industry are compared, the disadvantage of SMEs regarding labour productivity and - though to a lesser extent - profitability tend to diminish. This explains why in construction and retail trade (but some other small-scaled industries like wholesale trade and real estate services) both labour productivity and profitability do not differ much between SMEs and LSEs.

Table 1.4 Size-class structure of non-primary private enterprise by industry, Europe-19, 1998

	<i>Enterprises (1 000s)</i>	<i>Occupied persons per enterprise</i>	<i>Size-class dominance*</i>	<i>Relative labour productivity of SMEs**</i>	<i>Relative profitability of SMEs***</i>
<i>All enterprises</i>	19 850	6	LSE	76	-11
<i>Extraction (incl. energy)</i>	50	36	LSE	123	11
• <i>Extraction of energy-producing materials</i>	5	52	LSE	181	5
— <i>Mining of coal, lignite, peat</i>	5	60	LSE	236	-24
— <i>Extraction of crude petroleum, natural gas</i>	5	42	LSE	142	12
• <i>Other extraction</i>	20	12	SME	93	4
— <i>Mining of metal ores</i>	0	43	LSE	65	-21
— <i>Other mining and quarrying</i>	20	11	SME	92	5
• <i>Electricity, gas and water supply</i>	20	57	LSE	167	16
— <i>Electricity, gas, steam and hot water</i>	10	71	LSE	181	16
— <i>Collection, purification and distribution of water</i>	10	38	LSE	129	8
<i>Manufacturing</i>	2 210	14	LSE	86	-5
• <i>Manufacture of food products, beverages and tobacco</i>	310	12	LSE	82	-2
— <i>Manufacture of food products and beverages</i>	310	12	LSE	81	-3
— <i>Manufacture of tobacco products</i>	0	188	LSE	413	17
• <i>Manufacture of textiles and textile products</i>	255	10	SME	97	-7
— <i>Manufacture of textiles</i>	100	13	SME	99	0
— <i>Manufacture of wearing apparel</i>	155	8	SME	96	-14
• <i>Manufacture of leather and leather products</i>	50	11	SME	95	-1
• <i>Manufacture of wood and wood products</i>	165	6	SME	98	-2
• <i>Manufacture of paper, paper products; publishing and printing</i>	235	11	SME	88	-6
— <i>Manufacture of pulp, paper and paper products</i>	20	34	LSE	80	-7
— <i>Publishing; printing; reproduction of recorded media</i>	210	8	SME	92	-3
• <i>Manufacture of coke, refined petroleum and nuclear fuel</i>	0	71	LSE	116	2
• <i>Manufacture of chemicals, chemical products, man-made fibres</i>	35	50	LSE	104	0
• <i>Manufacture of rubber and plastic products</i>	60	22	SME	101	2

	<i>Enterprises (1 000s)</i>	<i>Occupied persons per enterprise</i>	<i>Size-class dominance*</i>	<i>Relative labour productivity of SMEs**</i>	<i>Relative profitability of SMEs***</i>
• Manufacture of other non-metallic mineral products	100	14	SME	94	2
• Manufacture of basic metals and fabricated metal products	360	12	SME	93	-1
— Manufacture of basic metals	20	54	LSE	98	5
— Manufacture of fabricated metal products	340	9	SME	96	0
• Manufacture of machinery and equipment n.e.c.	160	19	LSE	96	-4
• Manufacture of electrical and optical equipment	185	19	LSE	91	-4
— Manufacture of office machinery and computers	10	20	LSE	65	-10
— Manufacture of electrical machinery	60	24	LSE	91	-9
— Manufacture of radio, TV and communication equipment	30	30	LSE	99	4
— Manufacture of medical, precision and optical instruments	85	11	SME	101	1
• Manufacture of transport equipment	45	57	LSE	88	2
— Manufacture of motor vehicles, trailers and semi-trailers	25	81	LSE	92	1
— Manufacture of other transport equipment	25	34	LSE	89	13
• Manufacture n.e.c.	240	8	SME	108	-2
— Manufacture of furniture; manufacture n.e.c.	230	8	SME	107	-3
— Recycling	10	6	SME	100	-1
<i>Construction</i>	<i>2 775</i>	<i>4</i>	<i>micro</i>	<i>98</i>	<i>-2</i>
<i>Wholesale trade</i>	<i>1 490</i>	<i>5</i>	<i>SME</i>	<i>99</i>	<i>-1</i>
<i>Retail distribution (incl. car and repair)</i>	<i>4 070</i>	<i>4</i>	<i>micro</i>	<i>97</i>	<i>0</i>
• Sale and repair of motor vehicles and motorcycles	755	4	micro	96	-3
• Retail trade, repair of household goods	3 315	4	micro	96	2
<i>Transport, communication</i>	<i>1 090</i>	<i>8</i>	<i>LSE</i>	<i>76</i>	<i>-8</i>
• Land transport; transport via pipelines	875	5	micro	84	0
• Water transport	15	11	LSE	114	5
• Air transport	5	111	LSE	119	9
• Supporting/auxiliary transport activities; travel agents	155	11	SME	92	-5
• Post and telecommunication	45	54	LSE	78	-5

	<i>Enterprises (1 000s)</i>	<i>Occupied persons per enterprise</i>	<i>Size-class dominance*</i>	<i>Relative labour productivity of SMEs**</i>	<i>Relative profitability of SMEs***</i>
<i>Producer services</i>	4 125	5	LSE	70	-12
• Financial intermediation	395	14	LSE	119	-6
— Banking, financial leasing	65	54	LSE	178	-10
— Insurance and pension funding	15	72	LSE	344	12
— Activities auxiliary to financial intermediation	315	3	micro	40	11
• Real estate, renting and business activities	3 730	4	micro	105	-1
— Real estate activities	875	2	micro	101	-4
— Renting of machinery and equipment	125	4	micro	109	3
— Computer and related activities	275	5	SME	90	-5
— Research and development	45	12	LSE	140	2
— Other business activities	2 415	5	micro	101	0
<i>Personal services</i>	4 040	5	micro	89	0
• Hotels and restaurants	1 460	5	micro	96	-2
• Health and social work	1 310	6	micro	86	12
• Other community, social and personal services	1 265	4	micro	83	-9
— Sewage disposal, sanitation and similar services	20	14	SME	111	0
— Activities of membership organisations n.e.c.	69	3	micro	82	-21
— Recreational, cultural and sporting activities	490	4	micro	73	-11
— Other service activities	690	3	micro	103	-1

Note: n.e.c. = not elsewhere classified.

* An industry is said to be micro-, small- and medium-sized-, or LSE-dominated, if either micro, small and medium-sized (taken together), or large-scale enterprises have the largest share in total employment.

** Labour productivity (value added per occupied person) of SMEs as percentage of industry average.

*** Difference between value added and labour costs (including imputed wage of self-employed) as percentage of value added; difference between SMEs and industry average.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Retail distribution (NACE 50, 52)

There are over 4 million enterprises in retail distribution. Within retail distribution, sale and repair of motor vehicles and motorcycles, and retail trade and repair of consumer goods are distinguished. These branches operate in rather different markets. Nevertheless, both branches are characterised by a low number of occupied persons per enterprise, while there are only minor differences between SMEs and LSEs as far as labour productivity and profitability are concerned.

Transport and communication (NACE I)

Transport and communication counts over 1 million enterprises, providing employment to over 9 million people. Almost half of these people find work in

land transport (including transport via pipelines); this branch accounts for 80 % of the total number of enterprises, and is micro-dominated. The other branches distinguished within transport and communication are rather large-scale activities, with average enterprise size varying between 11 in water transport and auxiliary transport activities, and 111 in air transport. As a matter of fact, air transport has the largest average enterprise size of all industries distinguished in Table 1.4. Transport and communication is also rather heterogeneous with respect to the relative performance of SMEs. In land transport, profitability in SMEs and LSEs does not differ much, but LSEs outperform SMEs as far as productivity is concerned¹⁰. In water and air transport, SMEs have higher labour productivity and profitability than LSEs, while in auxiliary transport activities and post and telecommunication, LSEs perform better than SMEs.

Producer services (NACE J, K)

Within producer services, financial services and other business services might be distinguished; these industries count almost 400 000, and 3¾ million enterprises, respectively. Financial intermediation generally is a large-scale activity, while enterprises in real estate, renting and other business activities typically are small.

Consumer services (NACE H, N, O)

There are approximately 4 million enterprises in personal services, providing employment to 20 million people. The industry should be classified as micro-dominated; only in the (rather capital-intensive) sewage-disposal industry enterprise size is significantly above the non-primary private enterprise average. Labour productivity of SMEs tends to lag behind LSEs' productivity. Also regarding profitability, LSEs tend to perform better than SMEs.

Exports¹¹

It was already noted that on average, exports make up a lesser share of total turnover in SMEs compared with large enterprises. From Figure 1.2 it follows that this occurs in most individual industries as well. Only in trade do SMEs have the largest share of exports in total turnover. This holds especially for small wholesale enterprises providing specialised import and export services.

1.2 Recent developments of SMEs and LSEs

1.2.1 Macro-economic framework

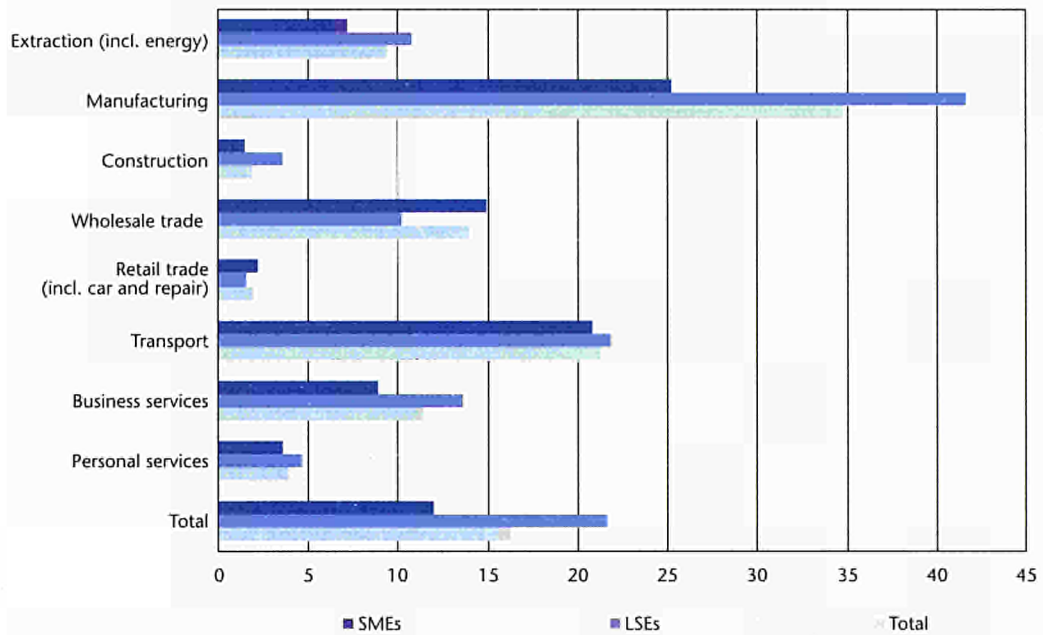
Figure 1.3 depicts GDP development of Europe-19, USA and Japan. During 1988-2000, real GDP growth was highest in the USA (2.6 %). Europe (2.1 %) and Japan (1.7 %) lag behind.

Both Europe-19 and the USA had a slowdown of growth during 1991-1993 (real GDP in the USA even declined in 1991). After 1993, both the European and the American economy recovered from the recession, and both economies - but especially the USA from 1996 onwards - experienced high growth. Japan, however, experienced a slowdown of growth from 1991 onwards, which - apart from a temporary rise in 1996 - continued until the present.

¹⁰ This paradox is explained by the fact that labour costs per employee are highest in LSEs.

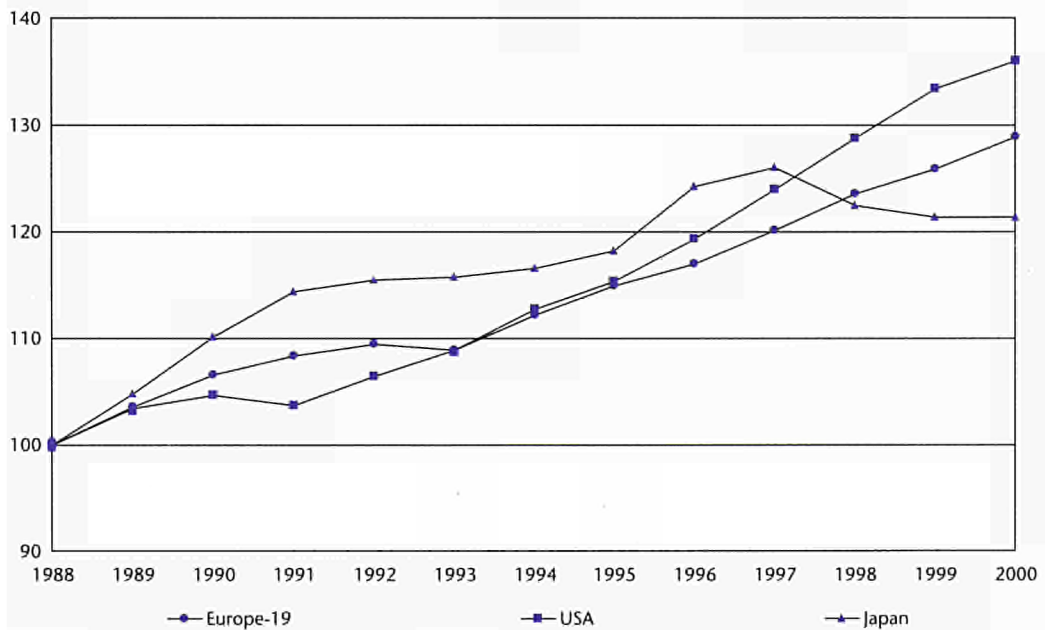
¹¹ Exports include intra-European trade.

Figure 1.2 Share of exports in turnover by industry, Europe-19, 1998



Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Figure 1.3 Real GDP, Europe-19, USA and Japan, 1988/2000 (index: 1988= 100)



Source: European Economy, Supplement A, No. 5, May 1999, and OECD: Economic Outlook, No. 65, June 1999.

Table 1.5 shows the composition of European GDP-growth. Most remarkable is the fact that after 1993, the growth difference between international trade (import and exports; including intra-European trade) and GDP is significantly higher, in comparison with both 1988/1990 and 1990/1993; this might well be attributed to the Internal Market Programme. Investment demand increased drastically after the recession period 1990-1993 and exceeded the consumption-demand growth during 1993-2000. The fast investment growth has been a positive development for SMEs in Europe, though export growth - which generally is more important to large enterprises - is still higher.

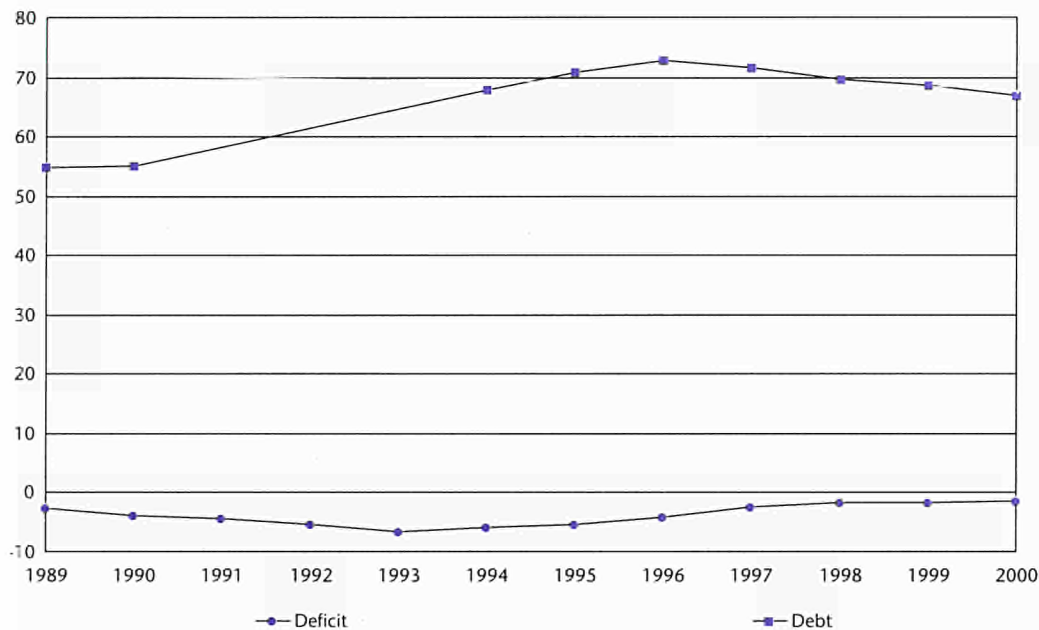
Table 1.5 Demand components, imports and real GDP, Europe-19, 1988/2000

	1988/1990	1990/1993	1993/2000	1988/2000
	Average annual change in %			
Investment demand	5.6	-2.5	3.3	2.2
Private consumption	3.2	1.3	2.2	2.1
Government consumption	1.8	1.8	1.1	1.4
Exports	7.2	3.4	6.6	5.9
Imports	7.8	1.6	6.5	5.5
GDP	3.3	0.7	2.4	2.1

Source: European Economy, Supplement A, No. 5, May 1999, and OECD: Economic Outlook, No. 65, June 1999.

Figure 1.4 reveals that European government deficits are currently approaching zero, while also - since 1997 - government debt as percentage of GDP is decreasing. This is, amongst others, the result of the measures agreed upon in the Maastricht Treaty. These measures, of course, also led to a very small growth of public consumption.

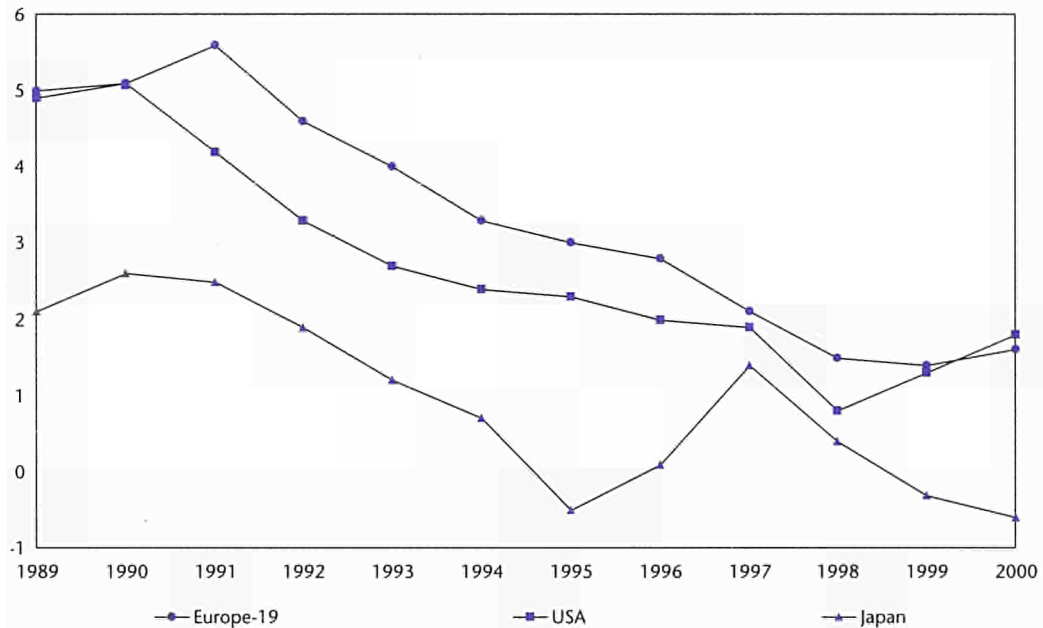
Figure 1.4 Government deficit and government debt, EU, 1988/2000 (% of GDP)



Source: European Economy, Supplement A, No. 5, May 1999, and OECD: Economic Outlook, No. 65, June 1999.

As can be seen in Figure 1.5, European inflation fell from 1991-1998, but it is expected to stabilise at about 2 % in the near future. American inflation reached the 2 % level earlier than Europe did, but experienced a rise after 1998. For Europe-19 as well as the USA, stabilisation or even increases in the inflation rate can be attributed to high economic growth. For Japan, inflation developments are more volatile. Japan's inflation fell in the early nineties at the same pace as Europe's and the USA's, but the rate itself was already relatively low. Deflation occurred in 1995 and at present deflation is expected again.

Figure 1.5 Inflation (CPI), Europe-19, USA and Japan, 1989/2000 (%)



Source: European Economy, Supplement A, No. 5, May 1999, and OECD: Economic Outlook, No. 65, June 1999.

1.2.2 The size-class pattern of macro-economic development in Europe-19, the USA and Japan

Turnover

Table 1.6 presents the development of turnover in European non-primary private enterprise between 1988 and 2000. On average, real turnover growth amounted to 2.2 % annually. It appears that turnover growth is positively related to enterprise size, since in LSE, turnover growth was 2.3 % while SMEs experienced yearly real turnover growth of 2.1 %. Looking at the various sales categories, however, a more shaded picture emerges. As regards domestic sales, SMEs show a better performance than LSEs, while turning to exports, SMEs show the same growth rate as LSEs¹². So, the better performance of LSEs is mainly the result of the large share of the fastest growing sales category - i.e. exports - in total sales.

Differences between the EU and non-EU countries regarding real turnover growth by size class were very small.

¹² Only micro enterprises significantly lag behind average export growth.

Table 1.6 Real turnover growth in non-primary private enterprise by demand category, Europe-19, 1988-2000

	SMEs				LSE	Total SME + LSE
	Micro	Small	Medium-sized	Total		
Average annual change in %						
Domestic sales						
- Consumption goods	1.3	1.0	0.6	1.0	0.5	0.8
- Investment goods	1.8	1.3	0.9	1.3	0.6	1.1
- Intermediate goods	2.2	2.2	2.2	2.2	2.2	2.2
- Total	1.8	1.7	1.5	1.7	1.5	1.6
Exports	4.9	5.2	5.4	5.3	5.3	5.3
Total	2.0	2.1	2.1	2.1	2.3	2.2

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Value added and employment

Comparing Tables 1.6 and 1.7, there is a close relationship between the size-class pattern of real turnover growth and real value added growth: real value added growth is also positively correlated to enterprise size. However, the size-class pattern of both real value added growth and real turnover growth has evolved over time. During 1988-1990, real value added grew fastest in SMEs - especially in micro and small enterprises - while during the nineties, the reverse occurred. At least to some extent, this is the result of growing internationalisation of the economy, with exports steadily becoming the fastest growing sales category, which is - as has been shown above - advantageous to larger enterprises.¹³

From Table 1.7 it also emerges that employment growth is negatively correlated with enterprise size. Over the 1988-2000 period, employment in Europe-19 decreased by 0.1 % annually. This is the result, however, of a small employment increase in micro enterprises and job losses in the other size-bands. The negative correlation between enterprise size and employment development occurs consistently in sub-periods as well, irrespective of the business cycle.

Labour productivity, labour costs and profitability

Table 1.8 gives an overview of the development of labour productivity, unit labour costs and profitability. From this table it appears that productivity growth in SMEs has been rather stable over time, at slightly over 2 % annually. In LSEs, however, labour productivity growth during the nineties is significantly higher than in 1988-1990¹⁴.

¹³ As has been noted in previous Annual Reports of The European Observatory for SMEs, SMEs also benefit from exports by large enterprises, as a result of the supply of intermediate goods and services to exporting LSEs. So, SMEs benefit more from exports than would appear from an analysis of the share of exports in total turnover, even though the impact of exports on total turnover growth of SMEs is still less than the turnover growth for LSEs.

¹⁴ Unfortunately, there is no data available before 1988, so it cannot be ascertained whether the low productivity growth in LSEs during 1988-1990 was only a temporary phenomenon or whether a structural break around 1990 occurred.

Table 1.7 Real value added and employment growth, Europe-19

	1988/1990	1990/1993	1993/2000	1988/2000
	Average annual change in %			
<i>Real value added</i>				
SMEs				
- Micro	2.9	0.4	2.3	1.9
- Small	2.9	0.7	2.5	2.1
- Medium-sized	2.4	0.9	2.7	2.2
- Total	2.7	0.7	2.5	2.1
LSEs	2.2	0.9	3.0	2.4
All enterprises	2.4	0.8	2.7	2.2
<i>Employment</i>				
SMEs				
- Micro	0.6	-0.8	0.4	0.1
- Small	0.6	-1.4	0.3	-0.1
- Medium-sized	0.4	-2.0	0.3	-0.3
- Total	0.6	-1.2	0.4	0.0
LSEs	0.2	-2.0	0.2	-0.4
All enterprises	0.4	-1.5	0.3	-0.1

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Table 1.8 Labour productivity, unit labour costs and profitability in non-primary private enterprise, Europe-19

	1988/1990	1990/1993	1993/2000	1988/2000
	Average annual change in %			
<i>Labour productivity*</i>				
- SMEs	2.1	1.9	2.1	2.1
- LSEs	2.0	3.0	2.8	2.7
- Total	2.0	2.3	2.4	2.4
<i>Unit labour costs**</i>				
- SMEs	4.3	3.8	1.0	2.3
- LSEs	4.6	2.7	0.5	1.7
- Total	4.5	3.4	0.8	2.0
	Average annual change in %-points			
<i>Profitability***</i>				
- SMEs	0.2	0.3	0.4	0.4
- LSEs	0.2	0.3	0.4	0.4
- Total	0.2	0.3	0.4	0.4

* Real value added per employed person.

** Labour costs per employee, adjusted for labour productivity.

*** Difference between value added and labour costs, adjusted for the imputed wage of self-employed, as percentage of value added.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

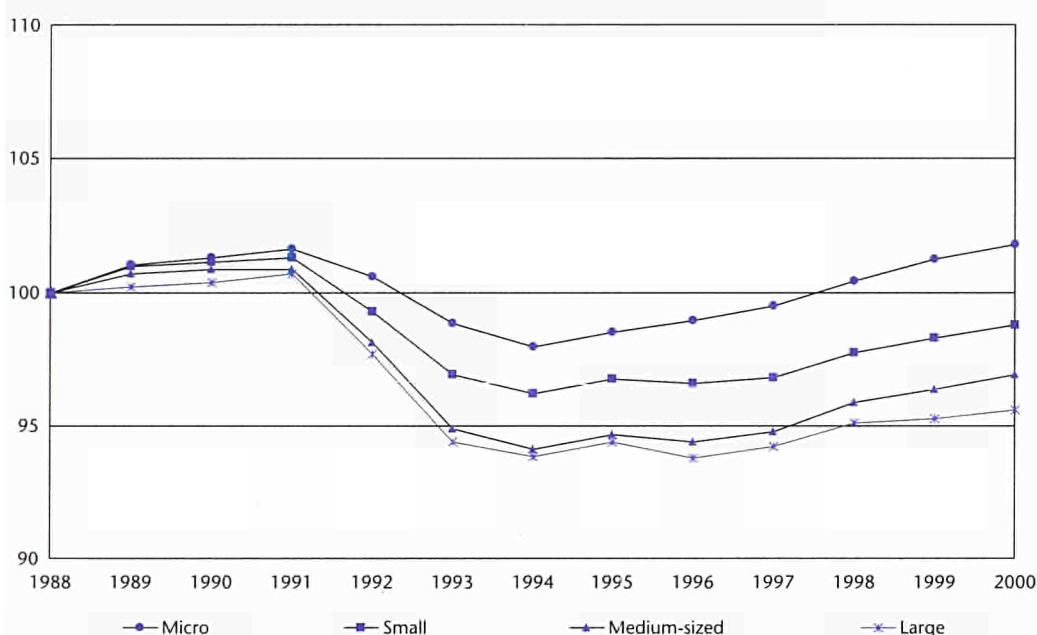
Labour costs per employee increased at the same rate in both SMEs and LSEs (at about 4.5 % annually), but as a result of higher labour productivity growth, unit labour costs growth was smaller in LSEs. The development of profitability, however, was the same in SMEs and LSEs, irrespective of the stage of the business cycle. This implies that SMEs have been able to pass higher unit-labour costs into price changes¹⁵. As a corollary one may conclude that lower productivity growth of SMEs has limited their competitiveness vis-à-vis LSEs. The results also imply that the relatively low profitability of SMEs, as found in Section 1.1.1, has existed for many years already, and therefore seems to be a structural phenomenon.

Aspects of job creation

Figure 1.6 presents in more detail the size-class pattern of employment growth in Europe-19. Two aspects emerge: not only has employment development been most favourable in micro enterprises, but also employment recovery started in micro enterprises (from 1995 onwards) while employment growth in small, medium-sized and large enterprises only increased significantly from 1997.

Sometimes it is suggested that the employment growth of small enterprises is the result of the down-sizing of large enterprises, which as a result come to belong to, for example, medium-sized enterprises instead of LSEs¹⁶. Table 1.9 presents

Figure 1.6 Development of employment, Europe-19, 1988-2000



Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

¹⁵ Indeed, turnover prices increased by 3 % annually in SMEs, while in LSEs, price changes amounted to only 2.7 % a year during 1988-2000. To some extent, this is the result from the fact that export prices increased less than prices of domestic sales (impact of fiercer competition in international markets), but also when looking at domestic sales and exports separately, price increases of SMEs were larger than price increases of LSEs.

¹⁶ This topic has also been dealt with in the Third, Fourth and Fifth Annual Report of The European Observatory for SMEs.

estimates about the impact of enterprises crossing size-bands on the size-class pattern of employment growth. It appears that there is no significant impact of firms crossing size-bands on the SME/LSE growth differential. Only during the 1993 recession did employment growth in micro enterprises 'benefit' from down-sizing of small enterprises. On the other hand, during 1988-1990 and 1993-2000, on balance a significant number of micro enterprises became small enterprises, thus negatively affecting employment growth in micro enterprises, and positively affecting employment in small enterprises.

Table 1.9 Impact of enterprises crossing size-bands on employment growth by size-class, Europe-19, 1988/2000

	1988/1990	1990/1993	1993/2000	1988/2000
	1 000s p.a.			
SMEs:				
- Micro	-115	760	-235	35
- Small	40	-780	145	-105
- Medium-sized	75	20	90	70
- Total	0	0	0	0
LSEs	0	0	0	0
	Average annual change in %			
Employment growth in non-primary private enterprise	0.4	-1.5	0.3	-0.1

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Comparison with the USA

Table 1.10 shows some remarkable differences regarding the evolution of employment in Europe-19 and the USA. First of all, the development of employment has been most favourable in the USA.¹⁷ Also, the size-class pattern of employment development has been much less consistent in the USA. In Europe-19 consistently a

Table 1.10 Employment growth by size class, Europe-19, 1990-1996

	1990/1993		1993/1996	
	Europe-19	USA	Europe-19	USA
	Average annual change in %			
SMEs				
- Micro	-0.8	0.6	0.0	1.3
- Small	-1.4	-0.4	-0.1	1.9
- Medium-sized	-2.0	-0.1	-0.2	2.2
- Total	-1.2	0.0	0.0	1.8
LSEs	-2.0	0.9	-0.2	3.1
Total	-1.5	0.5	-0.1	2.5

Source: EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 61, June 1999; Small Business Administration (Bureau of Advocacy).

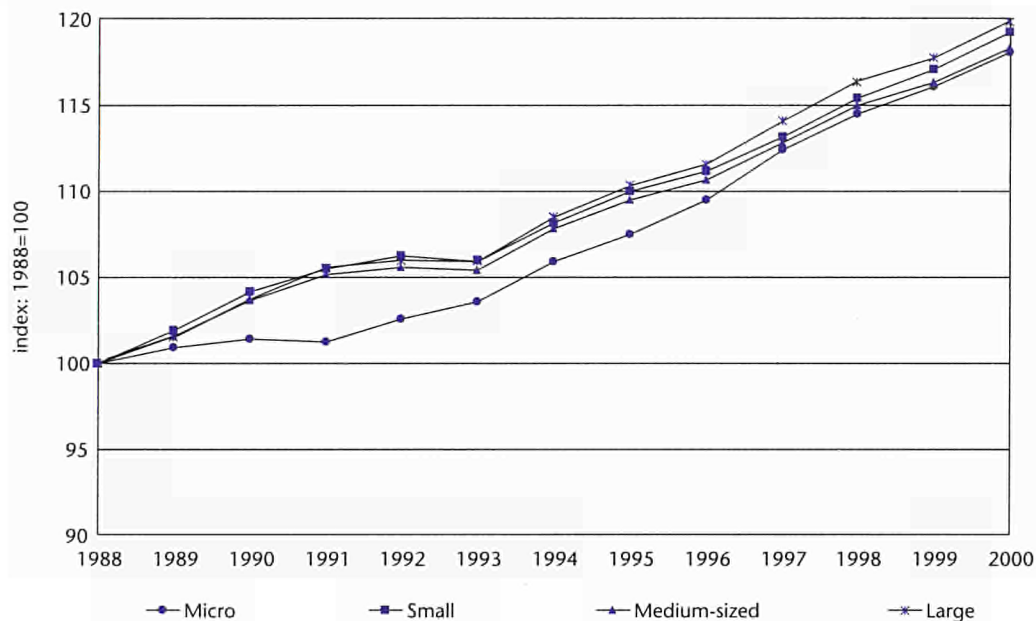
¹⁷ See the Fifth Annual Report of The European Observatory for SMEs for an analysis of the European/USA employment growth differential.

negative correlation between enterprise size and employment growth occurred. In the USA, no clear relation between enterprise size and employment growth occurred during 1990/1993, while when employment accelerated during 1993/1996, employment growth was, by far, the greatest in LSEs.

Number of enterprises

Figure 1.7 presents some data on the development of the number of enterprises from 1988 onwards. At the beginning of the period under review, the number of micro enterprises lagged behind average growth of the number of enterprises. This is consistent with the above observed impact of micro enterprises growing larger and becoming 'small'. During the 1990-1993 recession, the converse occurred: the number of micro enterprises increased, while the number of larger enterprises decreased. From 1993 onwards, growth occurs in all size classes, but mostly so in micro enterprises. Both 1988-1990 and 1993-2000 might be characterised by high economic growth, and both periods also show a negative impact of micro enterprises becoming 'small'. Thus, the fact that during 1993-2000 the number of micro enterprises grew so fast might well be explained by an increase in the balance of entry and exit of enterprises.

Figure 1.7 Development of the number of enterprises, Europe-19, 1988-2000



Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Enterprise dynamics: entry and exit

Above, it is shown that the number of enterprises has increased dramatically during the nineties. The number of enterprises grew as a result of various factors:

- New firms enter the market, or enterprises cease to exist;
- Enterprises may be involved in mergers, or firms may be split up in smaller, independent units.

Both phenomena have occurred during the last 10 years. In this section, focus is on the process of entry and exit of enterprises^{18, 19}.

Table 1.11 summarises the data available on real entry and exit in Europe-19 in 1995. Almost 2 million new enterprises started business in 1995. On the other hand, over 1½ million enterprises ceased to exist. So, on balance, due to entry and exit the number of enterprises increased by more than ¼ million, or by 1 %. It appears that total growth of the number of enterprises in 1995 is due to the entry and exit of enterprises, while other sources of change in the number of enterprises (for example, mergers and take-overs) are on balance of minor importance. It should also be concluded, however, that the (net) change of the number of enterprises is a result of intensive dynamics: entry and exit amount to about 10 % of the total stock of enterprises.

Entry and exit of enterprises implies changes in employment. It appears that even though the amount of new entries exceeds the number of exits, both entry and exit are associated with a gross change in employment of over 2½ million people. This coincides with the fact that the average number of employed persons in newly established enterprises is slightly less than the number of occupied persons in closing firms. So, the direct impact of entry and exit on employment is very small.

Table 1.11 Estimated real entry and exit of enterprises, Europe-19, 1995

<i>Variable</i>	<i>Unit</i>	<i>Entry</i>	<i>Exit</i>	<i>Difference between entry and exit*</i>
Number of enterprises	1 000s	1 960	1 690	270
<i>Number of enterprises</i>	<i>Percentage of stock</i>	11	9	1
Associated employment	1 000s	2 650	2 650	0
<i>Associated employment</i>	<i>Percentage of stock</i>	2	2	0
Employed persons per enterprise		1	2	0

* Due to rounding, this column cannot be calculated directly from the preceding columns.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report.

Table 1.12 presents the results of a first analysis of the differences between Europe-19 on the one hand, and the USA and Japan on the other, regarding entry and exit of enterprises. There are significant statistical differences between the data for Europe-19 and the USA and Japan (which imply higher entry and exit rates in Europe-19), and therefore, one should be very careful when drawing conclusions from this data. However, it does not seem that Europe-19 lags behind the other economies regarding enterprise dynamics. This follows from the fact that differences between recorded entry and exit rates are so large that it seems hard to ascribe these completely to statistical differences. On the other hand, the available information suggests that the enterprise dynamics have a larger impact on employment in the

¹⁸ Here, a rather narrow definition of entry and exit is used, excluding, for example, all occurrences of new enterprises or the disappearance of existing enterprises due to mergers or split-up of enterprises. This is termed 'real' entry and exit. Furthermore, data on the number of jobs involved on entry and exit is available. The fact that this information becomes available at Eurostat is a major improvement.

¹⁹ Also in the Fourth Annual Report attention has been paid to entry and exit of enterprises. Because of the availability of new data from Eurostat, more precise and more in-depth information can be provided.

USA than in Europe. This follows from the fact that the average size of enterprises recorded as entry is much larger in the USA. This, and the fact that a number of categories of enterprises has been excluded from the entry rate for the USA, suggests a higher impact of entry on employment in the USA.

Table 1.12 Real entry and exit of enterprises, Europe-19, USA and Japan, 1995*

	Europe-19	USA	Japan
Entry of enterprises (percent of stock)	11	2	4
Exit of enterprises (percent of stock)	9	1	4
Net entry (percent of stock)	1	1	0
Total growth of number of enterprises (%)	2	2	0
Average enterprise size of new enterprises	1	5	n/a

* Data for Europe-19 on the one hand, and for the USA and Japan on the other, is not directly comparable, since the European data includes some categories which are excluded in the data for the other countries. The most significant difference is the omission of entry and exit of enterprises with no employees in the data for the USA and Japan.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999; Small Business Administration (Bureau of Advocacy); Japanese Small Business Research Institute.

1.2.3 Size-class patterns by country

Table 1.13 presents information on the size-class pattern of the development of real value added, employment and profitability for the individual countries of Europe-19. At the aggregate level real value added growth appeared to be largest in LSEs. This seems to be a general pattern since only in three countries do SMEs have significantly higher real value added growth than LSEs, *i.e.* Greece, Ireland and Iceland. Also the size-class pattern of employment growth observed at the Europe-19 level - highest employment growth in SMEs - can be observed at the country level as well, since only in two countries (Denmark, France) LSEs' employment growth is significantly greater than SMEs'. Finally, at the Europe-19 level, profitability development has been the same in SMEs and LSEs. Looking at the country level, however, the picture gets mixed, as in five countries LSEs have most favourable profitability development (Denmark, Germany, Italy, Luxembourg and Switzerland) while in six countries (Finland, Greece, Portugal, Sweden, Iceland, Norway) development of profitability has been most favourable in SMEs. In the other countries, there are no significant differences between SMEs and LSEs.

1.2.4 Size-class patterns by industry

As can be seen from Table 1.14, real value added of LSEs developed more favourably than that in SMEs in industries having a large tendency to export, *i.e.* manufacturing and transport and communication. This corresponds to the fast growth of exports and the greater propensity of LSEs to export. Also in consumer services LSEs experienced greatest real value added growth; in this industry, changes in technology seem to play a role. In extraction, construction and retail trade, SMEs experience largest real value added growth.

The size-class pattern of employment growth observed at the macro-level - SMEs experiencing most favourable development - is mirrored at the industry level, only in extraction is employment growth largest in LSEs.

The size-class pattern of profitability varies greatly between industries.

Table 1.13 Real value added, employment and profitability by country, Europe-19, 1988-2000

	<i>Real value added</i>		<i>Employment</i>		<i>Profitability*</i>	
	<i>SMEs</i>	<i>LSEs</i>	<i>SMEs</i>	<i>LSEs</i>	<i>SMEs</i>	<i>LSEs</i>
	<i>Average annual change in %</i>				<i>Average annual change in %-points</i>	
Austria	2.0	2.1	0.2	0.2	0.0	0.1
Belgium	1.9	2.2	0.0	-0.2	0.2	0.2
Denmark	2.4	2.5	0.0	0.2	0.3	0.6
Finland	1.1	1.2	-1.7	-1.6	-0.1	-0.3
France	1.4	2.2	0.0	0.3	0.2	0.2
Germany	2.7	3.1	-0.2	-0.7	0.5	0.7
Greece	3.0	2.0	1.7	1.2	0.0	-0.3
Ireland	9.8	9.0	2.8	2.6	0.8	0.8
Italy	1.4	2.0	-0.6	-0.6	0.5	0.7
Luxembourg	4.0	4.1	2.2	0.8	0.1	0.4
Netherlands	2.1	2.2	1.0	0.6	0.1	0.2
Portugal	3.3	3.4	0.2	0.4	1.1	-0.2
Spain	2.4	2.7	1.0	1.0	0.5	0.5
Sweden	1.0	0.3	-1.9	-2.0	-0.8	-1.5
United Kingdom	2.0	2.0	-0.3	-1.0	0.1	0.1
EU	2.0	2.3	0.0	-0.4	0.3	0.3
Iceland	3.6	0.0	0.9	0.2	2.7	0.3
Norway	3.3	4.1	1.8	1.8	-0.1	-0.4
Switzerland**	1.6	1.7	0.3	0.0	0.5	2.0
Non-EU	2.2	2.5	0.8	0.4	0.9	1.4
Total	2.1	2.4	0.0	-0.4	0.4	0.4

* Difference between value added and labour costs, the latter adjusted for the attributable wage of self-employed, as percentage of value added.

** Including Liechtenstein.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

1.3 Future developments of SMEs and LSEs in Europe-19: scenario analysis 2000-2005

In this section an overview of the possible size-class pattern of economic development is presented. A scenario method is utilised²⁰, more specifically, a study is made to see whether the size-class structure of the European economy will be affected if current trends in the macro-economic business environment continue. Relevant trends included in the scenarios are: increasing internationalisation of the economy, and the convergence of national economies under the influence of amongst others the Internal Market and the introduction of the euro. Special attention will be paid to the impact of internationalisation. This scenario has been developed using the SME in Europe Accounting Scheme (see Appendix I to this chapter). This model uses a macro-economic scenario as an input, which is presented

²⁰ It should be stressed that the results of this section should not be interpreted as a forecast of actual developments. On the contrary, the scenario is intended to analyse the consequences of current trends in the European economy. The results of the scenario might be the basis of policy action to improve the position and competitiveness of SMEs.

Table 1.14 Real value added, employment and profitability by industry, Europe-19, 1988-2000

	<i>Real value added</i>		<i>Employment</i>		<i>Profitability*</i>	
	<i>SMEs</i>	<i>LSEs</i>	<i>SMEs</i>	<i>LSEs</i>	<i>SMEs</i>	<i>LSEs</i>
	<i>Average annual change in %</i>				<i>Average annual change in %-points</i>	
Extraction	2.3	1.9	1.7	2.6	-0.1	-0.4
Manufacturing	2.4	3.1	-1.1	-1.3	0.6	0.8
Construction	1.5	0.8	0.2	-0.4	0.8	0.6
Wholesale trade	2.3	2.2	0.5	0.2	0.3	0.4
Retail trade (incl. car, repair)	1.5	0.9	-0.1	-1.4	0.4	0.7
Transport, communication	2.6	2.9	1.1	0.3	0.1	0.7
Producer services	2.1	2.1	1.0	1.2	0.0	0.0
Consumer services	1.6	1.8	-0.2	-0.8	0.4	0.6
All industries	2.1	2.4	0.0	-0.4	0.4	0.4

* Difference between value added and labour costs, the latter adjusted for the attributable wage of self-employed, as percentage of value added.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

in Section 1.3.1. Next, Section 1.3.2 focuses on the size-class pattern of macro-economic development at the Europe-19 level²¹.

1.3.1 Macro-economic framework of the scenario

The macro-economic framework of the scenario has been developed using the following assumptions:

- trends of relevant basic variables from the nineties will continue
- as European integration occurs, trends towards convergence continue. This has been made operational in the assumption that countries with relatively low growth of final demand will see final demand gradually increase towards the European average.
- inflation gradually decreased during the nineties. This trend has been continued, albeit that in no country inflation rates (measured by the private consumption deflator) of less than 1 % annually will occur. The same reasoning holds for prices of imports and exports, and for the wage rate.

These assumptions have been summarised in Table 1.15, which also facilitates a comparison with the nineties.

Private consumption grows at an annual rate of 2.3 %, which is slightly more than during the recent past. Government consumption increases faster than during 1993/2000; this can be attributed to the fact that in the upturn to the Maastricht

²¹ Also see: Niels Bosma and Ton Kwaak: SICLASS - Forecasting the European Enterprise Sector by Industry and Size class (EIM, Research Report 9812/E).

Table 1.15 Macro-economic framework for the scenario, Europe-19

	1988/1993	1993/2000	2000/2005
Average annual percent change			
Real growth of			
- Private consumption	1.7	2.2	2.3
- Government consumption	1.4	1.1	1.6
- Investment in housing	1.2	2.2	2.2
- Investment – other	-0.1	5.1	3.2
- Exports	5.3	6.6	5.9
- Imports	3.8	6.5	5.8
- GDP	1.5	2.4	2.4
Labour market			
- Labour productivity	1.8	1.9	1.6
- Employment	-0.3	0.6	0.7
- Unemployment rate*	10.5	9.1	8.3
Deflator			
- Labour costs per employee	6.3	3.3	3.2
- Price of imports	1.9	1.1	1.3
- Consumer price index	4.5	2.2	1.7

* Percentage of labour force, at end of period.

Source: EIM Small Business Research and Consultancy.

Treaty, the need to cut down expenses was great; currently, this need is much lower. Investment in housing will continue to grow at about the same pace as private consumption. Investment in machinery will slow down in the scenario in comparison with the 1993/2000 period. This is because at the beginning of the latter period, due to the preceding recession, investments were at a low level, the arrears has been made up during 1993/2000. As the impulse of the completion of the Internal Market has materialised, it is assumed that the growth differential between international trade - which is to a large extent intra-European trade - and GDP will decrease. As a result of all this, GDP will continue to grow at about the same rate as during the 1993/2000 period.

As regards the labour market, it can be concluded that labour productivity growth will slow down compared with the nineties. This is a result of the growing share of services. Therefore, employment will continue to grow. As a result, unemployment might decrease substantially.

Under the influence of lower unemployment labour costs per employee rise at about the same rate as during 1993/2000. Import prices are assumed to increase by 1.3 % annually. This is more than during the 1993/2000 period, but results for these years were affected by import price decreases in 1998. Against this background, consumer prices rise only slowly in this scenario.

As can be seen, most variables take up values in the same range as occurred historically - which implies that the scenario should at least be regarded as plausible. Main characteristics are continuing internationalisation and low inflation.

1.3.2 The size-class pattern of macro-economic development in Europe-19

Turnover

Table 1.16 summarises the scenario results on turnover. With regard to domestic turnover, smaller firms perform better than large enterprises - though differences are rather small. With regard to exports, SMEs - viewed as a whole - and large enterprises show no significant differences. The break point lies between small and medium-sized enterprises: medium-sized and large enterprises outperform micro and small enterprises regarding exports. As a result, there is a positive correlation between enterprise size and turnover growth: in the scenario micro enterprises have sales increased by 2.5 % annually, while in large enterprises, turnover growth on average amounts to over 3 %.

Table 1.16 Scenario results on real turnover growth, Europe-19, 2000/2005

	<i>SME</i>				<i>Large</i>	<i>Total</i>
	<i>Micro</i>	<i>Small</i>	<i>Medium-sized</i>	<i>Total</i>		
Average annual percent change						
Domestic turnover	2.3	2.2	2.1	2.2	2.0	2.1
Exports	5.5	5.8	6.8	6.2	6.3	6.3
Total turnover	2.5	2.8	2.9	2.7	3.1	2.9
Impact of exports on total turnover						
- Direct	0.4	0.8	1.1	0.7	1.4	1.0
- Indirect	1.1	1.2	1.3	1.2	1.3	1.2
- Total	1.5	2.0	2.4	1.9	2.7	2.3

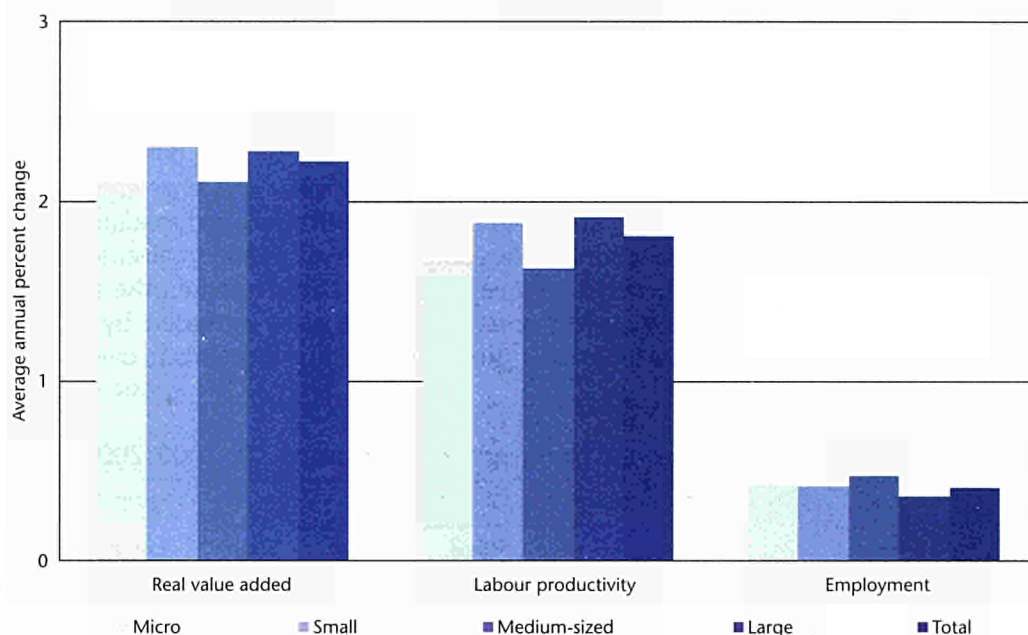
Source: EIM Small Business Research and Consultancy.

Even though domestic sales make up about 85 % of total turnover, the development of exports appears to be decisive regarding the size-class pattern of turnover growth. The lower panel of Table 1.16 analyses the impact of exports on turnover growth. It appears that the direct impact of exports on turnover growth is lowest in smaller enterprises. Partly, this is the result of the fact that exports in micro and small firms grow least. More important, however, is the fact that the share of exports in total turnover is much lower in SMEs compared with large enterprises. However, exports also affect sales growth indirectly. This follows from the fact that (large) exporting firms outsource activities to (smaller) firms. From Table 1.16 it can be seen that this indirect effect is important for SMEs. So, even though in a world that is governed by increasing internationalisation, SMEs are at a disadvantage because of their orientation on domestic sales, this disadvantage is smaller than appears at first sight when looking at the share of exports in total sales and the growth differential between domestic demand and exports - even though it is decisive regarding the future size-class pattern of economic growth. It also follows that it is important to keep a dynamic, efficient SMEs-sector in the economy, since even though SMEs do not export much themselves, they indirectly affect countries' competitiveness.

Value added, labour productivity and employment

From Figure 1.8, it can be seen that the size-class pattern of real value added growth corresponds to the pattern of turnover growth: real value added growth

Figure 1.8 Scenario results on real value added growth, labour productivity and employment growth, Europe-19, 2000/2005



Source: EIM Small Business Research and Consultancy.

and enterprise size are positively correlated. However, labour productivity growth and enterprise size are also positively correlated. To some extent this is the result of faster technological change in large enterprises. Also, small enterprises are strongly oriented towards services, in which industry labour productivity grows slower than average. As a result, the size-class pattern of employment growth is very flat in the scenario: employment growth varies between 0.4 % annually in micro enterprises and 0.6 % on average in large enterprises.

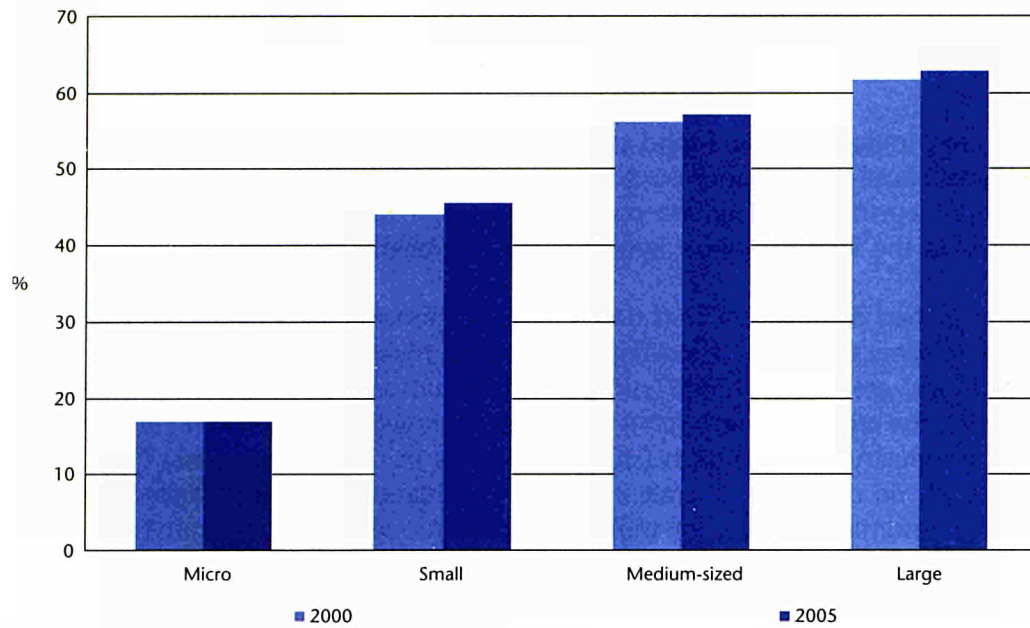
Profitability

In Section 1.1, it appeared that profitability increases with enterprise size, while Section 1.2 showed that these differences have existed for quite a long time. As can be seen from Figure 1.9, the differences between size classes regarding profitability will increase in the scenario: profitability will remain constant in micro enterprises, but increase in small, medium-sized and large enterprises. This is a result of the size-class pattern of labour productivity, which grows fastest in LSEs, and the fact that smaller firms have less opportunity than in the past to pass on costs increases to prices. The latter is a result of the growing internationalisation: export prices rise slower than prices of domestic sales, as also was the case during the nineties.

Number of enterprises

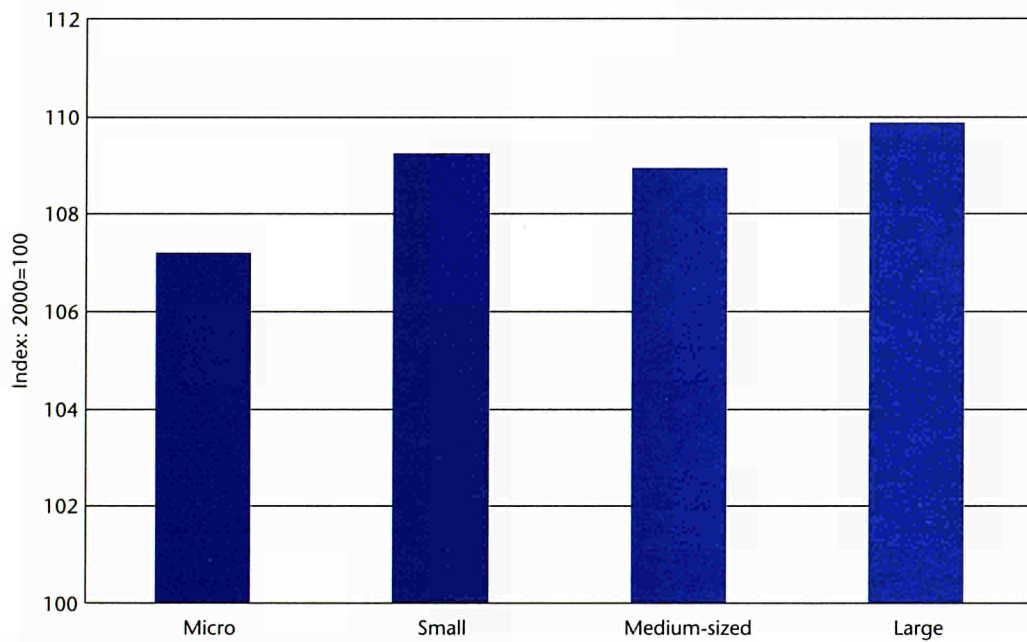
From Figure 1.10 it follows that in the scenario the number of enterprises will increase by almost 8 % between 2000 and 2005. Growth of the number of micro enterprises will be relatively limited, which might be explained by the fact that a number of existing micro enterprises experience such employment growth that they become 'small'. This is consistent with the growth of the number of small enterprises being more than average.

Figure 1.9 Profitability by size class, Europe-19, 2000 and 2005



Source: EIM Small Business Research and Consultancy.

Figure 1.10 Scenario results on number of enterprises, Europe-19, 2005



Source: EIM Small Business Research and Consultancy.

1.4 Position of the craft trades and the social economy

1.4.1 Position of the craft trades

The craft trades in Europe tend to preserve the traditional economic culture and provide social and economic continuity by encouraging vocational skills and entrepreneurship. This section continues the monitoring of the craft trades that started in the Second Annual Report of the European Observatory for SMEs.

As no unified definition of craft trades exists, national definitions of craft trades are used. In some countries, the definition of craft is fixed in national legislation. These definitions are either based on the profession approach (using professional criteria), the artist approach (craft trades are exclusively involved in an artistic field) or the industry/size approach (small enterprises in certain industries)²². In other countries, no definition of craft is found in legislation, and other approaches are used to estimate the size of the craft sector. As definitions of craft trade differ greatly between countries, no attempt has been made to arrive at estimates of the size of the craft trades at the European level²³.

Tables 1.17 and 1.18 provide some information on the development of the number of enterprises and employment in the craft trades in the nineties²⁴. Taking into account the classification of countries according to the way the craft sector is defined, the following comments are relevant:

- Countries following the *profession approach*. In Austria and Luxembourg, the size of the craft trades had been quite stable over time. In Germany, the size of the craft trades tends to be stable in recent years, after some decline in employment between 1994 and 1997. For the other countries (Iceland, Liechtenstein), data availability does not permit a clear judgement on the development of the craft trades.
- Countries following the *sector/size approach*. In France, employment decreased in the first part of the nineties in the craft trades, but from 1995 onwards, the sector seems to have recovered. In Italy, the number of craft enterprises tends to be stable. In the Netherlands, the number of craft enterprises as well as employment in the craft trades increases from 1995 onwards.
- In Spain, the *artist approach* is followed. The number of enterprises is seen to be quite stable. However, after an increase in employment at the beginning of the nineties, job losses have occurred in the middle of the decade, but now employment in the craft trades has stabilised.
- Data on countries following *other approaches* is very scarce²⁵. Data for Ireland point to a gradual employment increase since 1993. Data for other countries do not allow for an analysis of trends.

²² This was first identified in the Fourth Annual Report.

²³ In comparison with the Fifth Annual Report, estimates on three additional countries (all in the 'other approaches') were added: Belgium, Finland and Ireland.

²⁴ As countries use different definitions of craft, data for various countries are not comparable; also, they may not be compared with the data in section 1.1.

²⁵ As has been noted, for these countries the definition of craft is not fixed in national legislation, which makes it difficult to establish statistical criteria to measure the size of the craft trades.

Table 1.17 Number of craft enterprises according to national definitions
(methodological notes are contained in Appendix III to this chapter)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
	1 000								
Professional approach									
Austria	42	42	42	42	42	42	42	43	n/a
Germany*	598	606	614	594	598	603	605	607	608
Iceland	5	5	6	6	6	6	n/a	n/a	n/a
Liechtenstein	1	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a
Luxembourg	4	4	4	4	4	4	n/a	n/a	n/a
Sector/size approach									
France	854	857	831	811	821	828	823	819	n/a
Italy	1 140	1 209	1 260	1 272	1 326	1 333	1 325	1 338	n/a
Netherlands**	101	107	115	121	101	127	140	145	n/a
Artist approach									
Spain	14	15	15	15	15	15	15	15	n/a
Other approaches									
Belgium	n/a	n/a	n/a	n/a	54	n/a	n/a	n/a	n/a
Finland	n/a	n/a	n/a	104	n/a	n/a	n/a	164	n/a
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland***	58	n/a	n/a	n/a	57	n/a	n/a	60	n/a
United Kingdom	n/a	n/a	17	n/a	19	n/a	n/a	n/a	n/a

* Due to revised calculations, from 1994 onward comparison to former years not valid.

** Due to exclusion of non-active enterprises in 1995, from 1995 onward comparison to former years not valid.

*** 1991 and 1995 changed to Noga classification.

Note: As the definition of craft differs between countries, no direct comparison between countries is permitted.

Table 1.18 Employment in the craft trades according to national definitions
(methodological notes are contained in Appendix III to this chapter)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
	1 000								
Professional approach									
Austria	288	290	288	294	292	293	293	292	n/a
Germany*	4 516	4 670	5 018	6 872	6 409	6 296	6 170	6 171	6 171
Iceland	16	16	15	14	15	15	n/a	n/a	n/a
Liechtenstein	5	n/a	n/a	n/a	6	n/a	n/a	n/a	n/a
Luxembourg	41	43	43	43	44	43	n/a	n/a	n/a
Sector/size approach									
France	2 245	2 205	2 165	2 010	2 063	2 305	2 307	2 757	n/a
Italy	3 112	3 097	3 011	3 108	n/a	n/a	n/a	n/a	n/a
Netherlands**	354	353	331	317	308	419	430	433	n/a
Artist approach									
Spain	48	57	59	54	46	46	46	45	n/a
Other approaches									
Belgium	n/a	n/a	n/a	n/a	519	n/a	n/a	n/a	n/a
Finland***	27	n/a	n/a	n/a	20	n/a	n/a	n/a	n/a
Ireland	99	96	89	97	99	102	114	n/a	n/a
Switzerland****	351	n/a	n/a	n/a	335	n/a	n/a	317	n/a
United Kingdom	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* Due to revised calculations, from 1994 onward comparison to former years not valid.

** Due to exclusion of non-operational enterprises in 1995, from 1995 onward comparison to former years not valid.

*** 1991 data refer to 1990.

**** 1991 and 1995 changed to Noga classification.

Note: As the definition of craft differs between countries, no direct comparison between countries is permitted.

1.4.2 Position of the social economy

In the Fourth Annual Report, an overview of Co-operatives, Mutuals, Associations and Foundations (CMAFs; also called the social economy or the third sector; Associations and Foundations are joined under the heading 'non-profit organisations') was presented. This section updates the quantitative information from that edition. Chapter 7 presents a more qualitative analysis of Associations and Foundations. Data on non-profit organisations presented in this chapter are based on *registered* associations and foundations. In this respect, there is a difference to the data presented in Chapter 7, which refer to statistical *estimates* on the size and structure of all kinds of organisations in the non-profit sector.

Tables 1.19 and 1.20 summarise the available statistical information on the economic importance of CMAFs. It should be noted from the start that the legal framework underlying the statistical concept of CMAFs varies between countries. Therefore, the data presented in this chapter are not only incomparable with those in Section 1.1, but also between countries large differences regarding the definitions used frequently exist²⁶. Therefore, it has not been attempted to arrive at estimates for EU or Europe-19 totals. Furthermore, it should be noted that even within countries, definitions may change over time, so it is hard to analyse developments over time as well.

The data roughly suggest that the number of CMAFs at the European level is comparable to 5-10 % of the total number of enterprises. As regards employment, the CMAF-sector is, by and large, equivalent to over 5 % of European employment.

²⁶ Data on CMAFs are scarce indeed. One reason for this is the fact that often, official business registers do not contain sufficient information on the legal status of these organisations.

Table 1.19 Co-operatives, mutuels, and non-profit organisations: number of enterprises and number of employees (1 000) (methodological notes are contained in Appendix III to this chapter)

	Number of enterprises									Number of employees (1 000)								
	Co-operatives			Mutuals			Non-profit organisations			Co-operatives			Mutuals			Non-profit organisations		
	1990	1994	1998	1990	1994	1998	1990	1994	1998	1990	1994	1998	1990	1994	1998	1990	1994	1998
Austria	2 403	2 153	2 065	71	67	67	78 142	87 853	96 288	59	57	65	n/a	n/a	n/a	n/a	n/a	144
Belgium ^a	2 450	30 179	n/a	1 505	1 172	n/a	n/a	50 773	n/a	34	n/a	n/a	12	n/a	n/a	209	469	n/a
Denmark	3 807	4 139	3 799	100	85	84	893	450	904	59	58	n/a	0	0	n/a	14	10	18
Finland ^b	n/a	794	2 767	n/a	118	352	n/a	n/a	142 300	n/a	67	80	n/a	5	n/a	32	89	70
France	24 415	23 000	15 235	8 030	6 622	3 405	203 233	119 049	288 067	404	n/a	325	136	n/a	105	628	n/a	1 200
Germany	8 769	11 043	10 243	2 195	n/a	n/a	343 946	n/a	n/a	483	531	492	50	n/a	n/a	1 018	1 330	n/a
Greece	7 446	n/a	7 864	53	n/a	3	929	n/a	3 354	14	n/a	6	0	n/a	1	0	n/a	n/a
Ireland	713	742	760	0	0	n/a	297	259	210	20	29	40	0	0	n/a	2	2	1
Italy	38 194	44 523	64 425	468	1 109	n/a	52 280	n/a	188 000	246	n/a	452	0	n/a	n/a	418	n/a	690
Luxembourg	17	273	n/a	59	61	n/a	n/a	n/a	n/a	2	n/a	n/a	0	0	n/a	2	n/a	n/a
Netherlands ^c	4 106	3 993	2 260	812	275	n/a	831	821	28 015	84	116	n/a	n/a	7	n/a	16	18	n/a
Portugal ^d	1 569	3 024	n/a	102	81	n/a	1 458	1 529	n/a	36	n/a	n/a	1	n/a	n/a	33	n/a	n/a
Spain ^a	24 110	27 994	n/a	467	400	n/a	138 907	160 573	n/a	391	464	n/a	5	2	n/a	n/a	n/a	n/a
Sweden	n/a	15 100	n/a	n/a	n/a	n/a	n/a	11 100	n/a	n/a	66	n/a	n/a	n/a	n/a	n/a	n/a	n/a
United Kingdom	5 218	n/a	4 633	107	n/a	n/a	398 000	n/a	188 000	181	n/a	68	28	n/a	72	946	n/a	350
Iceland	n/a	65	n/a	n/a	32	n/a	n/a	680	n/a	n/a	3	n/a	n/a	500	n/a	n/a	6	n/a
Liechtenstein	n/a	9	n/a	0	0	0	n/a	600	n/a	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a
Norway ^e	n/a	638	1 872	n/a	6	1 419	n/a	n/a	3 280	n/a	51	43	n/a	n/a	8	n/a	n/a	27
Switzerland	13 858	14 338	n/a	0	0	0	25 504	25 085	n/a	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a

a Data for 1994 refer to 1995.

b Data for 1998 refer to 1997; number of employees in non-profit organisations refer to associations only; data for 1990 refer to 1991.

c Data for 1998 refer to 1997 (The Netherlands: 1997-data on co-operatives include mutuals).

d Data for 1994 refer to 1993.

e Data for 1998 refer to 1996.

Note: As the statistical definition of co-operatives, mutuals and non-profit organisations differs between countries, no direct comparison between countries is permitted also, comparing data for one country for different years might lead to incorrect conclusions as statistical definitions may change over time as well.

Table 1.20 Co-operatives, mutuals, and non-profit organisations: number of members (1 000) and economic size (mln euro) (methodological notes are contained in Appendix III to this chapter)

	Number of enterprises									Economic size (mln euro)								
	Co-operatives			Mutuals			Non-profit organisations			Co-operatives			Mutuals			Non-profit organisations		
	1990	1994	1998	1990	1994	1998	1990	1994	1998	1990	1994	1998	1990	1994	1998	1990	1994	1998
Austria	2 472	2 545	3 026	58	59	58	n/a	n/a	n/a	10	10	n/a	8	9	11	n/a	n/a	3 340
Belgium	1 623	n/a	n/a	5 907	n/a	n/a	7 834	n/a	n/a	37	n/a	0	11	n/a	0	7	n/a	n/a
Denmark	1 349	n/a	n/a	1 082	1 354	n/a	2 007	n/a	n/a	21	24	26	0	0	n/a	7	1	36
Finland ^a	n/a	2 161	2 257	n/a	n/a	n/a	n/a	n/a	3 700	n/a	14	n/a	n/a	n/a	n/a	n/a	1 977	n/a
France	14 229	n/a	16 800	62 000	n/a	40 000	25 500	n/a	n/a	444	n/a	684	43	n/a	45	28	n/a	11
Germany	15 207	20 387	20 428	n/a	n/a	n/	37 528	n/a	n/a	98 000	12 000	124 000	18	n/a	n/a	46	n/a	n/a
Greece ^b	983	n/a	363	7	n/a	99	n/a	n/a	n/a	n/a	n/a	6	0	n/a	n/a	0	n/a	n/a
Ireland	1 276	1 895	2 400	0	0	n/a	1 263	1 318	n/a	7	11	n/a	0	0	n/a	5	8	9
Italy	5 798	8 107	7 148	514	n/a	306	n/a	n/a	n/a	0	19	52	0	n/a	n/a	0	n/a	n/a
Luxembourg	23	n/a	n/a	208	0	n/a	n/a	n/a	n/a	0	n/a	n/a	0	17	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	96	10	n/a	0	1	n/a	8	1	n/a
Portugal	590	n/a	n/a	677	n/a	n/a	523	n/a	n/a	4	n/a	n/a	0	n/a	n/a	0	n/a	n/a
Spain	3 007	4 196	n/a	5 216	2 000	n/a	n/a	n/a	n/a	13 444	25 592	n/a	390	962	n/a	n/a	n/a	n/a
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	13	n/a	n/a	n/a	n/a	n/a	n/a	n/a
United Kingdom	10 041	n/a	8 281	19 748	n/a	n/a	n/a	n/a	n/a	7 000	n/a	7 800	20 000	n/a	6 200	32 000	n/a	19 749
Iceland	n/a	39	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Liechtenstein	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a
Norway ^c	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8	13 917	n/a	n/a	713	n/a	n/a	2 728
Switzerland	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a	0	0	0	n/a	n/a	n/a

a Data for 1998 refer to 1997; number of employees in non-profit organisations refer to associations only; 1990-data refer to 1991.

b Data for 1998 refer to 1997.

c Data for 1998 refer to 1996.

Note: As the statistical definition of co-operatives, mutuals and non-profit organisations differs between countries, no direct comparison between countries is permitted also, comparing data for one country for different years might lead to incorrect conclusions as statistical definitions may change over time as well.

Appendix I: Data used in Sections 1.1 and 1.2

One of the cornerstones of the statistical information used in the European Observatory for SMEs is 'Enterprises in Europe'²⁷. This publication contains harmonised information for each of the 19 countries on the number of enterprises, employment, turnover, value added and labour costs, by industry (two digit NACE classification) and size class.

In some respects, however, this publication does not provide all of the information required for a comprehensive statistical picture of the enterprise sector in each country:

- Some countries' data was incomplete, and estimates were made (Section I.2);
- The Sixth Report of Enterprises in Europe mostly relates to the situation in 1996²⁸, but this information is not always comparable with data published earlier. To solve this problem, additional estimates were made to describe developments between 1988 and 1996 (Section I.3);
- In order to obtain estimates about developments in recent years (1996-2000), an accounting scheme²⁹ has been developed which calculates developments with respect to all the variables used in this chapter - number of enterprises, employment, turnover, value added and labour costs - by industry and size class for each country (Section I.3).

This appendix pertains first of all to the major statistical database used in the Observatory project. Initially, however, this appendix discusses the classification of industries and the concept of enterprise size.

I.1 Definitions

I.1.1 Industrial classification

All data presented in this report relating to SMEs is based on non-primary private enterprise; excluded from the analysis are all state-owned enterprises ('private') and enterprises in forestry and fishing ('non-primary').

Throughout much of Chapter 1, the sectors of industry comprising non-primary private enterprise are classified as follows (using the NACE Rev.1 industrial classification)³⁰: extraction

²⁷ Enterprises in Europe - Sixth Report, prepared by Eurostat and DG Enterprise (to be published). Data used in this publication are available in the Eurostat Database Newcronos, domain SME. According to the Council Regulation 58/97 concerning structural business statistics (SBS), the data broken down by size class (SME data) will be in short term integrated into the common legal framework established by the SBS regulation.

²⁸ Only for 12 countries: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom. For the other countries, the availability of data did not change since the publication of the Fifth Annual Report of The European Observatory for SMEs.

²⁹ SEAS: the SME in Europe Accounting Scheme. Bosma, Niels, and Ton Kwaak: SICLASS - Forecasting the European Enterprise Sector by Industry and Size class (EIM, Research Report 9812/E) provides an extensive discussion of SEAS.

³⁰ Also see Appendix II to this chapter, which gives a detailed description of the industrial classification used.

(including energy; NACE C, E); manufacturing (NACE D); construction (NACE F); wholesale trade (NACE 51); retail distribution (NACE 50, 52); transport and communication (NACE I); producer services (NACE J, K); personal services (NACE H, N, O).

1.1.2 Enterprise size

In this report, the number of employees is used as the sole criterion for the classification of enterprises by size class. 'Enterprises in Europe' provides the opportunity to distinguish the following size classes for all industries and countries:

- Micro enterprises: enterprises having 0-9 employees;
- Small enterprises, which employ 10-49 employees;
- Medium-sized enterprises, employing between 50 and 249 employees;
- Large enterprises, employing 250 or more employees.

1.2 A comprehensive statistical database of European enterprises, 1993/1996

1.2.1 Introduction

For each country, the reports of 'Enterprises in Europe' provide a fairly detailed database of non-primary private enterprise in 1992/1993 and/or 1995/1996³¹. However, to provide a comprehensive picture by country, industry and size class, a number of additional estimates were made. These additional estimates were made at a low level of aggregation (by two-digit NACE division and by the size classes outlined above).

However, data is normally reported at a much higher level of aggregation. The disaggregation during the estimation process was done to ensure that all available information from various sources could be used.

During the construction of the database, it appeared that for some industries - and in the case of some countries, for the whole economy - data on value added and labour costs was missing³². This section discusses how these problems were resolved.

The estimation of value added started with an inventory by the ENSR-partners as to what information on value added by industry and size class was available. However, in many cases no data were available, and so, data on value added by industry from national accounts was used. This was distributed over size classes according to turnover and observed turnover/value added ratios in other countries³³.

The estimation of data on labour costs started from value added, as follows:

- At the industry level, data on the share of labour costs in total value added was taken, so labour costs could be calculated at the industrial level;
- Labour costs by industry were distributed over size classes according to the size-class distribution of value added and differences in the ratio of labour costs and value added in other countries.

At each stage consistency-checks with 'Enterprises in Europe' were performed.

³¹ 1996 data is available for 12 countries: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom. For the remaining countries, only data for previous years are available.

³² It should be noted that Eurostat kindly provided EIM Small Business Research and Consultancy with some additional estimates.

³³ Turnover includes the purchased value of merchandise, as well as several subsidies and taxes. This might pose problems especially in wholesale and retail trade.

1.3 Estimating developments 1988-2000

As described above, the European Observatory for SMEs has at its disposal a comprehensive database concerning the size and structure of non-primary private enterprise in 19 countries. However, available statistical information does not allow for the analysis of trends. Therefore, additional estimates were performed. Estimations were done in two stages:

- Developments during the 1988-1996 period were estimated on the basis of available statistical information. This is explained in Section 1.3.1 of this appendix;
- For recent years, no comprehensive information on the size-class structure of non-primary private enterprise is available. Therefore, other techniques had to be used, which are explained in Section 1.3.2.

1.3.1 Developments 1988-1993/1996

The data from 'Enterprises in Europe' for 1988, 1990, 1993 and 1996 is not fully comparable. This is a result of the introduction of new, better sources of information by Eurostat. Also the transition to the NACE Rev. 1 nomenclature instead of the NACE 1970 classification adds to this incomparability. The introduction of new sources of information has in particular affected the number of micro enterprises counted. The comparability of various ratios such as average enterprise size, turnover per enterprise and labour productivity does not seem to be strongly affected by the introduction of new sources. This follows from the observation that these ratios might be viewed as estimates from a large sample of the total population of enterprises, disaggregated by industry and size class and, therefore, they might well be assumed to be unbiased estimates in 1988, 1990, 1993 and 1996. Thus, basically, the following steps have been performed in estimating developments between 1988 and 1993/1996:

- Estimation of the growth in the number of enterprises;
- Estimating the development of employment, directly applying data on average enterprise size as given by 'Enterprises in Europe'³⁴;
- Estimating the development of turnover and value added, directly applying data on (apparent) labour productivity from 'Enterprises in Europe'.

In this section, attention will be paid to the estimation of the growth in the number of enterprises as well as some additional problems, which have been solved:

- In the original database for 1988, different size classes were used, that were not compatible with the one used in the present report;
- The estimation of the development in labour costs. Since labour costs are a new variable in 'Enterprises in Europe', no developments of labour costs could be derived from that source and other methods had to be used.

Estimation of the development of the number of enterprises

It appears that the differences in the number of enterprises between 1988, 1990, 1993 and 1996, as revealed by the various reports of 'Enterprises in Europe', merely reflect differences in registration methods, instead of reflecting trends in economic development.

Since Eurostat's Labour Force Survey (LFS)³⁵ is conducted on a regular, comparable basis, it can be combined with data from 'Enterprises in Europe' to estimate the development in the number of enterprises by industry and size class in those countries for which 'Enterprises in Europe' has

³⁴ That is, of course, 'Enterprises in Europe' and the additional estimates to arrive at a comprehensive database for European enterprises in 1988, 1990, 1992 and 1996. These are described in the First, Second, Fourth and Fifth Annual Report of The European Observatory for SMEs; also see Appendix I to Chapter 1 of the Third Annual Report of The European Observatory for SMEs.

³⁵ For non-EU countries, OECD's Labour Force Statistics have been used.

changed its basic source of information. Generally, it has been assumed that the smaller the enterprises are the more appropriate it is to estimate growth in the number of enterprises by the development of self-employment. Larger enterprises are presumably better observed by 'Enterprises in Europe' than smaller enterprises.

Further disaggregation in the database for 1988

The database on the European enterprise sector in 1988 has the same industrial detail as the database for the other years, but is less detailed with respect to size classes³⁶. Especially the size-bands 20-49 and 50-99, and 200-249 and 250-499, were not distinguished separately, but these are necessary for the definition of small, medium-sized and large enterprises. Therefore, additional disaggregation in the 1988 database had to be performed. The following procedure was used:

- Disaggregating the number of enterprises was done by estimating a function describing the size-class distribution of enterprises³⁷. Mathematical aggregation over the desired size-bands then gives the share of the missing size-bands.
- The same function can also be used to calculate average enterprise size in the newly introduced size classes. From this, employment can be easily calculated.
- As regards turnover and value added, it was assumed that differences with respect to (apparent) labour productivity between the newly introduced size classes were the same as in 1990. From this assumption, a further disaggregation of turnover and value added could be performed.

Estimation of the development of labour costs

The Fourth Report of 'Enterprises in Europe' was the first to include data on labour costs; therefore, 'Enterprises in Europe' cannot be used as a source for estimating developments of labour costs. Instead, change in labour costs by industry and size class have been estimated using data on:

- The development of employment by industry and size class;
- Changes in labour costs per employee. According to the availability of data, either macro-economic data or data disaggregated by industry have been used.

This is the same approach as taken in the SME in Europe Accounting Scheme, which is used to estimate trends in the after-1993/1996 period.

1.3.2 Estimations of developments 1993/1996-2000

Since statistical sources only provide information on developments between 1988 and 1993/1996, additional tools are needed to analyse trends in most recent years. The instrument used is called SEAS: the SME in Europe Accounting Scheme. This accounting scheme is designed to estimate:

- Turnover and value added by industry and size class (linked to macro-economic developments);
- Employment by industry and size class from the development of value added and changes in wages and prices;
- Labour costs, taking into account changes in employment and wage costs;
- The number of enterprises from turnover and the general economic climate.

³⁶ See Annex I to the First Annual Report of The European Observatory for SMEs.

³⁷ The size-class distribution of enterprises can be described by applying *e.g.* an exponential or a Pareto-function. In the present application, an approximation using a third-degree polynomial was used.

These calculations were performed for all countries. So, SEAS actually consists of 18 independent country models³⁸.

A first version of SEAS was developed within the framework of the First Annual Report of the European Observatory for SMEs. Since then, it has been extended gradually to absorb the increasing coverage of variables (value added and labour costs were added since 1993) and countries (6 countries were added).

Estimation of the development of real turnover

The development of turnover by industry and size class in SEAS is derived in three steps:

- Macro-economic demand indicators are transformed into final demand by industry and macro-economic category;
- By means of a multi-industry input-output model, output of intermediate goods and services, and thus total output, is calculated;
- For each sales category, turnover by industry and size class is arrived at (the database on turnover by industry, size class and sales category is shortly described below).

Thus, the first step in SEAS is the calculation of developments by industry of sales for each final demand category. The following categories of final sales are distinguished: consumption goods, investment goods and exports.

Output of intermediate goods and services by industry is modelled by means of an input-output model for each country. Import of intermediate goods is taken into consideration.

Increases of stock - which is part of gross production as well - is directly linked to sales growth.

At this stage, sales by industry and sales category are known. Using this information, the development of turnover by industry, size class and sales category can be calculated. For each industry and sales category, it is assumed that on average, turnover growth equals sales growth³⁹.

All calculations are performed for two-digit NACE Rev. 1 divisions.

Base-year information on turnover by industry, size class and macro-economic category

Data on turnover by industry, size class and macro-economic category is not directly available, and thus, was estimated. Basically, the following procedure was applied.

For each country and industry, from input-output data and national accounts, the distribution of output over macro-economic sales category is known. Turnover includes, next to output, the purchase value of merchandise. Assuming that the ratio between these is the same within each size class within an industry, total turnover can be assigned to each sales category for each size class using the distribution of sales over categories for each industry.

This procedure provides a first-round estimate of the distribution of turnover over categories. For a number of countries, the distribution of turnover over exports and domestic sales is known. This information is used to adjust these first-round estimates.

Estimation of the development of real value added

The estimated development of real value added is arrived at in two steps. First, real value added growth by industry is calculated in the industry sub-model of SEAS. Next, size-class differences regarding value added growth within an industry are set equal to the differences regarding turnover growth.

³⁸ Switzerland and Liechtenstein are taken together.

³⁹ Note that turnover includes sales as well as the purchased value of merchandise.

Estimation of the development of employment and labour costs

Contrary to the calculation of turnover and value added, employment is modelled in a bottom-up manner. This is because there are essential differences in how small and large enterprises hire and fire their employees.

First, because of the existence of threshold labour, lack of information, etc., SMEs are assumed to be relatively slow in reacting to production changes. Secondly, because of the large share of labour costs (including the wage attributed to self-employed) in total costs of smaller enterprises, the wage elasticity of employment in these enterprises is larger than that in LSEs. Finally, autonomous labour-saving technological progress is slower in SMEs than in LSEs.

Employment growth by industry and size class depends upon real value added growth, real wages, and a (negative) constant term, reflecting autonomous labour-saving technological progress.

Estimation of development of the number of enterprises

Growth in the number of enterprises is also calculated in a bottom-up way. Factors determining the growth of the number of enterprises can be subdivided into:

- Factors affecting the 'demand for entrepreneurship', especially sales growth. An increase in real sales makes it attractive to start an enterprise.
- Factors influencing the 'supply of entrepreneurs': population growth and unemployment. Obviously, other things being equal, population growth increases the potential number of entrepreneurs. An increase in unemployment might well lead to an increase in start-ups.

Estimation of development of prices

Prices of sales and turnover are calculated by taking into account all relevant costs for enterprises, that is costs of intermediate consumption (both produced domestically and abroad) and labour costs.

This is compared with the development of macro-economic prices, such as the private consumption deflator and the deflator of exports. Adjustments are made to make calculated prices consistent with the latter set of macro-economic data.

The price of value added is calculated in the industrial sub-models according to the definition of value added. The deflator of value added by size class is estimated in the same way as real value added growth by industry and size class.

Applying SEAS

Basically, SEAS can be run using only its exogenous variable⁴⁰. However, the system has been benchmarked by updating it with statistical information whenever possible. For example, information on the export performance of industries from 'Industrial Trends'⁴¹ has been used to benchmark exports growth. Also, data from the LFS on employment and the number of self-employed is used to calibrate the development of employment and growth in the number of enterprises. By so doing, the business cycle in each country is taken into account. With respect to employment, information from 'European Economy' has been taken into account to estimate recent developments in broad industries.

So, the design and use of SEAS are such that knowledge about the way the economy functions, as well as statistical information about actual economic developments have been integrated such that an estimate of SMEs' development between 1996 and the present can be provided for each country.

⁴⁰ Exogenous variables are taken from: European Economy - Supplement A, No. 5, May 1999, and - for non-EU countries - OECD: Economic Outlook, No. 65, June 1999.

⁴¹ Eurostat: Industrial Trends - monthly statistics (various issues).

Forecasting ability of SEAS

The forecasting ability of SEAS was checked by running the model for 1988-1996 and establishing whether the size-class structure of the European economy as estimated by SEAS for 1996 was in accordance with actual data⁴². This section reviews whether this was the case:

- At the country level. The main question dealt with here was: to which extent the simulated size-class structure by industry in 1996 differs from the actual size-class structure.
- At the industry level. The main question dealt with here was: to which extent the simulated size-class structure by industry in 1996 differs from the actual size-class structure.

To compare simulated size-class structures with the actual size-class structures for 1996, straightforward regressions of the following type were run:

$$a_{i,j} = \alpha_i f_{i,j} + \beta,$$

where:

$a_{i,j}$ actual share of size class i in country or industry j (for example, the actual share of small enterprises in Irish employment)

$f_{i,j}$ forecast share of size class i in country or industry j (for example, the forecasted share of micro enterprises in retail distribution).

In case of perfect forecasting, α would equal one and β would equal zero. Regression analysis provides the possibility to investigate whether α and β differ significantly from 1 and 0, respectively.

The analysis has been done for three variables: employment, turnover and value added. Below, differences between actual and forecast shares of size classes for each of these variables are being discussed.

Table I.1 shows the regression results on employment shares. Forecast and actual European turnover shares were set out in Table I.2, while Table I.3 contains information on actual and forecast value added shares. In general, differences between actual and forecast shares at the European level were (in an absolute sense) less than $\frac{1}{4}$ percent-point. In many cases, regression results for α and β differ significantly from 1 and 0, but still, these differences are very small. They merely result from the very small standard error of the regression. Therefore, it can be concluded that SEAS gives an adequate description of the development of the size-class structure of non-primary private enterprise.

⁴² Normally, the model is run by adding partially available statistical data. In the present application, however, this was not done. Thus, a strong test of the forecasting ability of SEAS was performed.

Table I.1 Regression results with respect to actual and forecast employment shares (t-values for significance with respect to hypothesised values between parentheses)

	α	β (%)	R^2_{adj}
<i>Industries</i>			
Micro	1.01 (3.1)	-0.05 (0.8)	** 0.99
Small	1.00 (1.3)	* -0.02 (0.5)	** 0.99
Medium-sized	1.00 (0.4)	* -0.02 (1.3)	** 0.99
Large	1.00 (1.2)	* -0.18 (1.9)	** 0.99
<i>Countries</i>			
Micro	0.97 (1.98)	0.58 (1.3)	** 0.99
Small	1.00 (0.0)	* 0.11 (0.4)	** 0.99
Medium-sized	0.96 (1.4)	* 0.11 (1.5)	** 0.99
Large	0.99 (0.4)	* 0.18 (0.4)	** 0.99

* Not different from 1 (95 % confidence level).

** Not different from 0 (95 % confidence level).

Table I.2 Regression results with respect to actual and forecast turnover shares (t-values for significance with respect to hypothesised values between parentheses)

	α	β (%)	R^2_{adj}
<i>Industries</i>			
Micro	1.02 (5.7)	-0.01 (0.1)	** 0.99
Small	1.00 (1.3)	* 0.03 (1.0)	** 0.99
Medium-sized	0.99 (3.0)	0.03 (0.9)	** 0.99
Large	1.00 (2.0)	-0.34 (4.1)	0.99
<i>Countries</i>			
Micro	0.99 (0.8)	* 0.43 (1.1)	** 0.99
Small	1.01 (1.2)	* -0.14 (0.7)	** 0.99
Medium-sized	1.01 (1.8)	* -0.14 (1.5)	** 0.99
Large	1.00 (0.4)	* 0.09 (0.2)	** 0.99

* Not different from 1 (95 % confidence level).

** Not different from 0 (95 % confidence level).

Table I.3 Regression results with respect to actual and forecast value added shares (t-values for significance with respect to hypothesised values between parentheses)

	α	β (%)	R^2_{adj}
<i>Industries</i>			
Micro	1.01 (2.5)	0.03 (0.2)	** 0.99
Small	1.00 (0.7)	* 0.02 (0.5)	** 0.99
Medium-sized	0.99 (1.3)	* 0.02 (0.2)	** 0.99
Large	1.00 (0.4)	* -0.17 (1.2)	** 0.99
<i>Countries</i>			
Micro	0.99 (0.3)	* 0.44 (0.8)	** 0.99
Small	1.00 (0.3)	* -0.01 (0.0)	** 0.99
Medium-sized	0.95 (1.95)	* -0.01 (1.5)	** 0.99
Large	0.99 (0.7)	* 0.30 (0.4)	** 0.99

* Not different from 1 (95 % confidence level).

** Not different from 0 (95 % confidence level).

Appendix II: Definition of industries

<i>Industry</i>	<i>NACE-code</i>	
	<i>(Sub)section</i>	<i>Division</i>
Extraction (incl. energy)	C, E	
• Extraction of energy-producing materials	CA	
— Mining of coal, lignite, peat		10
— Extraction of crude petroleum, natural gas		11
• Other extraction	CB	
— Mining of metal ores		13
— Other mining and quarrying		14
• Electricity, gas and water supply	E	
— Electricity, gas, steam and hot water		40
— Collection, purification and distribution of water		41
Manufacturing	D	
• Manufacture of food products, beverages and tobacco	DA	
— Manufacture of food products and beverages		15
— Manufacture of tobacco products		16
• Manufacture of textiles and textile products	DB	
— Manufacture of textiles		17
— Manufacture of wearing apparel		18
• Manufacture of leather and leather products	DC	19
• Manufacture of wood and wood products	DD	20
• Manufacture of paper, paper products; publishing and printing	DE	
— Manufacture of pulp, paper and paper products		21
— Publishing; printing; reproduction of recorded media		22
• Manufacture of coke, refined petroleum and nuclear fuel	DF	23
• Manufacture of chemicals, chemical products, man-made fibres	DG	24
• Manufacture of rubber and plastic products	DH	25
• Manufacture of other non-metallic mineral products	DI	26
• Manufacture of basic metals and fabricated metal products	DJ	
— Manufacture of basic metals		27
— Manufacture of fabricated metal products		28
• Manufacture of machinery and equipment n.e.c.	DK	29
• Manufacture of electrical and optical equipment	DL	
— Manufacture of office machinery and computers		30
— Manufacture of electrical machinery		31

continued

continued

<i>Industry</i>	<i>NACE-code</i>	
	<i>(Sub)section</i>	<i>Division</i>
— Manufacture of radio, TV and communication equipment		32
— Manufacture of medical, precision and optical instruments		33
• Manufacture of transport equipment	DM	
— Manufacture of motor vehicles, trailers and semi-trailers		34
— Manufacture of other transport equipment		35
• Manufacture of n.e.c.	DN	
— Manufacture of furniture; manufacture of n.e.c.		36
— Recycling		37
Construction	F	45
Wholesale trade	G	51
Retail distribution (incl. car and repair)	G	50,
52		
• Sale and repair of motor vehicles and motorcycles		50
• Retail trade, repair of household goods		52
Transport, communication	I	
• Land transport; transport via pipelines		60
• Water transport		61
• Air transport		62
• Supporting/auxiliary transport activities; travel agents		63
• Post and telecommunication		64
Producer services	J, K	
• Financial intermediation	J	
— Banking, financial leasing		65
— Insurance and pension funding		66
— Activities auxiliary to financial intermediation		67
• Real estate, renting and business activities	K	
— Real estate activities		70
— Renting of machinery and equipment		71
— Computer and related activities		72
— Research and development		73
— Other business activities		74
Personal services	H, N, O	
• Hotels and restaurants	H	55
• Health and social work	N	85
• Other community, social and personal services	O	
— Sewage disposal, sanitation and similar services		90
— Activities of membership organisations n.e.c.		91
— Recreational, cultural and sporting activities		92
— Other service activities		93

Appendix III: Data used in Section 1.4

Data on craft (Section 1.4.1)

Sources enterprise data

Austria	Österreichisches Institut für Gewerbe- and Handelsforschung (Austrian Institute for Small Business Research (IfGH))
Finland	Käsäteollisuuden luonne, ongelmat ja toimenpide-ehdotuksia: työryhmän muistio (The nature and problems of the craft sector and proposals for action; Helsinki, 1995; Pk-yritysbareometri 2/198 (Barometer of the Finnish SME-sector 2/1998; KTM, Kauppa- ja teollisuusministeriö tutkimuksia ja raportteja 16/1998)
Germany	Statistisches Bundesamt; Zentralverband des Deutschen Handwerks
Iceland	National Economic Institute
Liechtenstein	Liechtenstein Office of National Economy
Luxembourg	Chamber of Craft
France	Secretary of State for SMEs, Craft and Trade, except 1998: APCM
Italy	Infocamere; Movimprese
Netherlands	EIM Small Business Research and Consultancy
Spain	Fundacion Espanola para el Fomento de la Artesania, IKEI
Ireland	ESRI, Central Statistics Office
Switzerland	Federal Office of Statistics
United Kingdom	Department of Trade and Industry

Sources employment data

Austria	Österreichisches Institut für Gewerbe- and Handelsforschung (Austrian Institute for Small Business Research (IfGH))
Finland	Käsityöyritysten tila. Vuoden 1998 bareometri. (The state of crafts sector. Barometer for the year 1998; Käsi- ja taideteollisuusliitto ry (The Finnish Crafts Organisation), Helsinki, 1998)
Germany	Statistisches Bundesamt; Zentralverband des Deutschen Handwerks
Iceland	National Economic Institute
Liechtenstein	Liechtenstein Office of National Economy
Luxembourg	Chamber of Craft
France	Secretary of State for SMEs, Craft and Trade, except 1998 APCM
Italy	Infocamere; Movimprese
Netherlands	EIM Small Business Research and Consultancy
Spain	Fundacion Espanola para el Fomento de la Artesania, IKEI
Ireland	ESRI, Central Statistics Office
Switzerland	Federal Office of Statistics
United Kingdom	Department of Trade and Industry

Data on the social economy (Section 1.4.2)

Note: all data were prepared by the partners of the ENSR. As can be seen, in many countries, various sources had to be used for different years, which unfortunately hampers analysis of developments over time.

Sources enterprise data

Austria	1994,	Östat: Statistisches Jahrbuch für die Republik Österreich, various issues; Co-operatives include almost exclusively the members of 4 NUOs; Associations also include organisations with no employees; There is no information on employment in associations; 1994 data for mutuals refer to 1993; 1998 data refer to 1997
	1998	
Belgium	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Data on co-operatives: Belgian National Institute for Statistics, 1996; mutuals: Craydon, 1996; S. Mertens, S. Adam, J. Defourny, M. Marée, I. Vandeputte: De private non-profit sector in België (The private non-profit sector in Belgium, May 1999; these data refer to 1995)
Denmark	1994	Co-operatives: Danish Statistics: General erhvervsstatistik og handel 1995:5 and 1995:8; mutuals: Dansk Forsikrings Arbog 1995; 1994 data refer to 1993
Finland		Suomen patentti- jarekisterihallitus (National Board of Patents and Registration of Finland, 1999)
France	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives and associations: INSEE (Fichier SIRENE, 1996; data refer to 1996); data for mutuals: GEMA, CNCMA, FNMF, MSA
Germany	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996 (excluding Neue Bundesländer)
	1994	DG Bank: Die deutschen Genossenschaften 1994 (Bericht)
	1998	DG Bank: Die deutschen Genossenschaften 1998 (Bericht)
Greece	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	Department of Land Planning Engineers and Regional Development (Thessalia University): Establishment and organisation of a national union of Social Economy Organisations: a research project on organisations, members and activities in the Social Economy in Greece and developing a database, Volume A (data refer to 1997)
Ireland	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	(Data refer to 1995): co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
	1998	Co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
Italy	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	A. Prattichizzo, Universita Cattolica del Sacro Cuore, Piacenza, 1996; data based on available statistics referring to NUOs: UNCI, CCI, LEGA, AGCI
	1998	Italian Ministry of Labour; IREF: L'imprenditorialità Solidale (Rome, 1998); data refer to 1996

Luxembourg	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: STATEC; mutuals: Higher Council of Mutuals
Netherlands	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Trade register Chambers of Commerce
	1998	P.H.M. Ruys: The enterprises and organisations of the Third System: a strategic challenge for employment (National Report The Netherlands (Tilburg University, September 1999); data refer to 1997
Portugal	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: IINSCCP; mutuals and NPOs: Estrutura Empresarial, 1993; database Ministry of Employment (all data refer to 1993)
Spain	1990	Barea & Monzón: Las Cifras Clave de la Economía Social en España (Key Figures for the Social Economy in Spain; CIRIEC-España, Madrid, 1993)
	1994	Confederación Empresarial Española (CEPES), from data supplied by the Ministry of Labour and the Ministry of Home Affairs (data refer to 1995, and include Labour Limited Liability companies)
Sweden	1994	Co-operatives: KOOPI (data refer to 1995); NPOs: F. Wijkström (Stockholm Business School; data refer to 1992)
United Kingdom	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	UK Co-operative Union; UK Social Economy Forum; Charity Commission
Iceland		K. Sigurröson: The co-operative college of Iceland, 1996
Liechtenstein	1994	Co-operatives: Betriebszählung 1985, adapted for 1994; NPOs: based on a list of associations, 1995; mutuals: IGW
Norway	1994	Statistics Norway
	1998	Statistics Norway (data refer to 1996)
Switzerland	1990	Co-operatives: Statistisches Jahrbuch (SHAB)
	1994	Co-operatives: Statistisches Jahrbuch (SHAB)

Sources employment data

Austria	1994,	Östat: Statistisches Jahrbuch für die Republik Österreich, various issues; Co-operatives include almost exclusively the members of 4 NUOs; Associations also include organisations with no employees; There is no information on employment in associations; 1994 data for mutuals refer to 1993; 1998 data refer to 1997
	1998	
Belgium	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: Belgian National Institute for Statistics, 1996; mutuals: Craydon, 1996; S. Mertens, S. Adam, J. Defourny, M. Marée, I. Vandeputte: De private non-profit sector in België (The private non-profit sector in Belgium, May 1999; these data refer to 1995)
Denmark	1994	Co-operatives: Danish Statistics: General erhvervsstatistik og handel 1995:5 and 1995:8; mutuals: Dansk Forsikrings Arbog 1995; 1994 data refer to 1993

Finland	1991	Hietala, Kari: Kolmas sektori potentiaalisenä työllistäjänä (The third sector as a potential employer; Helsinki, 1997)
	1994	Helander, Voitto: Kolmas sektori: Käsiteistöä, ulottuvuuksista ja tulkintoita (The third sector: terminology, dimensions and interpretations; Saarijärvi, 1998)
France	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives and associations: INSEE (Fichier SIRENE, 1996; data refer to 1996); mutuals: GEMA, CNCMA, FNMF, MSA
Germany	1990	1990: Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996 (excluding Neue Bundesländer)
	1994	DG Bank: Die deutschen Genossenschaften 1994 (Bericht)
	1998	DG Bank: Die deutschen Genossenschaften 1998 (Bericht); E. Priller, A. Zimmer, H.K. Anheier: Der dritte Sektor in Deutschland, in: Aus Politik und Zeitgeschichte, B9/99
Greece	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	Department of Land Planning Engineers and Regional Development (Thessalia University): Establishment and organisation of a national union of Social Economy Organisations: a research project on organisations, members and activities in the Social Economy in Greece and developing a database, Volume A (data refer to 1997)
Ireland	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	(Data refer to 1995): co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
	1998	Co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
Italy	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	A. Prattichizzo, Università Cattolica del Sacro Cuore, Piacenza, 1996; data based on available statistics referring to NUOs: UNCI, CCI, LEGA, AGCI
	1998	Legacoop and Confcooperative (data refer to 1997); L'imprenditorialità Solidale (Rome, 1998; data refer to 1996)
Luxembourg	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: STATEC; mutuals: Higher Council of Mutuals
Netherlands	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Trade register Chambers of Commerce
Portugal	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: IINSCCP; mutuals and NPOs: Estrutura Empresarial, 1993; database Ministry of Employment (all data refer to 1993)
Spain	1990	Barea & Monzón: Las Cifras Clave de la Economía Social en España (Key Figures for the Social Economy in Spain; CIRIEC-España, Madrid, 1993)

	1994	Confederación Empresarial Española (CEPES), from data supplied by the Ministry of Labour and the Ministry of Home Affairs (data refer to 1995, and include Labour Limited Liability companies)
Sweden	1994	Co-operatives: KOOPI (data refer to 1995); NPOs: F. Wijkström (Stockholm Business School; data refer to 1992)
United Kingdom	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	UK Co-operative Union; UK Social Economy Forum; Charity Commission
Iceland		K. Sigurröson: The co-operative college of Iceland, 1996
Liechtenstein	1994	Mutuals: IGW
Norway	1994	Statistics Norway
	1998	Statistics Norway (data refer to 1996)
Switzerland	1990	Co-operatives: Statistisches Jahrbuch (SHAB)
	1994	Co-operatives: Statistisches Jahrbuch (SHAB)

Sources members data

Austria	1994, 1998	Östat: Statistisches Jahrbuch für die Republik Österreich, various issues; Co-operatives include almost exclusively the members of 4 NUOs; Associations also include organisations with no employees; There is no information on employment in associations; 1994 data for mutuals refer to 1993; 1998 data refer to 1997
Belgium	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	KMO; data on co-operatives: Belgian National Institute for Statistics, 1996; mutuals and associations: Craydon, 1996
Denmark	1994	Co-operatives: Danish Statistics: General erhvervsstatistik og handel 1995:5 and 1995:8; mutuals: Dansk Forsikrings Arbog 1995; 1994 data refer to 1993
Finland	1991	Hietala, Kari: Kolmas sektori potentiaalisenä työllistäjänä (The third sector as a potential employer; Helsinki, 1997)
	1994	Helander, Voitto: Kolmas sektori: Käsityöstä, ulottuvuuksista ja tulkinnoita (The third sector: terminology, dimensions and interpretations; Saarijärvi, 1998)
France	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives and associations: INSEE (Fichier SIRENE, 1996; data refer to 1996); data for mutuals: GEMA, CNCMA, FNMF, MSA
Germany	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996 (excluding Neue Bundesländer)
	1994	DG Bank: Die deutschen Genossenschaften 1994 (Bericht)
	1998	DG Bank: Die deutschen Genossenschaften 1998 (Bericht)
Greece	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	Department of Land Planning Engineers and Regional Development (Thessalia University): Establishment and organisation of a national union of Social Economy Organisations: a research project on organisations, members and activities in the Social Economy in Greece and developing a database. Volume A (data refer to 1997)

Ireland	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	(Data refer to 1995): co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
	1998	Co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
Italy	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	A. Prattichizzo, Università Cattolica del Sacro Cuore, Piacenza, 1996; data based on available statistics referring to NUOs: UNCI, CCI, LEGA, AGCI
	1998	Legacoop and Confcooperative (data refer to 1997)
Luxembourg	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: STATEC; mutuals: Higher Council of Mutuals
Netherlands	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Trade register Chambers of Commerce
Portugal	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: IINSCCP; mutuals and NPOs: Estrutura Empresarial, 1993; database Ministry of Employment (all data refer to 1993)
Spain	1990	Barea & Monzón: Las Cifras Clave de la Economía Social en España (Key Figures for the Social Economy in Spain; CIRIEC-España, Madrid, 1993)
	1994	Confederación Empresarial Española (CEPES), from data supplied by the Ministry of Labour and the Ministry of Home Affairs (data refer to 1995, and include Labour Limited Liability companies)
Sweden	1994	Co-operatives: KOOP (data refer to 1995); NPOs: F. Wijkström (Stockholm Business School; data refer to 1992)
United Kingdom	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	UK Co-operative Union; UK Social Economy Forum; Charity Commission
Iceland		K. Sigurröson: The co-operative college of Iceland, 1996
Liechtenstein	1994	Mutuals: IGW
Norway	1994	Statistics Norway
	1998	Statistics Norway (data refer to 1996)
Switzerland	1990	Co-operatives: Statistisches Jahrbuch (SHAB)
	1994	Co-operatives: Statistisches Jahrbuch (SHAB)
<i>Source economic size data</i>		
Austria	1994,	Östat: Statistisches Jahrbuch für die Republik Österreich, various issues; co-operatives include almost exclusively the members of 4 NUOs; associations also include organisations with no employees; 1994 data for mutuals refer to 1993, 1998 data refer to 1997
	1998	
Belgium	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996

	1994	Co-operatives: Belgian National Institute for Statistics, 1996; mutuals and associations: Craydon, 1996
Denmark	1994	Co-operatives: Danish Statistics: General erhvervsstatistik og handel 1995:5 and 1995:8; mutuals: Dansk Forsikrings Arbog 1995; 1994 data refer to 1993
Finland	1994	Helander, Voitto: Kolmas sektori: Käsiteistöä, ulottuvuuksista ja tulkinnoita (The third sector: terminology, dimensions and interpretations; Saarijärvi, 1998)
France	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives and associations: INSEE (Fichier SIRENE, 1996; data refer to 1996); mutuals: GEMA, CNCMA, FNMF, MSA
Germany	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996 (excluding Neue Bundesländer)
	1994	DG Bank: Die deutschen Genossenschaften 1994 (Bericht) (including Neue Bundesländer)
	1998	DG Bank: Die deutschen Genossenschaften 1998 (Bericht) (including Neue Bundesländer)
Greece	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	Department of Land Planning Engineers and Regional Development (Thessalia University): Establishment and organisation of a national union of Social Economy Organisations: a research project on organisations, members and activities in the Social Economy in Greece and developing a database, Volume A (data refer to 1997)
Ireland	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	(Data refer to 1995): co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
	1998	Co-operatives restricted to members of NUOs: ILCU, ICOS, CDS, IFWC, NABC; non-profit: members of IBSA, ICSH
Italy	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	A. Prattichizzo, Università Cattolica del Sacro Cuore, Piacenza, 1996; data based on available statistics referring to NUOs: UNCI, CCI, LEGA, AGCI
	1998	Legacoop and Confcooperative (data refer to 1997)
Luxembourg	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: STATEC; mutuals: Higher Council of Mutuals
Netherlands	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Trade register Chambers of Commerce
Portugal	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1994	Co-operatives: Instituto António Sérgio para o Sector Cooperativo (INSCCP); mutuals and NPOs: Estrutura Empresarial, 1993; database Ministry of Employment (all data refer to 1993)

Spain	1990	Barea & Monzón: Las Cifras Clave de la Economía Social en España (Key Figures for the Social Economy in Spain; CIRIEC-España, Madrid, 1993)
	1994	Confederación Empresarial Española (CEPE), from data supplied by the Ministry of Labour and the Ministry of Home Affairs (data refer to 1995, and include Labour Limited Liability companies)
Sweden	1994	Co-operatives: KOOP (data refer to 1995); NPOs: F. Wijkström (Stockholm Business School; data refer to 1992)
United Kingdom	1990	Eurostat: The co-operative, mutual and non-profit sector in the European Union, 1996
	1998	UK Co-operative Union; UK Social Economy Forum; Charity Commission
Iceland		K. Sigurröson: The co-operative college of Iceland, 1996
Liechtenstein	1994	Mutuals: IGW
Norway	1994	Statistics Norway
	1998	Statistics Norway (data refer to 1996)
Switzerland	1990	Co-operatives: Statistisches Jahrbuch (SHAB)
	1994	Co-operatives: Statistisches Jahrbuch (SHAB)

**PART II THE BUSINESS
ENVIRONMENT
AND BEHAVIOUR
OF SMEs**

2 The functioning of the markets for products and services

Co-ordinated by EIM Small Business Research and Consultancy

MAIN POINTS

- Regulatory reform can work out very differently for different groups of firms, hence regulatory reform can affect small and large firms very differently.
- Specific effects of regulatory reform on SMEs are: that regulation may hamper their flexibility which is one of their strengths; that regulation can lead to administrative burdens which are disproportionate to SMEs; that SMEs face less qualified competitors when entry barriers are lowered so that self-regulation has to be set up and that regulation is often followed by mergers and acquisitions so that SMEs face larger firms with more market influence.

Liberalisation of opening hours for retail shops (case study of recent deregulation)

- Most countries in the EEA and Switzerland deregulated the opening hours for retail shops, a few regulated the already quite free opening hours.
- Most changes have taken place in the food sector, in which the competing patterns have changed considerably. The restructuring is still ongoing.
- Large shops profit most, whereas small shops suffer. The deregulation appears to accelerate the diminishing of the market share of SMEs.
- A small number of countries discriminate in favour of small food shops by allowing them longer opening hours than other shops.
- In most countries the regulatory reform in the opening hours of retail shops aimed at improving consumers' welfare has influenced SMEs negatively.

Opening-up of the market for public procurement (case study of recent regulation)

- One third of the SMEs in the EEA and Switzerland are aware of the possibilities of public procurement for enterprises like themselves. One third also see more opportunities due to the opening up of the market for public procurement.
- A considerable share of all public tender procedures is won by European SMEs.
- A lot of barriers are still hampering SMEs despite the actions already taken.
- Lack of information is the largest problem, however, this barrier seems to be less important if a high percentage of employees within an enterprise has direct access to the Internet.
- Once the information gap is filled, other barriers appear: projects too large for SMEs, high administrative burdens, and high costs of preparing a bid.

2.1 Introduction

In this chapter the impact of regulatory reform on SMEs will be considered. In practice, the following three types of regulation¹ can be distinguished: economic regulation, social regulation and administrative regulation². Social regulations protect public interests such as health, safety, the environment, and social cohesion. Administrative regulations including paperwork and administrative formalities are procedures through which governments collect information and intervene in individual economic decisions.³ Both social regulation and administrative regulation have been studied in earlier Observatory reports. This chapter will focus on *economic regulation* only. Economic regulations intervene directly in market decisions such as pricing, competition and market entry or exit. Economic reform aims to increase economic efficiency by reducing barriers to competition and innovation, often through deregulation and the use of efficiency-promoting regulation, and by improving regulatory frameworks for market functioning and accessibility.⁴ In this context, the term deregulation refers to the elimination of specific regulations. Inappropriate regulation is likely to lead to higher prices, misallocation of resources, higher costs, lack of product innovation and poor service quality.⁵

This chapter focuses on the specific effects SMEs face when markets are regulated or deregulated. To be more precise, the following research questions will be investigated:

1. What are the effects of regulatory reform on enterprises in general, and on SMEs in particular?
2. What impact do recent regulations and deregulations have on SMEs? The answer to this question will be based on two case studies.
3. What can be learned for future policy issues?

2.2 Effects of regulatory reform

Regulatory reform can have different effects on the economy as a whole, on private enterprises, and on SMEs in particular. In this section these different effects will be discussed briefly.

2.2.1 Effects on economic growth

Nowadays it is broadly acknowledged that well-functioning markets for products and services contribute to economic growth. In an empirical study,⁶ data from 11 European countries is used to show that deregulation of the markets for products and services as well as that of labour markets, has a positive impact on economic

¹ The word regulation as used in this chapter does not refer to an official Regulation adopted by the European Council.

² OECD, Regulation and industrial competitiveness: a perspective for regulatory reform, OECD Working Paper No. 74, Paris, 1997.

³ OECD, The OECD Report on regulatory reform; syntheses, Paris, 1997.

⁴ European Commission, Economic reform: Report on the functioning of Community product and capital markets, presented by the Commission in response to the conclusions of the Cardiff European Council, Com (99) 10 final; OECD, The OECD Report on regulatory reform; syntheses, Paris, 1997.

⁵ OECD, The economy-wide effects of regulatory reform, Paris, 1997.

⁶ Koedijk, K., and J.J.M. Kremers, Market opening, regulation and growth in Europe, Economic Policy, 23, 1996, 443-467.

growth⁷. Product market deregulation has the largest effect: its influence on growth is roughly twice that of labour market deregulation, and its statistical significance is more convincing. So, dynamic product markets are an important ingredient for a well-functioning economy.

Regulatory reform is expected to yield benefits by improving both the static efficiency (resource allocation) and the dynamic efficiency (innovation, new products and services). In the US, regulatory reform has already been going on for decades. The long-term effects of some sectoral regulatory reforms were investigated extensively. Studies⁸ concluded that both consumers and producers have benefited from the combination of increased competition, improved productivity, new product and process innovations, new market opportunities and considerable downward pressure on prices. It seems clear that both static and dynamic efficiency has increased.

Assessment by the OECD⁹ of the economic effects of regulatory reform demonstrates that regulatory reform leads to additional productivity increases (i.e. that cannot be attributed to other factors). The effects on GDP are positive, those on employment are almost zero (although labour flows become more dynamic) and real wages increase.

2.2.2 Effects on enterprises

Regulatory reform seems to be favourable for the macro-economy but what are the effects on private enterprises? Regulatory reform can affect the competitive position of private enterprises in several ways. It can have an impact on the entrance of enterprises e.g. abolishment of business licences, on their price setting e.g. liberalisation of prices, on their innovativeness e.g. European product specifications and standardisation, on their costs e.g. liberalisation of telecommunication and energy prices, and on their turnover e.g. regulation of public procurement. Depending on the exact regulation or deregulation and the position of the enterprise in the market, these effects can be positive or negative for that enterprise.

However, not all regulations and deregulations are aimed at improving the welfare of the producers. There is also regulation and deregulation aimed at stimulating the welfare of consumers and economic growth in general such as the liberalisation of the shopping hours. Such regulations and deregulations might have, especially in the short run, a negative impact on enterprises.

2.2.3 Specific effects on SMEs

In general, regulatory reform aims to reduce business burdens, increase the transparency of markets, offer new possibilities for enterprises, support market entry, entrepreneurship and growth of SMEs. However, specific regulation and deregulation can work out differently for large and small enterprises operating in the same market. Some specific effects for SMEs are:

⁷ This result is confirmed by a study comparing statistical models for 9 countries: Bergeijk, Peter van, *Marktwerking en de macro-economie* (Market competition and the macro-economy), *Tijdschrift voor Politieke Economie*, 20, 2, 1997, 44-56.

⁸ Winston, Clifford, *Economic deregulation: days of reckoning for micro economists*, *Journal of Economic Literature*, 1993, 1263-1289; Winston, Clifford, *US industry adjustment to economic deregulation*, *Journal of Economic Perspectives*, 12, 3, 1998, 89-110.

⁹ OECD, *The OECD report on regulatory reform*, vol. II: Thematic studies, Paris, 1997.

- The OECD states that regulation often hampers SMEs' competitiveness since flexibility is one of SMEs' strengths and this is not allowed by the (non-flexible) regulation.
- Regulation can lead to administrative burdens which are disproportionate to SMEs because most administrative burdens are fixed costs.
- Lowering entry barriers to product and service markets (deregulation) can have, in the short run, negative effects for existing SMEs since they have to face more and/or less-qualified competitors. As a reaction they may feel forced to set up systems for self-regulation¹⁰.
- Deregulation in sectors is often followed by a restructuring of the sector during which a lot of mergers and acquisitions take place.¹¹ As a consequence the concentration in the market increases and SMEs have to face larger firms with more market influence than before. One reaction of the SMEs is that they look for ways of collaboration, which involves considerable transaction costs for the entrepreneur.

Since specific regulations and deregulations can have very different effects, the effects for SMEs, as compared with their larger counterparts, of regulatory reform will be described below in more detail, considering two case studies. The first case study focuses on the impact of a deregulation aimed at enhancing the consumer welfare and economic growth, i.e. the liberalisation of opening hours in retail shops. How does this regulation affect the enterprises, and the SMEs in particular? The second case study shows the effects of a regulation aiming at, amongst other things, improving the entry of enterprises to the market and increasing the transparency of the market: the opening-up of the market for public procurement.

2.3 Impact of recent deregulation on SMEs: liberalisation of opening hours for retail shops

In this section the liberalisation, i.e. extending, of the opening hours for retail shops will be considered, as an example of deregulation which is going on now in a lot of countries in the EEA and Switzerland. Liberalisation of the opening times meets a demand made by social developments like increasing labour participation of women, changing family structures, flexible working times and the '24 hour' economy. Hence, consumer welfare is expected to increase when opening hours of shops are extended.

The description and results presented in this section are based on national and international empirical (evaluation) studies on the effects of the extending of opening hours for shops, as well as on information emerging from in-depth interviews, with experts on the liberalisation of opening hours of an SME-association, of a trade association and with an entrepreneur of a small food shop, carried out in each of the 19 countries covered by this report. Questions to be answered in this section are: what are the actual effects on SMEs? To what extent

¹⁰ De Boer, J. de, Markt, MKB en overheid (Market, SMEs and Government), Economisch Statistische Berichten, 1998, 24-27.

¹¹ De Boer (1998), Winston (1998) and H.W. De Jong, Meer markt, meer welzijn? (More market, more welfare?), Economisch Statistische Berichten, Dossier MDW, June, 1998.

do SMEs profit from the deregulation? Before answering these questions, an overview will be given of the recent changes in the opening hours of shops in the different countries.

2.3.1 Situation in the EEA and Switzerland

Sweden has long been seen as the example of liberalisation of the opening times of shops in Europe since it has permitted unregulated shopping hours for quite a long period (since 1972). Empirical and statistical studies¹² indicate that the turnover and profits have risen, employment and labour productivity have increased, prices have decreased slightly, and that the percentage of shops lengthening their opening hours has increased over the years. The retail sector has had the time to restructure, however, the current situation has not been investigated extensively in the last ten years. Only recently a poll survey was carried out¹³: 43 % of all the food shops were open more than 70 hours per week.

Table 2.1 presents a short characterisation of recent changes in the legal opening hours of retail shops in all countries considered. It shows that the opening times have been extended quite recently in a large number of countries (the regulations started in 1992). However, in some countries, i.e. Spain and Norway, the opening times, which were already quite free, were restricted. Also, in some countries, Belgium, Ireland and Sweden, no recent important changes have taken place. In the two latter countries the opening times were already completely free. This year Ireland and Sweden have been joined by Iceland where all regulations on opening times disappeared.

General remark: on Sundays a lot of activities like tourist shops, bakeries, restaurants are allowed.

So, in most countries there is a tendency to extend the opening times (deregulation), but some countries in which the opening times were quite free, show a contrasting trend (regulation). This is due to:

- New labour laws, discussions with and pressure from labour unions (Norway);
- The considerable loss of market share and number of small retailers¹⁴ in comparison to the new emerging large shopping centres (Spain);¹⁵
- Trying to compensate for the disadvantage of small retailers as compared to the larger ones, by allowing small shops more freedom in opening times than larger shops (Norway). Similar regulations have come into effect, together with a general deregulation, in Portugal, the United Kingdom and Denmark: allowing large shops to be open for certain hours at the weekends/Sundays only, whereas very small shops have free opening times on these days.

¹² For example: Gradus, R.H.J.M., The economic effects of extending shop opening hours, *Journal of Economics*, 64, 1996, 247-263; Civildepartement, *Betänkande av 1989 års affärstidsutredning* (1989 Report of the Committee on opening hours), Stockholm, 1991; Pilat, Dirk, *Regulation and performance in the distribution sector*, Economics Department Working Papers, 180, OECD, Paris, 1997.

¹³ By Delfi Marknadspartner, summarised in the *Svenska Dagbladet* in July, 1999.

¹⁴ Cruz, Roche I., and Orta O. Medina, *Regulación de horarios de apertura: implicaciones económicas* (Regulation of opening hours: economic implications), *Informacion Comercial Espanola*, 739, March, 1995.

¹⁵ In 1999 in France new discussions started regarding the development of the huge number of very large supermarkets which has a negative effect on small shops. Measures are taken to discourage the creation of new supermarkets.

Table 2.1 Short characterisation of recent changes in legal opening hours of retail shops (between brackets: date new law), in the countries of the EEA and Switzerland

<i>Country</i>	<i>Short characterisation (date new law)</i>
Austria	max. number of hrs. increased (from 60 to 66); Saturday afternoon allowed now; Sunday still closed (Jan. 1997)*
Belgium	no change since 1977** (05.00-20.00 all days); Sunday still closed
Denmark	24 hrs. per day, Saturday afternoon allowed now; Sunday still closed; small shops have completely free times (July 1995)***
Finland	1 hr. later on week days; 1 hr. earlier on Saturday; Sunday allowed in Summer (April 1997)
France	5 Sundays a year (by Labour Law Dec. 1993); other days 24 hrs. (no change since 1936)
Germany	max. number of hrs. increased (from 83-94); 2 hrs. more on Saturday and 1.5 hrs more on Monday till Friday. Sunday still closed (Nov. 1996)
Greece	specified for each category/region; in general more hrs. all days; Sunday still closed (July 1994)
Ireland	no change: there is no regulation at all: 24 hrs. 365 days allowed
Italy	2 or 3 hrs. more all days; Sunday still closed (April 1999)
Luxembourg	1 hr. later on week days in Winter; Sunday morning was already allowed (June 1995)
Netherlands	3.5 hrs. more on week days; 4 hrs. more on Sat.; now 12 Sundays a year (June 1996)
Portugal	from 06.00 to 24.00 hrs. all days; also on Sunday but large shops only on Sunday morning (May 1996)
Spain	there was no regulation at all; now max. 72 hrs. a week and only 8 holidays and/or Sundays per year allowed (1996)
Sweden	no change: there has been no regulation at all since 1972 (24 hrs. all days allowed)
United Kingdom	24 hrs. all days allowed; also on Sun. but large shops only 6 hrs. on Sunday (Aug. 1994)
Iceland	now there is no regulation at all (before not allowed during nights) (Jan. 1999)
Liechtenstein	max. number of hrs. increased (from 64.5 to 90); 3 hrs. more on week days; 0.5 hrs. more on Saturday; opening on Sundays is possible (March 1992)
Norway	now regulated at country level; 1 hr. more on week days; Sunday still closed; very small shops are allowed to be open on Sundays (Jan, 1994)
Switzerland	different deregulations in all Cantons (in some the population has to vote on it); still closed on Sundays (with certain exceptions) (1998-1999)

* Head of province can decree other opening hours, e.g. for small family business up to 80 hours per week.

** However, more regulation came in for night shops.

*** No restrictions at all for shops with turnover below 1.8 million euro and shops selling primarily grocery products.

Source: ENSR-partners, 1999.

General remark: on Sundays a lot of activities like tourist shops, bakeries, restaurants are allowed.

'24 hour'-shopping on weekdays was already possible in France, Ireland, Spain and Sweden, and has become possible, due to deregulation, in the United Kingdom, Iceland and Denmark. Despite the recent deregulations in a lot of countries, shops are still closed on Sundays in most countries, except many exemptions (petrol stations, bakeries, restaurants, flower shops, tourist shops, tourist cities, etc.), and

a targeted number of Sundays (Finland, France, Netherlands, Spain).¹⁶ Consumers can do all their shopping every Sunday in countries like Ireland, Sweden, Iceland, Liechtenstein and Luxembourg (mornings only).

2.3.2 Reaction of enterprises to the new opportunities

Extending of opening times on week days

In almost all countries in which the opening times were extended on week days, it appears that the effects in the food sector are the largest¹⁷, and that the share of retailers making use of the extended opening times increases with firm size.¹⁸ In the Netherlands an empirical study adds that there is also a relationship to the form of ownership; self-employed participate less in the extended opening times than chain stores.¹⁹

Evaluation studies presenting the percentage of retailers making use of the extended opening times in each country are scarce. In Germany 39 %, in Switzerland 44 %, in the Netherlands 26 % and in Austria 35 % of the retailers use the new opening times²⁰. Although percentages vary by country they show that the majority of the shops has not lengthened their opening times.

In general, the shops in rural areas and small cities make less use of the possibilities to be open longer. This is mainly related to the local consumer patterns not requesting extended opening times.

Extended opening hours on Sundays

In summer in Finland, shops are allowed to be open on Sundays: in 1998 72 % of the retailers made use of this possibility²¹. A lot of consumers seem to like recreational shopping. Small retailers seem to use the new opening times on Sunday more than on week days. In Liechtenstein especially the food shops attract Sunday shoppers. In Portugal, where the small shops are allowed to be open for more hours than the large shops at the weekend, small shops are gradually beginning to use this possibility but still the number is small.

¹⁶ In almost all countries opening on a number of Sundays around holidays is allowed too.

¹⁷ In the United Kingdom and the Netherlands do-it-yourself markets are using the longer opening times extensively too.

¹⁸ Amongst others: Halk, Karin, and Uwe Täger, Neuer Ladenschluß: Reaktionen des Handels (New opening times: reactions of retailers), Ifo Schnelldienst, 52, January, 1999; Kajalo, Sami, Laajempien aukiolomahdollisuuksien käyttö päivittäistavara kaupassa (Use of more flexible opening hours in the daily consumer goods business), Studies and reports, Ministry of Trade and Industry, 2, 1999; KPMG, BEA and GfK Nederland, Effecten van de Winkeltijdenwet (Effects of the shop-hours act), Hoofddorp, 1988; Beeckman, Duncan, Ben Crum and Cornelis van der Werf, Effecten nieuwe Winkeltijdenwet op de detailhandel (Effects new shop-hours act on retail), HBD, Den Haag, 1998; Inderbitzin, Werner, and Martin Hoch, Wirtschaftliche Folgen der Liberalisierung der Ladenöffnungszeiten in der Schweiz, Schlussbericht, BWA Schriftenreihe, Beiträge zur Arbeitsmarktpolitik, No. 11, Bundesamt für Wirtschaft und Arbeit, Bern, 1998; Burger, Christina, Auswirkungen der Liberalisierung der Ladenöffnungszeiten (Effects of the liberalisation of shop opening hours), Bundesministerium für wirtschaftliche Angelegenheiten, Vienna, 1998.

¹⁹ KPMG, BEA and GfK Nederland, Effecten van de Winkeltijdenwet (Effects of the shop-hours act), Hoofddorp, 1988.

²⁰ See the previous footnote for the references.

²¹ Kajalo, S., Laajempien aukiolomahdollisuuksien käyttö päivittäistavara kaupassa (Use of more flexible opening hours in the daily consumer goods business), Ministry of Trade and Industry, 1999.

2.3.3 Effects on turnover and employment for SMEs

Effects of the liberalisation of the opening hours on turnover and employment for the whole retail sector are difficult to assess. In some countries (e.g. Finland) the effects are said to be almost non-existent. The turnover is distributed differently over the week now, and since labour costs increase relatively more (especially on Sundays) than the sales, most small retailers use family members instead of hiring personnel (a social disadvantage for the retailers and their families). In Germany there is no evidence that changes in turnover are the result of extending opening hours; it is rather the economic situation that has an impact on the development of turnover.²² An empirical study in Austria²³ shows that the turnover of the shops using extended opening times grew more than that of shops not making use of the possibility to open longer. In the Netherlands, 10 % of the shops using the new opening hours say that they have extra turnover.²⁴ Trying to assess the effects for small shops, the studies (confirmed by interviews) undoubtedly show that the small shops lose market share due to deregulation and that a lot of small shops exit the market. However, in many countries this tendency was already apparent, especially in the speciality goods²⁵, and has been accelerated by the deregulations.

The division of labour changes according to the new structure in the retail sector. In general, it seems that small shops reduce jobs (small shops have difficulty in paying additional workers since the costs are higher than the extra earnings, meaning that the entrepreneur and his family have to make longer working weeks), that larger (food) shops need more employees, and that more part-time jobs are created. The net effect of all these changes for the whole sector is difficult to assess. However, some investigators tried to: in Switzerland the total employment increase is estimated to be 1.4 %²⁶, in Austria the total employment is estimated to be unchanged, and in the Netherlands a study shows that full-time employment decreases in the entire retail sector, which is more than compensated for these shops taking advantage of extended opening times by part-time employment. In Germany almost the same holds: in the retail sector as a whole the total number of employees decreased, while the number of marginal workers (without social insurance contributions) increased up to the end of 1998²⁷, however, since 1999 these marginal workers have had to pay social insurance contributions by new regulation, leading to a decrease in the number of marginal workers.²⁸

Small shops located in a shopping centre or near a railway station, however, are able to profit from the new opening times.

²² Halk, Karin, and Uwe Träger, *Wie wirkt das neue Ladenschlußgesetz auf den Einzelhandel. Erste Ergebnisse einer Befragung des Ifo-Instituts*, Ifo Schnelldienst, 52, Januar 1999.

²³ Wirtschaftskammer Niederösterreich, *Öffnungszeitenbefragung 1998 (Survey on shop opening hours 1998)*, Vienna, 1998.

²⁴ Beeckman, Duncan, Ben Crum and Cornelis van der Werf, *Effecten nieuwe Winkeltijdenwet op de detailhandel (Effects new shop-hours act on retail)*, HBD, Den Haag, 1998.

²⁵ European Commission, *Retailing in the European Single Market 1993*, Brussels, 1993; Baily, M.N., *Competition, regulation and efficiency in service industries*, Brookings Paper on Economic Activity, Microeconomics, 2, 1993.

²⁶ Inderbitzin, Werner, and Martin Hoch, *Wirtschaftliche Folgen der Liberalisierung der Ladenöffnungszeiten in der Schweiz*, Schlussbericht, BWA Schriftenreihe, Beiträge zur Arbeitsmarktpolitik, No. 11, Bundesamt für Wirtschaft und Arbeit, Bern, 1998.

²⁷ Müller-Hagedoorn, Lothar, Andreas Kaapke and Max R. Wenzlitschke, *Ladenschlußgesetz - Was sagt der Fachhandel? (Opening times - what do the specialist shops say?)*, Mitteilungen des Instituts für Handelsforschung an der Universität zu Köln, 3 March 1997.

²⁸ A rough estimate is that around 100 000 part-time jobs have disappeared in the first half of 1999. See Huber, B., *630-DM-Verträge: Eine Reform gegen mehr Beschäftigung (630-DM-contracts: A counterproductive reform for additional employment)*, Wirtschaftswissenschaftliches Studium, 29 August 1999.

2.3.4 Negative effects for SMEs

The national empirical studies reveal the following negative effects, which were confirmed by the in-depth interviews with experts on the liberalisation of opening hours of: an SME association, a trade association and an entrepreneur of a small food shop, regarding deregulation for small shops:

- Small shops are forced to extend their opening hours to maintain their competitive position and market share vis-à-vis the larger shops.
- There is a social disadvantage for small retailers and their families since they have to work longer hours themselves.
- Due to stronger competition and decreasing profitability, small shops disappeared or were taken over by large chain stores e.g. franchised²⁹.
- Large enterprises are more able to take advantage of extended opening times since they have a greater managing capacity, like organising job rotation shifts and pools of part-time workers. Small shops simply cannot pay an extra employee and/or small speciality goods shops cannot hire inexperienced cheap part-timers (e.g. students) since a certain level of experience is needed to serve the customers correctly.

2.3.5 Positive effects or opportunities for SMEs

New entrepreneurship

Theoretically, new entrepreneurship might emerge among the small shopkeepers to compensate for the negative effects: for example, set prices or changes in food assortment depending on the time of day, set up special events in the evening or weekend (e.g. fashion shows, cooking presentations), sell men's' clothes from 16.00-22.00 hrs., open at lunch and dinner time only. In practice these kinds of actions are rarely taken, despite the advice from SME-associations to react to the new developments with new entrepreneurship. Also, the theoretically expected entrance of more ethnic entrepreneurs appears to be non-existent, according to the national and international studies and interviews carried out.

In most countries no additional entry of new enterprises has been noticed. However, in Iceland where opening during the nights is allowed now, 'clock-shops' came in, these open late in the evening and stay open until 10.00 or 11.00 in the morning.

Positive discrimination of small shops

In Denmark small shops have more freedom to set their opening times in the weekends than larger shops. The intended effects of the law were to give small shops an advantage over large shops. In fact, small firms do seem to profit from this law. Approximately 70-85 % of the small shops use the extended opening times at the weekends, leading to more turnover and somewhat more employment (not so much, since most are family enterprises). The employment created consisted mainly of part-time jobs. Also, the exit of small shops decreased from 9 % per year before 1995 to 6 % in 1999. New shops entered the market as a mini-market with a turnover below 1.8 million euro. These are allowed to be

²⁹ This ongoing trend of diminishing market share of SMEs and speciality goods shops is accelerated by the widening of the opening hours.

open during the whole weekend. Since the new law came into effect, the range of products of these mini-markets also increased. The effects on the speciality and non-food shops are much less.

In Norway where very small shops (with less than 100 sq m.) are allowed to have quite free opening times, new 'mini-stores' are being established to cover the market outside the regular opening hours.

2.4 Impact of recent regulation on SMEs: opening-up the market for public procurement

In this section the impact of a relatively recent regulation³⁰, the opening-up of the market for public procurement, will be considered. For a few years now, Community legislation has stipulated that projects above a certain size contracted out by local, national and European administrations and public bodies have to be made public, so that in principle all enterprises, including SMEs, can tender for these projects. This opening-up of the public procurement market is seen as one of the initiatives enhancing a European Single Market.³¹ That the public procurement market is an important one is shown by the fact that the total EU market in 1997 was about 720 000 million euro, i.e. 11 % of GDP. In most European Union Member States, public procurement purchases are about 10-15 % of GDP.³²

In the tender procedures a distinction can be made between open tenders and restricted tenders. See Box 2.1 for a short description.

The main objectives of introducing the public procurement policy in Europe were, and nowadays still are, to create a more efficient distribution of taxpayers' money ('best value for money'), to support the access of enterprises to the Single Market and to stimulate competition among European enterprises. In November 1996 a Green Paper on public procurement in the European Union was published, discussing some measures to improve the participation of Member States and enterprises in public procurement tenders.³³ In the Green Paper it was stated that at that moment there was insufficient and incomplete implementation of the public procurement EU-Directives by the different Member States, and that the economic impact thus far had been limited. Public procurement should result in savings for contracting entities and new opportunities for enterprises. Also the issue was raised how public procurement policy could be combined with policies related to SMEs. Suppliers, and particularly SMEs, seemed to be unaware of the market opportunities provided by public procurement. The Green Paper has already suggested measures to improve the situation: monitoring the application of the rules (by the Member States), improvement of the access to public procurement information and contracts, training officials on how to use and

³⁰ As noted before, the word regulation as used in this chapter does not refer to an official Regulation adopted by the European Union.

³¹ European Commission, Economic reform: Report on the functioning of Community product and capital markets, presented by the Commission in response to the conclusions of the Cardiff European Council, Com (99) 10 final, 1999.

³² Holden, Paul, and Carlo Dade, SMEs and public procurement: lowering transaction costs to increase participation, Enterprise Research Institute, Washington DC, s.a.

³³ European Commission, Green Paper: Public Procurement in the European Union: Exploring the way forward, COM (96) 583.

Box 2.1 Tendering procedures

Open tender

If a contract is put out to open tender, all suppliers may submit tenders. The tender must be advertised in the Official Journal of the European Communities (OJEC). 52 days must be allowed from the dispatch of the advertisement until the closing date for the receipt of tenders. Under certain conditions it is permitted to invite chosen enterprises to tender.

Restricted tender

If the tender is restricted, only invited suppliers may submit a tender. Advance notice of the tender must be given in the OJEC and a minimum of 37 days must be allowed for suppliers to make a request that they be invited to tender. The list of selected enterprises (short list) can then be prepared, without discrimination. Once the list has been prepared, a written invitation must be sent to the selected suppliers and 40 days must be allowed for the receipt of tenders.

Negotiated contract

Negotiated contracts are only permitted where: (1) open or restricted tender has already been unsuccessful, (2) there is known to be only one supplier, (3) there is extreme urgency which is not the fault of the purchaser, (4) where additional items are required following a recent past contract.

Note:
The tenders are also advertised on CD-ROM and since January 1999 free of charge available on Internet: <http://www.ted.eur-op.eu.int/index2.htm>.

implement public procurement and electronic dissemination of the notifications. Following the reactions and discussions on the Green Paper, the Commission designed measures in 1998, in which special attention is given to SMEs,³⁴ to improve the legislation, to clarify the rules for public procurement³⁵ and to publish the notifications on CD-ROM and the Internet.³⁶

The *effects* of the opening-up of the market for public procurement have not been studied extensively in the countries of the EEA and Switzerland. In many countries no evaluation studies are available as yet. This might be due to the fact that the opening-up of the market for public procurement is rather young and/or so far it has not received very much attention in a number of countries³⁷. The available studies provide scarce insights into the participation and success of SMEs in the international public procurement market in comparison with their larger counterparts. Nevertheless, some national studies produced interesting results, in which special attention is given to the barriers faced by SMEs. These outcomes are

³⁴ European Commission, Public Procurement in the European Union, COM (98) 143 def., March 11, 1998.

³⁵ The Business Dialogue on <http://europa.eu.int/business/en/topics/publicproc/index.html> is a good example.

³⁶ See <http://www.ted.eur-op.eu.int/ojs/html/index.2.htm> (situation on November 22, 1999) for the Tenders Electronic Daily (TED) database.

³⁷ The European Commission states that 'None of the Directives in question can yet be considered to have been fully and correctly implemented by all the Member States' (European Commission, Economic reform: Report on the functioning of Community product and capital markets, presented by the Commission in response to the conclusions of the Cardiff European Council, COM (99) 10 final.

presented below. Since evaluation and national studies are scarce, most of the information presented in the sections below is based on the ENSR Enterprise Survey 1999³⁸. In the survey, a number of questions focused on the participation by and success of SMEs in the public procurement market. Unless mentioned otherwise the figures presented are taken from the ENSR Enterprise Survey 1999.

2.4.1 Awareness of tender procedures among SMEs

The results of the ENSR Enterprise Survey 1999 show that in 1999, on average 30 % of the SMEs is aware of the possibilities for enterprises like themselves to participate in tender procedures for supplying goods, services or construction works to local, national or European administrations and public bodies (see Table 2.2).³⁹ It should be noted however that the majority of enterprises are still not aware. The awareness grows with the enterprise size (see bottom line of Table 2.2). The awareness is the highest among enterprises with 50-249 employees: half of these enterprises know that there are possibilities to participate in tender procedures. Not surprisingly, the awareness is higher in sectors where public tenders play a relatively important role. The enterprises in the construction sector (41 %), the banking and finance sector (37 %) and manufacturing industry (37 %) are most aware of the opportunities to tender. On the other side, the repair sector scores low with 20 % (see last column of Table 2.2).

Table 2.2 Percentages of enterprises being aware of the possibilities of public tender procedures for enterprises like themselves, by sector and enterprise size, Europe-19

Sector	Number of employees				Total
	0	1-9	10-49	50-249	
Manufacturing industry	35	35	46	50	37
Construction	31	54	52	73	41
Wholesale trade	20	32	43	45	28
Retail trade	15	31	42	31	23
Hotels and catering	n.a.	24	31	43	25
Repair	20	15	n.a.	n.a.	20
Transport and communications	23	40	49	50	30
Banking and finance	n.a.	31	n.a.	76	37
Business services	27	39	53	49	32
Other service industries	20	29	32	39	24
All sectors	24	34	45	50	30

Source: ENSR Enterprise Survey 1999.

Enterprises that were active in export markets in the years 1997-1998 are more aware of the tender procedures than those that did not export: 44 % versus 27 %. Obviously, enterprises having their most important clients, measured in turnover, in the public organisations/non-profit sector are most aware (55 %).

Among the countries of the EEA and Switzerland there are considerable differences in the awareness of the enterprises of the tender procedures. In 1999, Sweden

³⁸ See Annex I to this report: The set-up and analyses of the ENSR Enterprise Survey 1999.

³⁹ There seems to be a statistically significant, positive relation between the awareness among SMEs of public tender procedures and the awareness of support programmes (see Chapter 6).

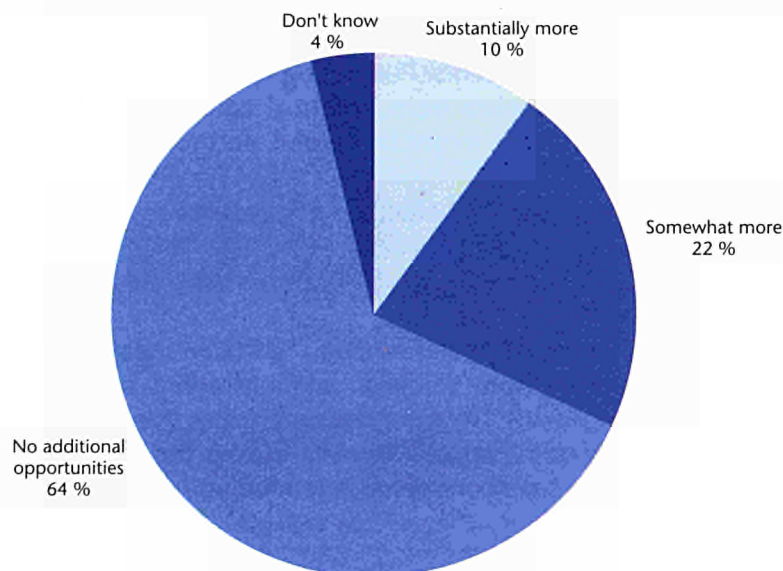
scores highest with 45 % of the enterprises knowing about tender procedures. On the other hand, there are some countries where the large majority of the enterprises are unaware: in Greece, Ireland, Portugal and the Netherlands 80 % or more is unaware of the tender procedures and possibilities. This means that a huge amount of SMEs in the countries considered is not aware of the tender procedures, and hence can be considered as a large potential group to be informed within the coming years. The differences between countries show that the dissemination of information to SMEs varied.

Since electronic tendering is intended to play an important role in enhancing the transparency and the access to public procurement tenders, it is interesting to investigate whether SMEs that have direct access to the Internet are more aware of the possibilities of public procurement.⁴⁰ The empirical results show that enterprises having no access to the Internet at all are much less aware of the possibilities of the public procurement market than the enterprises having direct access to the Internet. These results suggest that having directly access to the Internet increases the chance of an enterprise knowing about the (new) possibilities in the public procurement market.

More opportunities for SMEs?

In 1999 almost one third of the SMEs acknowledge more opportunities due to the opening-up of the market for public procurement, 10 % see substantially more and 22 % see only somewhat more and 64 % see no additional opportunities (see Figure 2.1).

Figure 2.1 The extent of which SMEs see more opportunities due to the opening-up of the market for public procurement (percentage of enterprises, Europe-19)



Source: ENSR Enterprise Survey 1999.

⁴⁰ See Chapter 5 of this report for more information on SMEs, Internet and e-commerce.

The largest part, i.e. 64 %, of the SME-entrepreneurs did not see any new opportunities for their enterprises as a result of the opening-up of the market for public procurement. As expected, this large percentage almost equals that of enterprises not being aware of new possibilities provided by the opening-up of the public procurement market. The results also correspond closely to a finding in the United Kingdom. In 1998 a survey on the attitude of 76 purchasers and 168 suppliers involved in public procurement was presented.⁴¹ One third of the suppliers thought that the new public procurement policy had created new enterprise opportunities.

The opportunities of the opening-up of the market for public procurement are valued very differently by the enterprises in the different countries. In 1999, in France a relatively large part (43 %) see substantially more opportunities. Also in Belgium, Portugal, Switzerland and Luxembourg SMEs experience substantially more opportunities. On the other hand, there appear to be countries in which a large number of the entrepreneurs (70 % or more) do not see any additional opportunities for their enterprise. This is the case in the Netherlands, Ireland, Spain and the United Kingdom. This is not surprising for the Netherlands and Ireland since the largest part of the enterprises is not aware of the possibilities for their own enterprise in the public procurement market. For the United Kingdom, this 1999-result appears to be slightly worse than the 1998-result shown in the above-mentioned United Kingdom study.

More opportunities for purchasers?

In Finland a study investigated the purchasing side of public procurement procedures.⁴² The majority of 79 procurement entities that had advertised in the Supplement to the Official Journal of the European Communities and in the Official Gazette in Finland received bids from *new* suppliers. On the whole the purchasers judged that the competition and administrative burdens increased and that the prices lowered only for a part of the bids. The cost/benefit ratio remained the same according to 62 %, improved according to 13 % and decreased according to 26 % of the respondents. Purchasing units were also confronted with inadequate attention and response from potential contractors. Training SMEs in tendering for public procurement might be helpful, according to the purchasers.⁴³

2.4.2 Participation of SMEs in tender procedures

European tenders

In the ENSR Enterprise Survey 1999 a distinction has been made *between local and national* tenders and tenders from *European* administrations and public bodies⁴⁴. The results show that one sixth (16 %) of the enterprises that are aware of public tenders tried to participate in *European* tenders during the past three years (see Table 2.3). Of all enterprise sizes considered, the medium-sized enterprises tried to

⁴¹ EC rules receive mixed reactions, Supply Management, London, 1 January 1998.

⁴² Kärkkäinen, Hannu, Uusien hankintamenettelyjen toteutuminen Suomessa (Application of legislation based on the EU procurement Directives), Studies and reports, Ministry of Trade and Industry, 119, 1995.

⁴³ Kärkkäinen, Hannu, Julkisiin hankintoihin osallistumista vaikeuttavat tekijät (Problems in participation in public procurement), Studies and reports, Ministry of Trade and Industry, 85, 1995.

⁴⁴ In subsequent questions, the term European tender was used. It might be understood by respondents to refer to tenders from European institutions as well as from local and national governments abroad.

participate most. It was explained previously that 50 % of the medium-sized enterprises is aware of tender procedures; 29 % of them tried to participate.

From the 16 % of the SMEs that tried to participate in one or more European tenders in the past three years, 53 % did receive an order as a consequence of this effort (see Table 2.3). The success rate of the enterprises without employees is 42 % whereas that of the medium-sized enterprises is higher, at 67 %.

Table 2.3 Percentage of SMEs trying to participate in European tenders in the past 3 years (in percentages of the enterprises being aware of public tenders), and receiving an order in the past 3 years (in percentages of the enterprises trying to participate), by enterprise size, Europe-19

Size class	Trying to participate (% of enterprises being aware of public tenders)			Received an order (% of enterprises trying to participate in tender procedures)		
	Yes	No	Don't know	Yes	No	Don't know
0 employees	15	73	12	42	58	0
1-9 employees	15	82	3	62	36	2
10-49 employees	24	76	1	56	44	1
50-249 employees	29	67	4	67	33	0
Total	16	77	6	53	46	1

Source: ENSR Enterprise Survey 1999.

All in all, between 2 and 3 % of all SMEs stated to have received orders during the past three years following their participation in European tender procedures⁴⁵. The results of the ENSR Enterprise Survey 1999 do not allow accurate calculation of the absolute number of tenders won by SMEs⁴⁶, however the available data clearly suggest that a considerable part of all European tenders is won by SMEs.

Explanation

Assume that there is a group of 1 000 SMEs. Out of these 1 000 SMEs, 300 are aware of the possibilities of public procurement.

- Among these 300 SMEs, 48 tried to participate in a European tender during the past three years, 25 of which received an order.
- Among these 300 SMEs, at least 138* tried to participate in a local or national tender during the past three years, 102 of which received an order (see below).

Note: At least, since the enterprises that tried to participate in a European contract were not asked whether they tried also at a local or national level. So, the minimum here is 138 and the maximum 186 SMEs (=138 + 48).

⁴⁵ About 30 % of all SMEs is aware of tender procedures (either national or European), 16 % of these (hence about 5 % of all SMEs) reported they had participated in European tender procedures over the past three years. 54 % of these SMEs received an order 'following the participation'. This yields 2 to 3 % of all enterprises.

⁴⁶ One of the reasons is that SMEs often tender together with other enterprises.

Enterprises which have their most important clients in the public sector (28 %), tried to participate much more in tender procedures (28 %) than other enterprises did (with private consumers 19 %; with private enterprises 12 %). However, enterprises primarily working for private consumers (52 %) or private enterprises (65 %) received orders more often than those working mainly in the public sector (41 %).

There are considerable differences between the attempts rate made by the 'aware' SMEs in the various sectors, varying from the hotel & catering sector with a relatively high rate (of 47 %) to construction (8 %), retail (6 %) and repair (3 %). The success rate of the small number of attempting enterprises in the retail trade appears to be very high (91 %), whereas that in the manufacturing industry with a modest number of enterprises trying to participate (22 %) is amongst the lowest (35 %).

Exporting enterprises (23 %) more often tried to participate in a European tender than non-exporting enterprises (14 %). A study carried out in Greece supports this. Enterprises that are interested in international calls for tender are often already involved in international activities like exporting.⁴⁷ Contrary to the expectations, amongst the enterprises trying to participate in the past three years, enterprises *not* exporting received orders from a European tender as often as exporting enterprises did.⁴⁸

In some countries (Italy, Norway, Portugal and Sweden) the percentage of enterprises trying to participate is lower than 10 %, whereas in France 45 % tried to participate in European tenders. About one third of the SMEs located in Belgium, Switzerland and Luxembourg attempted to participate.⁴⁹

Local or national tenders

At least⁵⁰ 46 % of the enterprises that are aware of public tenders have tried to participate in a public tender procedure at *local or national* level during the past three years. So, as expected, the participation level on the local/national tenders is much higher than at the European level (16 %).

The activity of the enterprises without employees is lagging behind that of the larger enterprises. The 'aware' enterprises without employees tried in 31 % of the cases; the micro in 56 %; the small in 63 % and the medium-sized enterprises in 55 % of the cases. As expected, the activities for participating in local/national tenders in the retail trade (63 %) is much higher than in European tender projects (only 6 %). Also the other sectors are quite active in the local/national public procurement market varying from 38 to 48 %. However, the internationally active, banking and finance sector scored low with 16 % of the enterprises trying to participate at local/national level. Also, the enterprises working primarily for the public sector tried to participate most at 68 %.

In France (79 %) and Greece (89 %) high percentages of enterprises, aware of the public tenders, tried to participate in a local or national tender during the past three years. This empirical finding for France is supported by national figures. In 1997 a French survey showed that 48 % of SMEs work for the public sector on the basis of

⁴⁷ Demel Co., The participation of SMEs in public procurement, on behalf of the Athens Chamber of Small and Medium-Sized Enterprises, 1994.

⁴⁸ This difference might be caused by the sector differences.

⁴⁹ Unfortunately, the numbers of enterprises allow no reliable conclusions as to the success rate of the enterprises per country, so that nothing can be said about the effectiveness of the trials for participation.

⁵⁰ At least, since the enterprises that tried to participate in an European contract, were not asked whether they also tried at a local or national level.

public tenders on a regular basis; 12 % more occasionally.⁵¹ The size distribution of the winning enterprises, as main contractor, of the public procurements in France shows that 81 % of the tenders is won by SMEs with up to 250 employees. 96 % of the French population of enterprises is an SME. For services and products this percentage is lower at 72-73 % and for civil works it is 88 %.⁵²

According to the information delivered by public procurement experts in Luxembourg and Belgium, quite high levels are expected in these countries too. In Luxembourg the public procurement market is rather transparent due to the small domestic market in which participants know each other quite well.⁵³ This is confirmed by the empirical results of the ENSR Enterprise Survey: the participation in Luxembourg is at quite a high level, i.e. 65 %. This is in contrast to the Belgian results, which showed that only 33 % tried to participate; nevertheless, according to a Belgian expert, 'SMEs do not have problems with access to the public procurement market in Belgium'. They participated as both subcontractors in large contracts, and as main contractor in smaller projects'.

The Netherlands and the United Kingdom are clearly lagging behind with only 25 % and 28 % of the enterprises respectively attempting to participate in the past three years.⁵⁴

A large part (74 %) of the enterprises, in the whole survey, that tried to participate in one or more local or national tender procedures did receive an order in the past three years.⁵⁵ The percentage differs between size classes. The enterprises without employees succeeded less at 67 % than the micro enterprises at 76 % and the small- and medium-sized enterprises at 82 % and 87 % respectively.

A recent Irish study shows some additional figures.⁵⁶ In 1998, the size of the Irish public procurement market was studied and from this analysis it appears that 57 % is sourced locally, of this part only 20 % comes from Irish enterprises with less than 50 employees.

2.4.3 Barriers to SMEs and their reasons for not participating

Several national and international studies⁵⁷ on public procurement provide information on barriers to SMEs participating in public procurement although the nature of the studies differs⁵⁸:

⁵¹ BDPME, PME et Marchés publics (SMEs and public procurements), Enquête BDPME, 1997.

⁵² These numbers were derived by Aprodi on the basis of data supplied by the Ministry for Economic Affairs, Finance and Industry, Commission Centrale des Marchés, France, 1996.

⁵³ Personal interviews with public procurement experts from the Ministry of Public Works and advisors of professional organisations.

⁵⁴ Most of the Dutch enterprises that did not try to participate, argue that the size of the projects is too large, and in the UK they did not try because they are primarily focused on private enterprises as clients.

⁵⁵ The corresponding 'success' percentage of European tendering is 53 %.

⁵⁶ Network Resources Limited, Small firms and public procurement in Ireland, on behalf of the Department of Enterprise, Trade and Employment and the Small Business Operational Programme Committee, 1999.

⁵⁷ In a few countries experts in public procurement were interviewed by the ENSR-partner because national studies were not available.

⁵⁸ Amongst others: Holden, Paul, and Carlo Dade, SMEs and public procurement: lowering transaction costs to increase participation, Enterprise Research Institute, Washington DC, s.a; Scherling, Michael, Ökonomische Analyse der Änderungen im Vergaberecht durch die europäische Integration (Economic analysis of changes in regulations on public procurement due to the European integration), Vienna University of Economics and Business

- As mentioned before, a survey carried out in France in 1997 showed that 48 % of SMEs work for the public sector on the basis of public tenders on a regular basis; 12 % more occasionally.⁵⁹ The former group would like to see a simplification of the regulations and tendering procedures, whereas a large part of the latter group of enterprises would also like to see an improvement in information.
- In Sweden a qualitative study based on information from 28 Swedish SMEs and 7 contracting authorities shows that only a small number of SMEs appear to search actively for public procurement possibilities.⁶⁰ Knowledge about the EC Official Journal and TED is low.
- In the Netherlands, in the autumn of 1996, a qualitative study⁶¹ showed that the administrative burdens increased considerably, both at the purchasing and supply side. The enterprises complained about the increasing costs. The SMEs in particular were confronted with disproportional costs. It was also mentioned that the information in the call for tenders was unclear; this was often due to the difficult wording used ('jargon').
- In the United Kingdom, in 1997, purchasers in the public sector and utilities were generally disappointed with the procurement Directives of the EU.⁶² According to them the rules inhibit best-practice procurement and create severe economic inefficiencies. The SMEs that the directives were supposed to encourage into cross-border trading have largely ignored the opportunities offered. If they do bid for cross-border contracts they are confronted by a time-consuming and costly bureaucracy.
- A Norwegian study investigating the possible effects on SMEs shows some factors hampering SMEs from tendering: high qualification levels, work necessary to prepare the tender, increased focus on price, information difficulties and lack of experience in the public sector⁶³.
- For Danish enterprises that have worked abroad the most important barriers are: tender material favours national suppliers (about 50 %), selection criteria are not adhered to (about 33 %) and negotiations take place even though this is not allowed (about 33 %). In addition to these barriers related to the tender procedures themselves, costs of tendering and translation problems are also encountered.
- In Italy the problem of the increasing administrative burdens has been partially solved by the Bassanini Law⁶⁴ through which many administrative obstacles

Administration, Vienna, 1995; European Commission, Green Paper: Public Procurement in the European Union: Exploring the way forward, COM (96) 583, 1996.

⁵⁹ BDPME, PME et Marchés publics (SMEs and public procurements), Enquête BDPME, 1997.

⁶⁰ Tunved, L., Offentlig upphandling, en kvalitativ undersökning (Public procurement, a qualitative study), Industriförbundet/Demoskop, Stockholm, 1998.

⁶¹ Schlangen, J.A.M., Nederlandse evaluatie van de Europese aanbestedingsrichtlijnen (Dutch evaluation of the European public procurement Directives), Nederlandse Vereniging voor aanbestedingsrecht, Jaarboek 1995/1996, Samsom, Alphen aan den Rijn, 1997.

⁶² Nolan, Alexis, Watching the directives, Supply Management, London, February 27, 1997.

⁶³ Haver, Laderud and Schonning, Adgangsbarrierer pa de offentlige innkjopsmarkeder - et SMB perspektiv (Barriers of entry to the public procurement market - the SME perspectives), FOU, 19, 1996.

⁶⁴ The so-called Bassanini Law is based on a proposal designed by the former Minister for the Public Functions (Mr. Bassanini) which has been approved in May 1999. This law is aimed at reorganising the Public Administration (decentralisation of different functions) and at reducing the administrative burdens by simplifying the relationship between citizens & enterprises, and the Public Administration.

have been removed, e.g. enterprises can use their self-certification ('autocertificazione') when bidding for orders.

- In Luxembourg the procurement requirements and forms are standardised to lower the administrative burdens. On the other hand certain barriers for SMEs exist in practice and are for example due to the fact that some authorities tend to use restricted tenders in which certain technical requirements are not directly included and hence the enterprise itself has to do a lot of preliminary work to be able to tender which, because of the time, staff and money, required, does not favour SMEs' performance.
- In Finland a study shows that participating enterprises are mainly hampered by the fact that foreign purchasers favour local or at least already-known suppliers⁶⁵.
- According to an evaluation study on the experience of 250 Danish SMEs in participating in international public procurement almost 50 % had problems with getting a good overview of the international public procurement market.⁶⁶ Enterprises that export more than 25 % of their turnover have fewer difficulties in obtaining this overview. The enterprises face three main problems when entering the market: financial risks, local enterprises are favoured, and the lack of collaboration from partners abroad, especially small enterprises with small exports.
- In Spain actions have been taken to meet the requirements of SMEs better when tendering for contracts in Spain. There is a proposal for the modification of the existing law focusing on financial guarantees, the time span for preparing the tender and the speed of payment from main contractor to subcontractors. However, SMEs reacted negatively to the shortening of the time span for preparing the tender since their scarce resources can hardly cope with the existing terms for admission.
- In Luxembourg, in certain cases, the construction of a legal form of temporary association of SMEs is used to cope with the financial guarantees. Also an interesting scheme exists where contractual guarantees asked for by purchasers can be given by the national mutual guarantee organisation existing for SMEs in the craft and construction sector.
- In Greece a study in 1994 showed that one of the major barriers to SMEs seemed to be the low capacity of SMEs in relation to the activities required in the tender contracts⁶⁷.
- During the in-depth interviews in Belgium it was mentioned that SMEs would be helped if public tenders were divided more into smaller lots so that they are not forced into a subcontractor's role with low prices leading to lower profitability.
- In Germany this way of thinking has led to a special paragraph in the procurement rules for SMEs (Mittelstandsparagraph) which suggests that SMEs have to be considered in public procurement by preferentially offering small lots; large ones have to be divided.

⁶⁵ Kärkkäinen, Hannu, Julkisiin hankintoihin osallistumista vaikeuttavat tekijät (Problems in participation in public procurement), Studies and reports, Ministry of Trade and Industry, 85, 1995.

⁶⁶ DTI, Evaluation of the Subsidy Scheme Participation in International Public Procurement, administered by the Danish Agency for Trade and Industry, 1997.

⁶⁷ Demel Co., The participation of SMEs in public procurement, on behalf of the Athens Chamber of Small and Medium-Sized Enterprises, 1994.

The identified barriers to SMEs in the public procurement market can be summarised as follows⁶⁸:

- Difficulties in obtaining information;
- Lack of knowledge about tender procedures;
- The large size of the contracts;
- Too short time span to prepare the proposal;
- Cost of preparing the proposal (since many costs are fixed, SMEs face disproportionately high costs in comparison with larger enterprises);
- Too high administrative burdens;
- Jargon used;
- High qualification levels and required certification;
- Financial guarantees required;
- Discrimination against foreign tenderers/favouring local or national enterprises;
- Finding collaboration partners abroad.

Reasons for not participating in tender procedures

It is well-known that SMEs face more barriers in the public procurement market than their larger counterparts, and that most of the barriers are higher for SMEs than for the larger enterprises. The ENSR Enterprise Survey allows us to identify the most important barriers faced by SMEs in 1999.

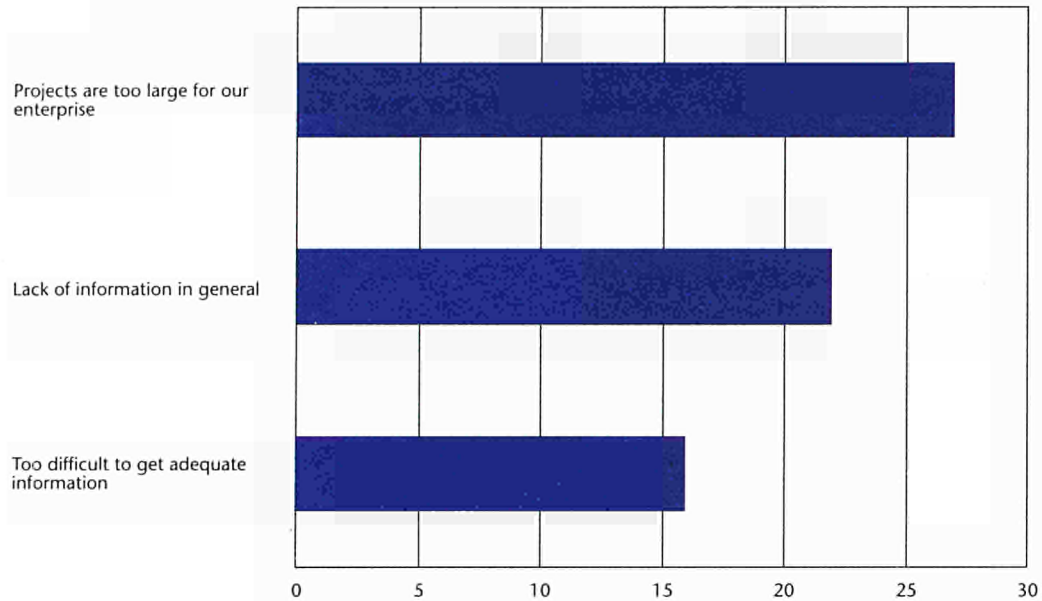
The number one reason mentioned by the entrepreneurs who did not try to participate in *European* tenders (see Figure 2.2) is that the projects are too large for their own enterprise (mentioned by 27 %) and the lack of information on public procurement in general (22 %). When asked for a second reason the entrepreneurs answered that it was too difficult to get adequate information in the time available (16 %).

If this is compared with the reasons why enterprises did not try to participate in a *local or national* tender, more or less the same reasons are mentioned. Now both the lack of information and the large scale of the projects score equally high with about 12 % as the primary reason. As the second reason, the lack of information on public procurement in general is given most often (again about 12 %). These two reasons apply to all sectors apart from the banking and insurance sector in both European and national/local tenders, and the repair sector in national/local tenders, in which the most common reason ascertained is that the costs of preparing the tenders are too high. In the repair sector the administrative burdens are also mentioned very frequently in comparison with the other sectors.

To shed some more light on the reason 'projects are too large for my enterprise', the following results of the ENSR Enterprise Survey are interesting. A natural role for SMEs in participating in public procurement contracts is expected to be that of a subcontractor since most SMEs might be too small for the projects. However, the

⁶⁸ Almost all studies shed light on the impediments only, although the opening-up of the market for public procurement seems to yield more than only negative aspects for SMEs. Some benefits can also be synthesised: more opportunities and hence possibilities for turnover growth, new customers, new contractor-subcontractor relations, wider knowledge and (international) experience.

Figure 2.2 Three main reasons for SMEs for not participating in European tenders (percentage of enterprises, more answers possible), Europe-19



Source: ENSR Enterprise Survey 1999.

results show a contrasting view, focusing on the position of the enterprises in the *European* project they were most interested in, either acquired or not, it appears that most enterprises that tried to participate were the only contractor with no other parties involved (49 %). Being main contractor having subcontractors or being a subcontractor yourself scores almost equal: 14 % and 19 %, respectively.⁶⁹ In *national/local* tenders the results are the same. Almost half (44 %) of the enterprises acted as the only contractor tendering for the local or national project they were most interested in (either acquired or not). More than a quarter (28 %) was main contractor with other subcontractors and 20 % was subcontractor. So, the reason that holds back some of the SMEs from tendering, seems to be no problem for other SMEs, not even in European projects.

The lack of information at *European level* applies most to enterprises with employees and, as expected, the extent to which the reason 'projects are too large' is given decreases with enterprise size. This means that the size aspect of the project relates to the micro enterprises more than to the larger SMEs and that the information problem becomes more apparent when having employees. The lack of information at *local/national level* is experienced quite differently among the size classes; the enterprises without employees and the medium-sized enterprises are better informed. The latter enterprises argue relatively often that the cost of preparing a tender and the administrative burdens are too high.

One of the measures mentioned in the Green Paper is that the information flow to the enterprises has to be improved. The information allowing suppliers to bid for contracts is published in the EC Official Journal in which the number of tender notices increased from 12,000 in 1987 to 95,000 in 1995. The huge amount of procurement notices means the selection of interesting tenders is not easy for the entrepreneurs.

⁶⁹ Even enterprises without employees are the sole contractor in 44 % of the cases; only 13 % is subcontractor.

Electronic dissemination of the notifications by CD-ROM or Internet, if the enterprise has access, could make this information overload easier to handle. Therefore, it is interesting to notice that the results reveal that a high percentage of employees (75-100 %) that have direct access to the Internet seem to reduce the lack of information about *European* tenders. Hence, the barrier caused by a lack of information can be reduced by the Internet.⁷⁰ At *national or local* level this effect is strongest in enterprises with 50-75 % of the employees having direct access to the Internet. Another important barrier becomes apparent when their lack of information has been remedied: finding a partner with whom to participate.

2.5 Policy issues

Regulatory reform aimed at improving the functioning of markets for products and services can work out very differently for different enterprises, and hence can lead to higher barriers for SMEs than for larger enterprises. As strongly recommended by the OECD:

- It is worthwhile to perform a Regulatory Impact Analysis to investigate systematically what are the positive and negative effects of each new regulation or deregulation on SMEs in particular.⁷¹

In addition to this general policy issue, the case studies of the liberalisation of opening hours of shops and the opening-up of the market for public procurement lead to some specific policy issues.

The deregulation of the opening hours of shops has affected the food retail sector considerably. It appears that the large shops profit most, whereas small shops suffer. The deregulation accelerates the diminishing market share of SMEs. This leads to the following policy suggestion, already brought into practice by a few countries, for national policy makers:

- Positively discriminate very small food shops by allowing them wider opening hours than the other shops.

The case study of the opening-up of the market for public procurement shows that one out of three SMEs are aware of the possibilities of public procurement procedures. To help these enterprises to take the opportunities resulting from the open market:

- More information on public procurement to SMEs is necessary. This information can be provided by governments as well as intermediary organisations or trade organisations.

In the ENSR Enterprise Survey, information was also collected on the participation rate of SMEs and it showed that the participation rate of SMEs in local and national tenders is far higher than in European tenders. The barriers which hamper SMEs' participation in local and national tenders and European tenders are however the same. Projects are too large for SMEs, there is a lack of information on public procurement in general and it is too difficult to get the adequate information in time.

⁷⁰ The Business Dialogue on <http://www.europa.eu.int/business> gives information on public procurement.

⁷¹ OECD, Regulatory Impact Analysis: best practices in OECD countries, Paris, 1997.

The most apparent barrier is that the projects are too large for the enterprises to handle. This can be solved by:

- Urging purchasers to divide large contracts into smaller lots;
- Or to stimulate SMEs to tender with other enterprises in a consortium.

Another important barrier is the lack of information. Apart from actions already taken to fill the information gap like the electronic diffusion of calls for tender, publication of practical guides, both for purchasers and suppliers, and providing training and advice to enterprises serious attention must be paid to:

- Simplification and standardisation of forms, procedures and certifications (as already started in a few countries). This may reduce the costs of preparing tenders and the administrative burdens (which are disproportionate for SMEs).

It should be realised that SMEs already 'take' a large share of the European tender market, as discussed in Section 2.4.2. Therefore, alleviation of the barriers is more likely to increase competition between SMEs and hence contribute to the goal of 'best value for tax payer money', than awarding contracts to more SMEs. Given the number of tenders issued in Europe, entry of new SMEs in the tender market will lower the success rate of SMEs.

3 Labour market issues

Co-ordinated by the Danish Technological Institute

MAIN POINTS

- Skill shortages have serious impacts on SMEs. Lack of skilled labour is a major constraint on business performance in almost 10 % of SMEs. Only access to finance and administrative regulations are seen as greater constraints on business performance in a major proportion of the SMEs.
- Over the past year, almost a quarter of all SMEs have often or from time to time experienced difficulties in filling vacancies. A third of SMEs have suffered considerable limitation in their business performance due to recruitment problems. Almost a fifth of SMEs have given up trying to fill their vacancies.
- Recruitment problems related to low and semi-skilled workers are as widespread as recruitment problems related to technicians and engineers.
- Training existing staff is generally the strategy preferred by SMEs to overcome recruitment difficulties. The smallest SMEs in particular - with less than 10 employees - have difficulties in taking action to overcome recruitment problems.
- Most countries are working to monitor existing skill shortages, but only a few are taking any action to anticipate skill shortages before they become a problem. Most of the corrective actions taken to overcome recruitment difficulties are indirect in nature since the aim is to secure a flexible labour market by upgrading the skills/qualifications of the labour force, and by promoting high mobility and transparency. Although examples exist of drives to identify skill shortages within specific areas, these are more rare.
- The level of cross-border mobility is still relatively limited and barriers remain to be overcome. The low level of cross-border mobility indicates, for the present, that this is not the most appropriate or extensively used means to overcome recruitment problems and skill shortages.
- Reduced tax on labour is not used extensively enough for this to be a strategy for overcoming increasing problems of skill shortages. Seven Member States have made use of the taxation system in their employment generation drives subsequent to the release of the 1998 Employment Guidelines. In most countries the tax reforms include both a general reduction of the tax on labour and a special focus on the taxation of low-paid employees.

3.1 Introduction

The labour market is an essential part of the SME business environment. The availability of appropriately skilled workers will always be significant for all kinds of enterprises, and if enterprises face problems in obtaining a sufficient supply of labour, there will always be a risk that this will hamper the growth of the enterprises.

The upswing of the economy in the European Economic Area (EEA) and Switzerland in recent years has resulted in an increasing demand for labour. A well-functioning labour market is now of even greater importance than in previous years, which were characterised by high unemployment and an abundant supply of labour. According to the results of the analysis carried out in the Third Annual Report of the European Observatory for SMEs, the labour market was characterised by a much lower demand for labour due to the economic recession. Even though the demand for labour was lower at that time, skill shortages were still identified in most member countries, although they were not causing severe impediments to enterprises.

The expanding demand for labour increases the risk of enterprises having to face problems concerning the supply of labour, i.e. recruitment problems and skill shortages, especially if the labour market is not functioning properly.

3.2 Skill shortages

In recent years SMEs have witnessed an increase in the level of internationalisation. This has led to intensified competition and to rapidly changing competitive criteria. Enterprises are facing increasing demands for flexibility and a readiness to change. In this context, labour and the qualifications of the labour force become central competitive parameters. It is therefore very important that the employees already working for the enterprises possess the right qualifications and that the enterprises are able to recruit the type of labour required.

The Third Annual Report of the European Observatory for SMEs revealed a lack of qualified labour in the majority of the Member States. At the time; however, this did not pose any significant problems for the SMEs. The report also documented that there had been a general reduction in the extent of both the quantitative and the qualitative lack of labour in the period 1991-1994, primarily because of low business activity. Since the publication of the Third Annual Report, the economic trends have improved, while there are indications that the problem of skill shortages is increasing. A recently concluded report states that more than 500 000 ICT job vacancies in the EU were unfilled at the end of 1998 because of skill shortages¹.

The question is, therefore, whether SMEs can continue to secure qualified labour or whether skill shortages will pose a severe impediment to recruitment in SMEs. The objective of this chapter is to describe the extent to which enterprises in the EEA and Switzerland face skill shortages, and to compare the impact of skill shortages with other problems faced by SMEs. Finally, the objective is to describe the efforts made and corrective actions taken by each Member State to anticipate and overcome skill shortages/recruitment problems².

¹ European Commission, Report to the European Council: Job opportunities in the information society: Exploiting the potential of the information revolution, COM (1998) 590 final, Brussels.

² According to earlier studies - amongst others ROA, 'Skills Shortages in the 90s', Maastricht, 1994, and the Third Annual Report - skills shortages are typically solved by initiating continuing vocational training. For a further description hereof, see Chapter 9, Vocational Training and SMEs, of this report.

3.2.1 Recruitment problems and skill shortages in SMEs

Before presenting the results of the research, the concept of skill shortages should be clarified: Skill shortages occur when the demand for skills exceeds the supply of skills³.

In this section, skill shortages are discussed from the perspective of the enterprises. If enterprises cannot fulfil their need for labour with particular skills, this then implies that skills are in deficit. The authors are aware of that there is a theoretical difference between skill shortages and mismatch problems in the labour market. When enterprises face difficulties in recruiting, this may indeed be a result of mismatch problems. Mismatch problems express the labour market's failure to match the right types of labour supply and demand⁴.

The ENSR Enterprise Survey 1999⁵ reveals that skill shortages have serious impacts on SMEs:

- Lack of skilled labour is a major constraint on business performance in almost 10 % of SMEs. Only access to financing and administrative regulations are seen as greater constraints in a major proportion of the SMEs.
- Almost a quarter of the SMEs have in recent years often or from time to time found it difficult to fill vacancies.
- Among SMEs finding it difficult to fill vacancies, a third have, as a result, experienced considerable limitations in their business.
- Almost a fifth of the SMEs facing recruitment problems have given up trying to fill vacancies.

Furthermore, the results show that recruitment problems relating to low-skilled and semi-skilled workers are as severe as those relating to technicians and engineers, which in other studies are seen as those occupational groups where skill shortages are most likely to arise. Finally, the results also indicate that particularly the smallest enterprises - enterprises without employees and micro enterprises - find it difficult to take action to overcome recruitment problems. In the following sections the results of the survey will be revealed and discussed in further detail.

3.2.2 Major constraints on business performance

The enterprises surveyed were asked to pinpoint the major constraint on their business performance. Presented with a list of possible constraints, each enterprise was then asked to choose which they saw as the major constraint. Table 3.1 reveals that 9 % of the enterprises saw 'lack of skilled labour' as the major constraint on business performance.

It appears that only two other constraints are seen as being of greater importance by a major proportion of the enterprises: 'access to financing' and 'administrative regulations'. Table 3.1 also reveals that the greater the number of employees in

³ Research Centre for Education and the Labour Market, Skills Shortages in the 90s, EU Skills Shortages Update Project Synthesis Report, Maastricht, August 1994.

⁴ Later on in this chapter the difference between skill shortages and mismatch problems will be discussed in more detail. Focusing on actions to overcome recruitment problems in SMEs, it is necessary to distinguish between skill shortages and mismatch problems since different problems require different corrective actions.

⁵ See Annex I to this report: The set-up and analyses of the ENSR Enterprise Survey 1999.

Table 3.1 Major constraints of SMEs on business performance, by enterprise size, Europe-19

Major constraints	Number of employees				Total
	0	1-9	10-49	50-249	
Lack of skilled labour	4 %	13 %	17 %	23 %	9 %
Access to financing	16 %	12 %	14 %	8 %	14 %
Implementing new technology	4 %	4 %	4 %	5 %	4 %
Changing organisation of production	1 %	1 %	3 %	4 %	1 %
Quality assurance	1 %	2 %	3 %	3 %	2 %
Administrative regulations	10 %	12 %	15 %	15 %	11 %
Infrastructure	3 %	4 %	5 %	4 %	3 %
Introduction of the euro	0 %	1 %	1 %	1 %	1 %
None of these factors	31 %	30 %	22 %	23 %	30 %
No constraints at all	27 %	19 %	16 %	15 %	23 %
Don't know/no answer	2 %	1 %	1 %	0 %	1 %
Total	100 %	100 %	100 %	100 %	100 %

Source: ENSR Enterprise Survey 1999.

the enterprise, the greater the proportion of enterprises seeing 'lack of skilled labour' as a major constraint.

Almost one in four of the medium-sized enterprises see 'lack of skilled labour' as a major constraint - a figure that should be set against the fact that this is the case for only 13 % of the micro enterprises.

In one sense, the results are as might be expected since enterprises with many employees will more often find themselves in a situation where they need to recruit new staff, and will, naturally, more frequently face difficulties when it comes to recruitment. In another sense, the results are surprising because medium-sized enterprises often employ human resource professionals to deal specifically with personnel matters and should therefore ostensibly experience fewer recruitment problems than small and micro enterprises. Furthermore, it would be expected that the short-term constraints would be more for small companies with fewer possibilities of relocating staff within the company. In Section 3.2.2 the consequences of recruitment problems in the limitation of business are discussed. However, it is not possible to identify significant differences according to size class.

In connection with differences in major constraints on business according to size class, it should be mentioned that it is only 'lack of skilled labour' that seems to cause the most severe problems the higher the number of employees in the enterprises. 'Access to financing' is a major constraint in the smallest enterprises, and for the other mentioned major constraints, no significant differences in relation to size class can be identified⁶.

When differences according to main activity are examined, some small differences can be identified (see Table 3.2).

Enterprises operating in construction and those in hotels/catering are more likely to see 'lack of skilled labour' as the major constraint on business performance, but

⁶ Thirty percent of the enterprises pinpoint other major constraints than those that have been listed beforehand; this accounts for the highest share. Unfortunately, the survey does not give any disaggregated data on what constraints this group contains.

Table 3.2 SMEs stating lack of skilled labour as the major constraint, by sector, Europe-19

<i>Sector</i>	<i>Percentage of enterprises</i>
Manufacturing industry	9 %
Construction	20 %
Wholesale Trade	7 %
Retail Trade	6 %
Hotels/catering	16 %
Repair	11 %
Transport/communications	7 %
Banking, finance and insurance	5 %
Business services	6 %
Other service industries	7 %
Other sectors	9 %
Total	9 %

Source: ENSR Enterprise Survey 1999.

apart from that no major differences seem to exist. For construction this might be due to the fact that these enterprises are traditionally the first to face recruitment problems in the periods of economic growth and rising employment that have characterised many of the European economies in recent years. For hotels/catering the explanation may be related to the conditions prevalent in this sector, i.e. unsocial working hours and relatively low pay. Moreover, it is common for both enterprises operating in construction and hotels/catering to be affected by seasonal patterns, which might increase recruitment problems, since they more often have to recruit new employees for a limited period of time.

When the differences are examined in terms of the individual countries, it appears that in Ireland, Portugal, Luxembourg, Iceland and Denmark as many as 15 to 20 % of the enterprises state 'lack of skilled labour' as the major constraint on business. All the above countries have seen rising rates of employment in the last couple of years, which typically contributes to intensified competition for labour.

3.2.3 Difficulties in filling vacancies

As shown by Table 3.3, over the past year approximately 14 % of the enterprises have often experienced difficulties in filling vacancies:

The difficulties in filling vacancies are increasing in proportion to the number of existing employees in the enterprises. This is not surprising. The more persons an enterprise employs, the more effect it will have on the enterprise that a vacancy remains unfilled, and the enterprise is more likely to experience difficulties when recruiting. Medium-sized enterprises face the biggest problems, and in this size class only 30 % have not experienced difficulties in filling vacancies over the past year. Recruitment is not as severe a problem for the small enterprises, although almost half have often or from time to time had difficulties over the past year. Overall, recruitment appears to present a significant problem for many SMEs.

According to Table 3.4, three groups of employees have been more difficult to recruit than others: vacancies for 'manual workers', 'semi-skilled' and 'technicians'. It always seems to be the same categories of employees that are difficult to hire. Although some differences owing to the size of the enterprise may be discerned, in all size classes approximately a third of the enterprises have difficulties in filling

Table 3.3 Proportion of SMEs which experienced difficulties in filling vacancies over the past year, by enterprise size, Europe-19

Size class	Difficulties in filling vacancies					Total
	Often	From time to time	Seldom	Never	Don't know/ no answer	
0 employees	7 %	7 %	4 %	78 %	4 %	100 %
1-9 employees	22 %	10 %	7 %	60 %	1 %	100 %
10-49 employees	29 %	17 %	12 %	41 %	1 %	100 %
50-249 employees	30 %	25 %	14 %	30 %	1 %	100 %
Total	14 %	9 %	6 %	69 %	2 %	100 %

Source: ENSR Enterprise Survey 1999.

Table 3.4 Difficulties in filling vacancies distributed by occupational group, percentage of SMEs that experienced difficulties in filling vacancies over the past year, Europe-19

	Difficulties in filling vacancies			
	Often	From time to time	Seldom	Total
Manual workers/low-skilled	37 %	28 %	24 %	32 %
Semi-skilled (e.g. drivers, machine operators)	35 %	37 %	29 %	35 %
Technicians, engineers	29 %	30 %	27 %	29 %
Clerks, administrative personnel	8 %	16 %	9 %	10 %
Middle management, foremen	9 %	9 %	7 %	9 %
Directors and managers	5 %	1 %	2 %	3 %
Don't know/no answer	2 %	1 %	8 %	3 %

Source: ENSR Enterprise Survey 1999.

The percentages use cases as the denominator; the sum of column % may therefore exceed 100 %.

vacancies for 'manual workers', 'semi-skilled' and 'technicians'. Enterprises with 10 employees or more also find it difficult to recruit clerks, other administrative personnel, directors and managers.

This result is somewhat surprising. It was not expected that SMEs would find it as difficult to recruit low-skilled workers as they do technicians and engineers.

Of the 17 million people presently unemployed in the European Union⁷, the majority have no vocational training and are low skilled. Unemployment among high-skilled individuals, and typically those with an extended higher education, is much lower. The internationalisation of the economy is intensifying the demands on enterprises to compete on quality and flexibility, which in turn have led to an increasing need for specialist and high-skilled labour. Due to technological progress and the growing use of information and communication technology in enterprises, most countries report skill shortages among technical computer staff, engineering technicians, etc. Given this situation, it is surprising that enterprises are facing difficulties in recruiting low-skilled personnel to the same extent as skilled and high-skilled labour.

⁷ Source: European Commission, Employment in Europe 1999, Brussels.

The ENSR Enterprise Survey 1999 does not suggest any explanations for the recruitment difficulties faced by SMEs. However, in broad terms, the enterprises' recruitment strategies seem to have failed, and the labour markets do not seem as flexible as could be desired. There could be numerous explanations for the apparent difficulties faced by SMEs in recruiting low-skilled personnel, e.g.:

- Recruiting too narrowly, e.g. through closed recruitment channels, which reduce the visibility of the vacancies to a broad range of job applicants;
- Lack of transparency on the labour market;
- Insufficient incentive structures on the labour market, resulting in low mobility, in terms of geographical and professional flexibility, in the labour force.

Explanations may be identified both on the demand and the supply side. Care is called for when trying to influence the supply side only.

3.2.4 Recruitment problems and consequences for business productivity

The enterprises were asked to indicate the extent to which recruitment problems are limiting their business productivity (in terms of production and/or sales) by selecting either 'very much' (more than 10%), 'a little' (less than 10%) or 'not at all'.

The results in Table 3.5 reveal that a third of the enterprises that have experienced difficulties in filling vacancies over the past year find that it has limited business 'very much'.

As shown by Table 3.5, more than 80 % of enterprises face limitation in business due to recruitment problems experienced over the past year, with only minor differences between size bands.

Table 3.5 Limitation in business due to recruitment difficulties, by enterprise size, Europe-19

Size class	Limitation in business due to recruitment problems				Total
	Very much (>10 %)	A little (<10 %)	Not at all	Don't know/ no answer	
0 employees	27 %	62 %	10 %	1 %	100 %
1-9 employees	39 %	40 %	19 %	2 %	100 %
10-49 employees	33 %	46 %	20 %	1 %	100 %
50-249 employees	28 %	51 %	20 %	1 %	100 %
Total	34 %	48 %	16 %	2 %	100 %

Source: ENSR Enterprise Survey 1999.

3.2.5 Overcoming recruitment problems in SMEs

In the ENSR Enterprise Survey 1999, enterprises were asked what actions had been taken to overcome recruitment problems. The results show that training for staff already employed is the most frequently used strategy by enterprises that have experienced difficulties in filling vacancies over the past year.

More than a third of all enterprises facing difficulties in filling vacancies have provided training for existing staff. When the different size classes are studied, a

Table 3.6 Actions taken to overcome difficulties in filling vacancies, by enterprise size, Europe-19

	Number of employees				
	0	1-9	10-49	50-249	Total
Training for existing staff	33 %	38 %	43 %	52 %	37 %
Recruit staff with fewer qualifications	16 %	24 %	30 %	26 %	22 %
Relocate staff within SME	9 %	17 %	24 %	32 %	16 %
Intensify recruitment efforts	13 %	23 %	30 %	42 %	21 %
Outsource activities	16 %	14 %	26 %	22 %	16 %
Do not fill vacancies	16 %	20 %	7 %	7 %	16 %
Install more machinery	10 %	9 %	12 %	12 %	10 %
No actions taken	3 %	2 %	1 %	1 %	2 %

Source: ENSR Enterprise Survey 1999.

clear trend emerges: the more people employed, the higher the proportion of enterprises providing training for existing staff. This trend reflects the fact that large and medium-sized enterprises are generally more active in offering training to employees than small enterprises and micro enterprises are.

The second and third most frequently used strategies for overcoming recruitment difficulties are 'recruiting staff with fewer qualifications' and 'intensifying recruitment efforts'; both strategies are deployed in about a fifth of the enterprises that have faced recruitment problems. When the different size classes are studied, a clear trend can be identified; the more people employed, the higher the proportion of enterprises 'intensifying recruitment efforts' and the higher the proportion of enterprises 'recruiting staff with fewer qualifications'⁸. As regards 'intensifying recruitment efforts', Danish studies show that about half of the vacancies for manual and semi-skilled workers in private enterprises are filled through so-called closed recruitment channels - for example, recruitment via the network of existing staff or former employees. Using closed recruitment channels reduces labour market transparency so that many vacancies never come to the attention of a broad range of job applicants. Drives to encourage the use of open recruitment channels - the regional employment services, advertising in newspapers, use of the Internet, etc. - will help to make the labour market more transparent, and thus increase job applicants' awareness of potential vacancies. Where recruitment problems are due to mismatch problems, intensified efforts via open recruitment channels would seem a relevant course of action.

Around 16 % of the enterprises facing difficulties indicate that they have given up trying to fill vacancies - here it is interesting to note that this applies particularly to enterprises without employees and micro enterprises, especially given that this scale of enterprise is less ready to deploy the different actions listed. A pattern thus emerges in which the smallest enterprises especially face severe problems in implementing actions in order to overcome recruitment problems.

3.2.6 Corrective actions by public authorities

As revealed by the ENSR Enterprise Survey 1999, recruitment problems and skill shortages pose problems for a large number of SMEs in the European Economic Area

⁸ SMEs with 50-249 employees differ little from the general trend, while a somewhat smaller share of SMEs have recruited staff with fewer qualifications compared to SMEs with 10-49 employees.

(EEA) and Switzerland, with negative consequences for business productivity in general. Public authorities can counter skill shortages in several ways. In this study a distinction is drawn between actions taken to anticipate/forecast and monitor emergent skill shortages, and actions taken to solve existing skill shortages.

Actions taken to anticipate and monitor skill shortages

Anticipatory actions have been taken in nearly all countries. According to a DG V report from 1996⁹, the 'instruments' anticipating the effect of industrial change on employment consist of econometric instruments, extrapolation techniques, survey approaches, qualitative methodologies or econometric versus other instruments. In most countries, three or four of the instruments are used, while fewer countries use one or two of the instruments.

The anticipatory actions differ in many ways, but a common feature in most of the actions is that future trends in employment are predicted at a general level. The findings obtained by such forecasts consist, for example, of calculations of the future number of employees in various industrial sectors, the expected demand for labour from industry, the outlook for a wide range of occupations and (broad) educational categories. Predictions are typically based on predictive and econometric models using projections of historical data on employment and graduates with different educational backgrounds.

This does not enable them to identify and implement concrete corrective actions to prevent skill shortages from arising. The different occupational and educational forecasts may be a significant element in indicating where deficits are likely to occur, but would not in isolation be sufficient to identify emerging skill shortages.

Although some countries are active in predicting future employment trends distributed by different categories, it must be stressed that most countries are only working to monitor shortages and/or shifts in vocational qualifications, and that only a few are involved in activities to predict skill shortages. In other words, the task of identifying skill shortages is much more focused on pinpointing skill shortages in the short term than on anticipating possible skill shortages before they become a problem for SMEs. In other words, the actions taken today mainly focus on the present situation and do not try sufficiently to take future requirements into account.

If monitoring activities are considered alone, two different systems would appear to dominate. The first involves the analysis of current job vacancies, either via public registers/databases or surveys. The second monitoring system is based on surveys of enterprises on future trends in employment and recruitment needs.

A common method of monitoring existing skill shortages in many countries is to carry out analyses based on vacancies. Belgium, Austria, Finland, Luxembourg, Sweden, Denmark, Germany, Switzerland and Norway rely on databases from the Public Employment Services (PES). Job placement requests issued by enterprises for jobs which have remained unfilled for a certain period of time are indicative of existing skills shortages or at least a vacancy which is difficult to fill. From the PES databases it is possible to obtain analyses distributed by sectors of activity, size of enterprise and occupational group.

⁹ European Commission, DG V, Instruments, tools and policies to anticipate the effects of industrial change on employment and vocational qualifications, Brussels, 1996.

The monitoring activities based on public registers do not reveal all potential skill shortages since not all job placement needs are reported to the PES. It is scarcely feasible to keep track of all potential skill shortages and the PES does not cover all labour demands. Furthermore, it must be stressed that data on vacancies alone does not allow a distinction to be made between real skill shortages and other failings in the labour market, and thus cannot reveal the remedies required to deal with the recruitment problems identified in the enterprises. To determine the characteristic features of the recruitment problems, data on vacancies must be combined with statistics on unemployment and qualitative assessments by other active parties in the labour market.

In Sweden, Denmark and Finland for example, quantitative monitoring of vacancies is combined with qualitative information gathered from industrial and trade organisations, where the rough data are supplemented with qualitative assessments. This strategy gives some indication as to whether the 'hard-to-fill' vacancies are due to real shortages of skills or failings in the labour market. Further comparisons with statistics on the level of unemployment and distribution by occupational/educational groups make it possible to determine whether there are mismatch problems or there is a genuine lack of specific skills.

Not all countries' public databases or registers are available for monitoring skill shortages. Ireland, Netherlands, Belgium, Spain, Sweden, Denmark, Norway, the United Kingdom, Austria, Portugal and Greece therefore conduct surveys to identify and describe potential skill shortages. The surveys differ in many ways, e.g. some cover certain sectors of industry, while others cover all sectors of business activity. Some of the surveys take a regional approach, while others cover the whole country. The main objective differs from survey to survey, with some focusing on vacancies which are hard to fill, some on training needs and still others on recruitment problems in general and recruitment problems among different occupational groups. Some of the surveys concentrate on recruitment problems identifiable for the past year, while others investigate the employers' needs for labour and skills in the years ahead. A wide range of organisations are active in the field of labour market research, some of which is commissioned by local/regional authorities, while other studies are conducted at the instigation of public authorities like the Ministry of Labour, and industrial organisations.

With the increase in the level of employment, and thereby the risk of skill shortages appearing, a number of new approaches have been initiated in recent years, and some countries have set up specific task forces to counter the problem of potential skill shortages.

In Ireland, since late 1997, a new national structure has been established by the Government to develop national strategies for identifying and tackling the issue of skill needs. This is known as the Business, Education and Training Partnership Forum. The forum meets once or twice a year (since June 1998) with the objective of achieving a broad consensus among all interested parties on the policies required to meet the skill needs of the economy. The forum includes representatives from trade and industry, the relevant Government departments, the education sector and Government agencies.

In 1998 the UK Government set up the Skills Task Force to advise on the development of a National Skills Agenda for supplying the skills needed for the UK's economic success. The Task Force is currently considering issues such as employability and key skills and training in the workplace. Its membership is drawn from private and public sector employers, education and training providers and trade unions.

Here, it is also worthy of note that in Spain, a National Institute of Skills ('Instituto Nacional de Cualificaciones') has recently been established with the specific aim of providing the main independent practical resource for monitoring existing skills and forecasting future skill needs. Within the general structure of the National Institute of Skills, an observatory of professions and skills will be established.

To conclude on monitoring activities to determine skill shortages, it should be emphasised that seen overall, the most frequently used activities take their starting point from the enterprises' difficulties in filling vacancies. In some countries the data is gathered from public databases/registers, while in other countries surveys are carried out. This type of monitoring is of a quantitative nature and makes it possible to carry out statistical analyses, but the need remains for qualitative information. The studies produced often provide the knowledge-based foundation for discussions between policymakers and the relevant stakeholders on the labour market, i.e. industrial organisations, trade organisations and educational institutions on issues such as: How the figures should be interpreted, the challenges in the years ahead, and which measures would be appropriate to develop? In recent years, where the risk of skill shortages has increased in many countries, special task forces have been set up, mainly to draw participation from the main forces in the labour market.

Actions taken to counter and solve existing skill shortages

This chapter has so far considered a broad definition of skill shortages (see Section 3.2.1). When enterprises fail to recruit labour with certain skills, it reflects the fact that there is a risk that the labour market is suffering a deficit of skills. Earlier, this chapter presented data to demonstrate that SMEs, to a high degree, face recruitment problems and that difficulties in filling vacancies typically have negative impacts on business performance among SMEs.

The next step will be to describe actions taken by public authorities to cope with the problems of recruitment in SMEs when problems are identified.

Recruitment problems need not necessarily be a result of existing skill shortages. The difficulties experienced by SMEs in filling vacancies can also be caused by a failing labour market. The labour market can fail in many ways:

- The unemployed/employed have the skills in demand, but are not 'matched' with the vacancies because they live in other parts of the country far away from the enterprises where there is an unfilled demand for skills;
- The unemployed do not want to work in general or in the enterprises where the vacancies are in particular (low salary, inferior working conditions);
- The unemployed/employed are not aware of the vacancies and job opportunities open to them, because of a lack of transparency in the labour market, etc.

Although it often is difficult to distinguish a skill shortage from a mismatch problem or other failures arising in national labour markets, it is important to be able to make the distinction, because the specific problems determine which corrective actions would be sufficient or most relevant and successful. One cannot expect positive results from major education programmes with a long-term perspective if the problems in the labour market are an immediate lack in recruiting or an immediate problem with skill shortages, which illustrates that there also is a time aspect of corrective actions.

The corrective actions taken by the public authorities are not always founded on solid knowledge of where the real problems reside. Thus there are different types of actions, some aimed directly at skill shortages and some making the labour market function in a more flexible way. Several strategies are applicable here, and these will be presented in the following section.

Education and training in areas of skill shortages

In some countries, education and training schemes within specific sectors will be instigated by the public authorities. On the basis of surveys or sector studies, selected areas are identified where enterprises are experiencing severe recruitment problems due to existing skill shortages. This will be followed by development of special training and/or education schemes to upgrade the qualifications/skills of the labour force. This type of corrective action is seen in Belgium, Ireland, Italy, Sweden, Norway, Denmark and Liechtenstein.

To provide an example of this: In Ireland the public response to specific instances of skill shortages has mainly been concentrated on the supply of appropriately qualified individuals, primarily by expanding and enhancing relevant education and training courses.

In 1997 for example, the identification of certain skills shortages led to a Government Action Plan for Skills involving an intake of 3 200 additional third-level students, to be trained as electronics technicians, teleservices staff and software engineers. In 1998, the Government's Employment Action Plan proposed further substantial investments aimed at promoting technology in education in response to emerging skills needs.

In Sweden the public authorities also focus on implementing education and training within specific areas of skill shortages. In order to obtain a better match between demand and supply for certain qualifications, there has been an increase in the number of student places for the desired fields. In addition, the State has subsidised study allowances for people to obtain an education in areas where there is a shortage of qualified labour. The target of these measures has been education in the fields of applied technology, pure science and information.

A final example of this type of strategy comes from Denmark¹⁰. Regional surveys have identified selected areas of actual and potential skill shortages. In a regional context, special projects have been developed in which SMEs, regional training institutions and the regional employment service centres have started to 'upgrade' unemployed people, by giving them the chance to attend continuing vocational training (CVT) courses. The Public Employment Services (PES) identify and select the individuals who are then offered CVT courses at a regional training centre, and afterwards guaranteed a few months' work experience with SMEs facing difficulties in filling vacancies, with a fair chance of finding employment after some months in the work experience scheme.

Training in general¹¹

The above examples show different types of public measures aimed at specific areas where actual or potential skill shortages have been identified. Other public

¹⁰ In Belgium similar actions have been implemented.

¹¹ In this chapter the training activities initiated by the public authorities are described. In Chapter 9 to this report the SMEs' use of continuing vocational training is described.

measures aim to upgrade qualifications/skills in general, in order to prevent skill shortages from arising. These measures are of a more indirect nature.

This type of training scheme is seen in most countries. For some schemes the target group is the unemployed, while others are oriented towards staff already employed in enterprises.

Training schemes aimed at the unemployed are a standard labour market initiative for alleviating the enterprises' recruitment problems. The aim is to increase the employability and potential of the unemployed by upgrading their skills. In many countries the target group for training arranged by public employment services or other public bodies consists of the long-term unemployed, young people without education, people with disabilities, older unemployed persons and 'hard to place' unemployed people. Upgrading the skills, sometimes basic skills and sometimes general skills, among the unemployed in order to overcome future recruitment problems is a strategy deployed in almost all the countries within the EEA and Switzerland.

Because SMEs in many countries have restricted their spending on training, the public authorities have developed special training schemes to increase the training of staff already employed¹². In most cases the public authorities pay part of the cost of training as an incentive for the provision of schemes in enterprises. Austria differs from the general picture, since its public authorities use tax incentives. In Austria the Government has reacted to the low level of training in enterprises by introducing tax incentives, integrated into a new tax reform, which will come into force on 1 January 2000. These tax incentives are designed to increase employers' and employees' training activities. The idea is to create an 'educational' tax, i.e. a tax-deductible amount for staff-training schemes similar to the amount deductible for investments in new capital assets. In addition, further vocational training schemes will also be made tax-deductible for employees for training relevant to a practised profession. A comparable system has been introduced in the Netherlands. Since 1996 the impetus for sandwiched work and education schemes for the entire working population has come from a tax incentive scheme. Employers now receive a certain amount per year in wage reimbursements for each training placement. On 1 January 1998, a tax concession was introduced to promote on-the-job training; this scheme also includes a tax incentive for senior employees.

Some public measures combine training activities among job seekers and staff in employment. In the so-called 'job rotation schemes' developed in Denmark and adopted in several other countries, several models of job rotation are possible. However, the main feature of these schemes is that there will always be one or more unemployed person to take over the job while one or more employees of the enterprise in question participate in a vocational training course. The unemployed stand-in will always be prepared for the temporary job by some prior education/training. The job rotation model has several advantages for the unemployed as well as for those in employment and the enterprises themselves. The enterprise secures a better-qualified workforce, and production continues during the period when the employees are attending CVT courses - at the same

¹² Public co-financing of training activities among already employed persons is reported in Finland, Ireland, Spain, Austria, Portugal, Greece, Italy, Denmark, Belgium, Norway and Sweden.

time, the enterprises maintain contact with a potential labour bank, which generally makes it easier to fill vacancies.

job rotation schemes are used to some extent in most of the European countries¹³. One ADAPT project brings together 13 projects in 11 Member States and has 5 000 participants.

Job placement service

Job placement services constitute another public measure for avoiding recruitment problems among SMEs. The aim of this system is primarily to give unemployed people work experience in enterprises, while reducing the shortage of manpower in the enterprises by giving work to the unemployed. The enterprises typically receive a wage reimbursement from the public authorities. Job placement services operate in the Netherlands, Luxembourg, Belgium, Sweden, Denmark, Germany and Norway.

In Luxembourg for example, job seekers below 30 years of age are offered a job in an enterprise for a maximum of 12 months, with a remuneration of minimum 80 % of the social minimum salary in Luxembourg¹⁴. The unemployed cannot refuse to take the job. If he/she refuses, he/she loses his/her right to unemployment benefit. In addition the employer is supposed to give priority to the 'auxiliaire temporaire' in case of further recruitment.

In Norway the job placement services is the most important measure for tackling recruitment problems offered by the Public Employment Services (PES). Through job placement the PES brings down unemployment, reduces the shortage of manpower, and hence relieves pressure on the labour market. Job placement is thus the main activity of the PES. Within the job placement services, priority has been given to sectors with the heaviest recruitment problems. The idea behind the services is to solve the bottleneck problems first by providing the business community with the key personnel they need, so that this in turn may generate added growth and an increase in the demand for labour with lower/fewer qualifications, which are easier to supply. For example, priority is given to providing enterprises with qualified engineers with special competence. Once this is done, the enterprises will be able to increase their productivity and employ more unskilled labour.

Restrictions affecting the unemployed

In order to stimulate the mobility of the labour market, and to avoid/overcome recruitment problems among enterprises, many countries have tightened the rules applying to the unemployed¹⁵. The aim of these restrictions is to extend the number of applicants for vacancies in enterprises. Measures of this nature are typically oriented towards increasing the acceptable limit for daily travel times to and from work, and/or types of job the unemployed are required to accept. If a person refuses to take suitable work or to travel to another location in order to fill a vacancy, the PES can stop unemployment benefit payments for a certain period. In addition, the PES in some countries (e.g. Italy, Norway and Denmark) is able to

¹³ The Danish Labour Market Authorities (Arbejdsmarkedsstyrelsen), Copenhagen, 1998, 'Jobrotation - afrapportering' (Job Rotation - A Report 1998). Published in connection with the conference 'Jobrotation 97', held in Copenhagen, November 1997.

¹⁴ Plan d'Action National en faveur de 'l'Employ (National Action Plan) NAP.

¹⁵ Among others in Finland, Germany, Norway, Sweden, Spain and Denmark.

offer financial support to persons who move to another part of the country in order to fill a vacancy (relocation allowance and/or travel assistance).

The ability to adapt to labour market demands both with regard to mobility¹⁶ and qualifications is considered insufficient by the public authorities/the PES. At the same time there is a high level of unemployment - which is unevenly distributed geographically - and unfilled jobs in the enterprises have been seen as the result of the following facts:

- The unemployed are unwilling to move to find a job;
- The unemployed are unwilling to travel/commute far enough to find a job;
- The unemployed are unwilling to find a new profession or lack the appropriate skills;
- Employers are often rather reluctant to offer a job to someone who has been unemployed for a long time.

Furthermore, many enterprises are reluctant to employ people living far away, and will typically reject applicants who would be commuting long distances. The enterprises see commuting in terms of problems of stability and flexibility since commuters will find it more difficult to stay on after normal working hours, if this is required. This means that they are less flexible - and enterprises also find that people who would have long travel times will generally apply for jobs closer to home. The fact that enterprises prefer employees living close to the workplace only emphasises the unfeasibility of attempting to promote the mobility of the labour market by putting pressure on job seekers to apply for work involving long commuting.

Making the labour market more transparent

In the context of corrective actions taken by public bodies to overcome recruitment problems, it is necessary to look at the initiatives implemented to make the labour market more transparent. The increasing use among enterprises of 'closed recruitment channels' reduces transparency on the labour market. In all of the countries, the public employment services only cover some of the vacancies available on the labour market. The lack of transparency on the labour market carries a risk of skill shortages because the unfilled vacancies remain invisible to a broad range of job seekers.

In most countries initiatives by public bodies are implemented to make the labour market more transparent. There are drives to:

- Promote the enterprises' use of the Internet in recruitment;
- Encourage the enterprises' use of regional employment services;
- Advertise vacancies on computers in e.g. libraries and shopping malls;
- Advertise vacancies on television and radio;
- Advertise vacancies in newspapers.

Since 1997, the regional job centres in Switzerland have co-operated with private employment agencies to offer an 'Internet database for job seekers', where people who are looking for jobs can call up vacancies on self-service terminals, which can

¹⁶ In Section 3.3 the issue of cross-border mobility is looked at in more detail.

be found in the job centres themselves. Before long, it will also be possible for employers to register vacancies via e-mail or on the website of a regional job centre.

In Iceland, each Regional Employment Agency is well aware of the employment situation in their region and the fluctuation of demand for labour in certain fields. The regional agency provides information about vocational training, work and prospects in the Icelandic economy, so that the unemployed can find more accurate information about educational and work-related possibilities.

Corrective actions by public bodies, summary

As described above, many schemes have been devised by public bodies to counter recruitment difficulties among enterprises and to overcome identified skill shortages. In short, these consist of:

- Providing training/education for the employed and unemployed within identified areas of skill shortages, with the aim of improving specific qualifications/skills among the labour force in order to meet the demand for skills in enterprises;
- Providing and (co)financing training activities among the employed and unemployed in general, in order to upgrade the skills and qualifications of the labour force;
- Providing job placement services, where enterprises receive grants to employ the unemployed, reducing the shortage of manpower, upgrading the skills among unemployed and relieving pressure on the labour market;
- Stimulating job search activity among the unemployed, in order to increase mobility and to secure a flexible labour market with no mismatch problems;
- Improving the transparency of the labour market in order to make vacancies visible to a broad range of job applicants and thus increasing the enterprises' possibility of filling vacancies. The goal is also to hinder mismatch problems.

Most of the corrective actions to overcome skill shortages are indirect in nature, since the aim is to secure a flexible labour market by upgrading the skills/qualifications of the labour force, and by promoting high mobility and transparency. Although examples exist of schemes to identify skill shortages within specific areas, these are more rare.

The above-mentioned corrective actions undertaken by public bodies are not explicitly aimed at SMEs. SMEs will, however, in all likelihood be the first to benefit since their recruitment and training procedures are not as streamlined as those in large enterprises, where special departments exist, as corporate institutions, to deal with human resource recruitment. On the other hand, the institutionalisation of training and recruitment in large enterprises makes them better prepared to handle the administrative regulations connected with public programmes and co-financing activities.

3.3 Mobility of labour

One way for SMEs to overcome recruitment problems and skill shortages is to employ staff from other western European countries. Mobility of labour is one of the corner stones of the Single Market. Huge efforts have been made by the

Commission¹⁷ in recent years to remove the remaining barriers restricting the movement of people from one Member State to another to find work. The aim of this drive is basically to extend employment opportunities for people across the Union and to tackle problems of skill shortages in particular areas. However, the potential for migration and cross-border commuting has not been exploited fully and certain mechanisms work to hinder the mobility of labour. In contrast to the situation in the USA, there is generally no cross-border mobility culture in Europe. In the USA people tend not to hesitate to move with their families thousands of miles to find a new job. Furthermore, the higher level of mobility in the USA is a result of a common language, equal regulations and diplomas. Seen in the context of SME competitiveness, this limited mobility restricts the enterprises' flexibility in terms of access to qualifications and thus their opportunity to respond to increasing competition. In a period where employment is increasing in several Member States, the geographical mobility of the labour force will be of increasing importance if skill shortages and other labour market problems are to be avoided.

3.3.1 Labour recruited by SMEs from other western European countries

Cross-border mobility can happen in two ways - either as commuting or as settling and working in other countries. The scope for international commuting is quite limited since less than 0.8 % of employees in all countries of the EU are commuters from other EU countries, except for Belgium where 1.5 % of the employed are commuters from other EU countries¹⁸. In most countries EU citizens from other countries constitute around 1-2 % of the total population¹⁹. The exceptions are Belgium, Liechtenstein, Switzerland and Luxembourg, where EU citizens from other EU countries constitute between 5 % and 29 %. Although the figures are from 1994, and concern the population in general and not employment, a pattern of relatively low level of mobility is still revealed.

The ENSR Enterprise Survey 1999 raised certain questions about the SMEs' employment of staff from other western European countries. The results of the survey confirm the overall conclusion that cross-border mobility within the European Economic Area (EEA) and Switzerland is quite limited, and Table 3.7 shows that in the last three years approximately 4 % of SMEs have employed staff from another western European country.

Employing staff from other western European countries is most likely to happen in medium-sized enterprises where more than a quarter of the enterprises have replied 'yes' to having given employment to non-nationals within the last three years.

There are huge differences between the countries. In Liechtenstein 30 % of the enterprises have employed staff from other western European countries, followed by Switzerland and Luxembourg where around 25 % of the enterprises have employed staff from other western European countries.

In Norway this is the case for 12 % of the enterprises, while less than 6 % of the enterprises in the rest of the countries have employed staff from other western European countries. Naturally, the scope for employing foreign staff is better in

¹⁷ Amongst others following initiatives/programmes: EURES, INTERREG; Socrates, and Leonardo.

¹⁸ European Commission, *Employment in Europe*, Brussels, 1997.

¹⁹ Eurostat, *Migration Statistics 1996*, Luxembourg.

Table 3.7 Proportion of SMEs that have employed staff from other western European countries during the last three years, by enterprise size, Europe-19

Size class	<i>Employed staff from other western European countries</i>			Total
	Yes	No	Don't know/no answer	
0 employees	2 %	95 %	3 %	100 %
1-9 employees	5 %	94 %	1 %	100 %
10-49 employees	11 %	88 %	1 %	100 %
50-249 employees	27 %	72 %	1 %	100 %
Total	4 %	94 %	2 %	100 %

Source: ENSR Enterprise Survey 1999.

countries with close neighbours, and in countries where language is less of a barrier. If Norway is considered on its own, the figures indicate that high and rising employment combined with recruitment problems can to some extent be countered by employing staff from other countries. In other words, demand for labour will often be the starting point - almost the only one - for mobility across the borders.

3.3.2 Barriers in SMEs against employing staff from other western European countries

The survey also asked the enterprises employing staff from other western European countries what kind of problems they have faced in employing staff from these countries. Table 3.8 indicates that the main problem concerned administrative regulations.

Table 3.8 Proportion of SMEs which faced the following problems when employing staff from other western European countries, by enterprise size, Europe-19

	<i>Number of employees</i>				Total
	0	1-9	10-49	50-249	
Administrative burdens	34 %	24 %	25 %	24 %	26 %
Problems with labour permits	22 %	24 %	12 %	15 %	21 %
Problems with trade unions	13 %	11 %	7 %	2 %	10 %
Problems in understanding foreign qualifications	14 %	5 %	6 %	5 %	7 %

Source: ENSR Enterprise Survey 1999.

About a quarter of the enterprises found administrative burdens to be the main barrier against employing staff from other countries. Furthermore, about a fifth of the enterprises faced problems with labour permits, while trade-union issues and difficulties in understanding foreign qualifications were identified as a problem for less than 10 % of the enterprises. Only small differences were identified as size-related.

3.3.3 General barriers against cross-border mobility

Although the barriers against cross-border commuting have been brought down considerably in recent years, significant obstacles are still preventing people from

working in another Member State²⁰. Linguistic and cultural barriers are well-known impediments, which are documented in various analyses and studies²¹. Of the various other barriers the problem of acknowledging foreign qualifications in particular seems to be a serious obstacle in the various countries.

According to a report from the European Social Fund Evaluation Unit, it is apparent that national systems for certification and definition of awards of qualifications vary enormously. It is concluded that national systems and definitions are very much tied up with the cultural heritage and values of individual Member States, and that educational and vocational awards reflect such national differences. Although CEDEFOP, for example, is working to achieve transparency so that the 'contents' of educational and vocational awards can be made apparent, it will take some time before this is achieved.

In Sweden and Italy, for example, recognition of foreign qualifications is seen as the main barrier against cross-border mobility. The issue concerns both the difficulties faced by employers in evaluating qualifications acquired in other countries and the existence of strict professional barriers in certain occupations. When employers are unfamiliar with 'foreign' qualifications and diplomas they often find it difficult to assess the skills and knowledge of applicants, and the applicants may feel that they are unjustly rejected for posts for which they are in fact qualified.

This view is supported by the results of a study commissioned by the Swedish Employers' Confederation (SAF). In this study, 401 Swedish employers were interviewed on what they regarded to be the main difficulties in employing foreigners. The two main difficulties identified by the employers were problems in assessing foreign education and the professional experience of foreign employees. More than 80 % of the employers saw these factors as a problem.

The Commission is aware of the problems in mutual recognition of qualifications. The general EU Directives²² stipulate that everyone has the right to practice his/her occupation in all the EU/EEA countries, but that certain conditions will nonetheless apply in certain situations:

- A. Where the host state is able to provide evidence of substantial differences between the education and training received and that required;
- B. Where there are, in the host state, differences in the fields of activity characterised by specific education and training, relating to subjects which differ substantially from those covered by the applicant's qualification;
- C. Where the duration of the migrant's education and training is less than that required in the host state.

With regard to the other barriers restricting a higher level of cross-border mobility, the following should also be mentioned:

- Differences related to e.g. terms of employment and work environment regulations;

²⁰ European Commission, *Employment in Europe*, Brussels, 1997.

²¹ *Op. cit.*, and European Social Fund Evaluation Unit, *Conference Report, Mobility in the EU - Implications for the European Social Fund*, Ireland, 1997.

²² Council Directive 89/48/EEC on a general system for the recognition of higher-education diplomas, awarded on completion of professional training of at least three years' duration, and Council Directive 92/51/EEC on a second general system for the recognition of professional education and training which complements Directive 89/48/EEC.

- Differences related to different tax regulations and wage levels, which make it difficult to work in countries with lower salaries and live in countries with higher taxes.

Finally, it is also necessary to address issues concerning the lack of transparency in the different labour markets. For the unemployed in a given country it is relatively difficult to find out about vacancies abroad. In order to cope with this problem the European Commission has developed the EURES²³ network to promote placement of foreign labour and provide an information service about vacancies in and outside the EU.

In conclusion, the figures for commuting and settling in other countries presented earlier in this section indicate that the level of cross-border mobility is still relatively low, and that barriers remain to be overcome. The low level of cross-border mobility indicates that for the present this is not the most extensively used means to overcome recruitment problems and skill shortages. Thus, it must be emphasised that vacancies and an extensive need for skilled labour would be the best reasons for promoting a higher level of cross-border mobility. In this context, the situation in Norway where the Common Nordic Labour Market has been of great importance for the Norwegian labour market is a useful point of reference. The Nordic Labour Market functions as a buffer zone and has played an important role in reducing bottlenecks, particularly within the building and construction trades and the health service.

3.4 The taxation system

Even though the economic situation in many countries is better now than in the mid-1990s, this improvement has not automatically created employment opportunities for everyone. There is still a group of people whose skill levels are likely to remain limited. In order to reintegrate this group into the labour market and create employment opportunities for it, the overall cost of employment for this group must be reduced. One way to reduce labour costs to an appropriate level in relation to productivity for this group, is to reduce the taxes on labour and VAT on labour-intensive services.

The focus here is on the efforts made in the EEA and Switzerland to increase employment by implementing new policies in these areas. On the basis of the 1998 Employment Guidelines, each Member State has by now produced a 'National Action Plan' (NAP) on employment, and presented it to the Commission. The plans were revised in 1999 to take the 1999 employment guidelines into account.

The Employment Guidelines consist of four 'pillars'. The drive for increased employment based on reforms of the taxation system and reduced VAT is included in the second pillar, *Entrepreneurship*. With regard to taxation, the Commission encourages Member States to '... make the taxation system more employment-friendly and reversing the long-term trend towards higher taxes and charges on labour'.

Each Member State is thus called upon to '... set a target, if necessary and taking account of its present level, for gradually reducing the overall tax burden and, where

²³ EURES (European Employment Services) The EURES Network offers information about vacancies in the EU, and few other countries, including the USA.

appropriate, a target for gradually reducing the fiscal pressure on labour and non-wage labour costs, in particular on relatively unskilled and low-paid labour, without jeopardising the recovery of public finances or the financial equilibrium of social security schemes. It will examine, if appropriate, the desirability of introducing a tax on energy or on pollutant emissions or any other tax measure; ... and to '... examine, without obligation, the advisability of reducing the rate of VAT on labour-intensive services not exposed to cross-border competition'.

A major reason for the inclusion of the taxation system in the Employment Guidelines is that many jobs in the European Union are left unfilled because of current labour cost levels²⁴. The Commission's wish to support this kind of efforts is to be seen as an element in a broad policy aimed at increased employment. The European Employment Report 1997²⁵ stipulates: 'At the same time, efforts to improve the skill levels of the work force must go hand in hand with continued efforts to ensure sufficient flexibility in labour markets and that labour costs are conducive to job creation so that employment opportunities are provided for those whose skill levels are likely to remain limited irrespective of the kind and extent of training received. This means that the overall cost of employment for the latter, including the non-wage element, is at an appropriate level in relation to productivity and that artificial barriers inhibiting job creation are removed.'

3.4.1 Reduced tax and costs of labour

Increased employment and reduction of unemployment have been at the top of the European agenda for a long period. Despite the actual increase in demand for labour among the SMEs in general, many groups on the labour market still have difficulties in getting a job. The level of labour costs may be too high for certain groups to be worth hiring. One way to bring labour costs down to a level to match these groups' productivity is to cut taxes on labour - as described in the 1998 and 1999 Employment Guidelines.

The reduced tax on labour deployed in labour market policies is a very broad strategy and therefore difficult to target specifically at disadvantaged groups. Changes to any taxation system are always complex and politically sensitive as they have consequences for many other issues in the national economy since they affect the general incentive structure (not only the incentive to work) and the scope for making distribution policies.

The employment guidelines call for reducing the fiscal pressure on labour and non-labour costs particularly on relatively unskilled or low paid labour, but there are still difficulties to overcome.

Some eighteen months after the introduction of the Employment Guidelines, all Member States have now submitted and subsequently revised their National Action Plans on employment to the European Commission. Not all the measures included in the Employment Guidelines are included in every one of the NAPs. The differing situations of the Member States in relation to the four pillars in the Guidelines have resulted in differing solutions and emphases in the NAPs.

²⁴ This discussion was also included in the Fifth Annual Report of The European Observatory for SMEs. In Chapter 5 it was emphasised that the employment may be increased by a reduction of payroll taxes.

²⁵ European Commission, European Employment Report 1997, Executive summary. <http://www.europa.eu.int/comm/dg05/elm/summit/en/papers/emploi1.htm> (situation on 25 September 1999).

Nine countries are now using elements of their taxation system, or are implementing actions to reduce the non-wage labour costs, to stimulate increased employment. These countries are Belgium, Denmark, France, Germany, Ireland, the Netherlands, Portugal, Spain and the United Kingdom.

In most of the EU and EEA countries the taxation systems include an element of progressive taxation. This type of taxation system is meant to favour those on relatively low incomes, and as such is conducive for the low-paid to take up work. When a taxation reform that includes an increased element of progression in the taxation system (resulting in lower taxes for those on low pay) has been implemented in 1998/99, it will be included in the assessment below.

In the analyses of the NAPs, different elements in the initiatives implemented by the nine countries are found. A key element in the taxation reforms implemented in the nine countries (except Belgium) is a lowering of the overall taxation of labour and/or a general reduction of the non-wage costs of labour. This favours increased employment generally, since labour becomes relatively less costly for the enterprises.

In all countries (except Portugal and Germany) the taxation systems make special allowances for low-paid employees as the element of progressive taxation is increased or the reduction of non-wage costs is focused on the low-paid groups. This should further stimulate job creation for this group.

In Belgium, Luxembourg, France and the Netherlands the focus is on reductions of the non-wage costs (the social security system and tax rebate for employers) and favours increased employment of low-paid employees by reducing the employers' costs when they recruit from this group. In Germany there is a similar measure aimed at recruiting unemployed. In Portugal there is an initiative aimed specifically at creating jobs for young people under the age of 30.

The reforms focus very little on SMEs specifically, and only two countries have incorporated the SME perspective in their measures. In one of these, Portugal, the taxation reform targets SME-dominated sectors, and in the other, Belgium, special allowance is made for very small enterprises in that reductions of employers' national insurance contributions apply to the first, second and third employee. In all the other countries, the reforms favour the employees, rather than the employers and the enterprises. However, there is no doubt that many SMEs in the countries that have introduced incentives for increased employment for low-paid employees stand to benefit, since SMEs are generally more labour-intensive and pay lower wages than LSEs²⁶.

3.4.2 Reduced VAT on labour-intensive services

Reduced VAT on labour-intensive services is another element in the general drive to create job opportunities for the low-skilled. This issue is not given much focus in the Employment Guidelines, which merely recommend that Member States should examine without obligations the advisability of reducing the VAT rate on labour-intensive services.

Reduced VAT is not used to the same extent as general reductions of tax on labour.

²⁶ ENSR, The European Observatory for SMEs, Fifth Annual Report, Zoetermeer, 1997.

ENSR found²⁷ that only France has used reduced VAT on labour-intensive services in their employment generation drives subsequent to the release of the Employment Guidelines in 1998. The reduced rate of VAT on labour-intensive services started 15 September 1999 in France. The VAT rate was reduced from 20.6 % to 5.5 % on services related to renovation works on houses and personal services rendered at home. It is expected that this will primarily stimulate the very small enterprises to enter the market and provide the services to consumers (private households). However, there are no direct obstacles in the initiatives to prevent larger enterprises from entering this business area.

SMEs - and very small enterprises in particular - are thus expected to benefit the most from reduced VAT on labour-intensive services.

The very limited use of reduced VAT on labour-intensive services in employment generation drives may be explained by the uncertainties surrounding the effectiveness of this type of initiative. The Commission expresses concerns about the potential for any positive effects, and about the unintended negative impacts of reduced VAT on labour-intensive services. All EU countries should consider introducing reduced VAT on labour-intensive services before September 1999, as a new Directive²⁸ on the issue sets this date as the cut-off month for Member States seeking to implement this kind of initiative in the test period extending through to 2002. This Directive could speed up the process and encourage more countries to introduce reduced VAT on certain types of labour-intensive services.

3.4.3 The barriers against extended use of the strategies used in the drive to generate employment

The reasons for not introducing reduced taxation on labour and reduced VAT on labour-intensive services in employment generation drives differ from country to country, as the fundamental criteria for use of such strategies differ. Three main explanations may be offered:

- Budgetary constraints;
- Low unemployment;
- Doubt about the effectiveness of the strategy.

Budgetary constraints

A general barrier against the deployment of tax incentives and reduced VAT on labour-intensive services in employment generation drives are the budgetary constraints. This has especially been the case in recent years when most countries focus on the Maastricht criteria and thus pay special attention to budget deficits and public spending. In Greece and Italy especially this seems to be an important barrier to the introduction of a general tax reform, but in all countries it is an issue which receives much attention from policy makers.

²⁷ Source: ENSR-partners on the basis of the NAPs and other national sources. A number of countries have differentiated VAT, but only reduced VAT on labour-intensive services aimed at increased employment is included in this assessment.

²⁸ European Commission, Proposal for a Council Directive amending Directive 77/388/EEC as regards the possibility of applying on an experimental basis a reduced VAT rate on labour-intensive services, COM (1999), 62 Brussels, final. This Directive has been adopted in 1999, and eight Member States have permission to charge a lower VAT rate in selected areas for a limited period.

Budgetary constraints could be solved by introducing taxation reforms that ensure budgetary neutrality. The Commission suggests increased taxation on other areas such as energy and pollutant emissions when taxation on labour is reduced. Some countries (e.g. Denmark, Germany, Sweden and the United Kingdom) have introduced this general shift in taxation areas, with an increasing proportion of taxes deriving from environmental taxes. In Denmark, for example, environmental taxes have increased from 7 % of the total taxes in 1993 to 10 % in 1998²⁹. Other examples of changes come from Germany, which has raised its VAT, and France, which has changed the basis for financing of its national health service.

Low unemployment

Some countries do not face serious unemployment problems and a lack of employment opportunities for low-skilled labour. Such countries therefore see no need to implement this kind of general drive and tend to instigate more specific measures in their labour market policies, which are easier to direct at the target groups (these measures are included under the first pillar, 'Employability', in the NAPs). This is for example the case in Iceland and Luxembourg.

Ireland is considering the introduction of further reductions in the taxation on labour in order to increase employment, but as Ireland has experienced a long period of rising employment, there are some fears that the economy may overheat if any further reductions in taxation are pursued.

Doubt about the effectiveness

This is a general barrier to introducing reduced VAT on labour-intensive services. As mentioned earlier, the Commission expresses doubts about the benefits of reducing VAT and is concerned about the potential for unintended negative effects. This concern is reflected in many of the NAPs, and has prevented these countries from a further use of this incentive in their employment generation drives. This is the case in e.g. Austria, Luxembourg, Portugal, Spain and the United Kingdom. The UK NAP from 1999 states that: 'The selective reductions in the VAT do not increase employment and do not tackle the labour supply problems which we believe hold the key to improving UK employment performance.'

The doubts expressed by many countries concern whether reduced VAT on labour-intensive services would actually lead to reduced consumer prices and an increase in demand (and hereby increased employment) to cover the cost of this initiative. Some countries, for example Denmark and Finland, have introduced subsidies for labour-intensive services instead of reduced VAT.

3.4.4 Expected results from the implemented actions

Most of the countries that have introduced reduced tax on labour find it very difficult to predict the effects of the incentive³⁰. Some of the initiatives have only been implemented very recently and no effects have as yet been observed. In the

²⁹ (Finansministeriet) Evaluering af grønne afgifter og erhvervene (Evaluation of Green Taxes and Business), Copenhagen, 1999.

³⁰ For example: Conseil Supérieur de l'Emploi, des Revenus et des Coûts, 'Rapport au Premier Ministre. L'allègement des charges sociales sur les bas salaires' (Report to the Prime Minister. The decrease of social taxes on low wages), Ed. La Documentation Française, Paris, 1996. And Barry, Frank, 'Introduction', in Frank Barry (ed.), Understanding Ireland's Economic Growth, London and New York: Macmillan Press and St. Martin's Press, 1999.

countries where taxation reforms have been in operation for a longer period, problems in identifying the direct impacts on employment remain unsolved. This is especially the case for the countries that have implemented general reforms in their taxation systems.

Use of the taxation system targets major structural problems on the national labour markets, and aims at generating a more employment-friendly business environment. Assessment of the impacts of taxation reforms is hampered by the very general nature of such initiatives, since it is immensely difficult to distinguish the effects of a taxation reform from effects derived from other initiatives and the general economic trends in a country.

Ireland is a good example of this situation, since it has deployed reduced tax on labour to generate employment for an extended period. The Irish labour market is very open and is to a large extent connected to the UK labour market. Because of this, Irish labour market outcomes generally cannot be explained solely in terms of Irish conditions without reference to developments in the United Kingdom. Furthermore, in Ireland many other favourable factors have contributed to the growth of the economy, e.g. a strong inflow of foreign direct investments and subsidies from the European Structural Funds.

The countries which have implemented a reduction in the non-wage labour costs (or the employers' tax for low-paid employees) in general find it equally difficult to assess the impacts. France, which has made use of reduced non-wage labour costs for special groups of employees, has, however, been able to identify largely positive effects in terms of job creation and job maintenance benefits³¹. However, there has been no assessment of the cost-benefit ratio of this model, which would enable comparison with other initiatives aimed at increasing employment.

In both the French³² and the Dutch³³ examples there are indications that SMEs in particular have benefited from the tax incentives, as they have made more use of low-paid labour than LSEs did. No evaluations have been made to provide more details on this issue.

3.5 Policy issues

Recruitment problems and skill shortages have serious impacts on SMEs. Lack of skilled labour is a major constraint on business performance in almost 10 % of SMEs. Almost a quarter of the SMEs have in recent years often or from time to time found it difficult to fill vacancies, and many SMEs have consequently experienced a considerable limitation to their business. On the one hand, recruitment problems are worse for the biggest SMEs, while difficulties in filling

³¹ Ministry for Employment and Solidarity, 'Bilan de la politique de l'emploi en 1997' (Assessment of the Employment Policy in 1997), Les Dossiers de la DARES, No. 1-2, Ed. La Documentation Française, Paris, December 1998.

³² Conseil Supérieur de l'Emploi, des Revenus et des Coûts, 'Rapport au Premier Ministre. L'allègement des charges sociales sur les bas salaires' (Report to the Prime Minister. The decrease of social taxes on low wages), Ed. La Documentation Française, Paris, 1996; Demailly, D., and Le Mînez, S., 'Les salariés à temps complet au voisinage du SMIC de 1976 à 1996' (Full-time salaried around the SMIC from 1976 to 1996), INSEE PREMIERE, No. 642, April 1999.

³³ Nes, P.J. van, E.A.M. Stotijn en J.J. van Velden, Evaluatie van het gebruik van de afdrachtskorting lage lonen (Evaluation of the use of the Specific reduction of employer's tax for low-paid employees, NEI, 1998, Rotterdam, and assessment by ENSR partner.

vacancies are increasing in proportion to the number of existing employees in the enterprises. On the other hand, the bigger SMEs are better equipped to overcome recruitment problems, while the smaller SMEs are less ready to deploy corrective actions to overcome problems with unfilled vacancies. The smallest SMEs give up filling vacancies to a significantly higher degree.

About a fifth of all SMEs facing recruitment problems give up filling vacancies, which in a situation with 18 million unemployed people in the European Economic Area and Switzerland, highlights the urgent need for implementing corrective actions in order to overcome recruitment problems and problems with skill shortages. The EU and the individual public bodies are making many efforts in this field to secure a well-functioning labour market, but apparently without success.

Thus, an SME-oriented policy in the field of recruitment and skill shortages should take some of the following elements into account:

- The system of anticipating skills shortages should be improved in order to foresee problems beforehand instead of recognising problems that have already occurred. A better system of anticipation would improve the possibilities for implementing the appropriate corrective actions within a realistic time perspective. A way to improve the anticipating system could be for the PES to encourage SMEs themselves to inform the PES earlier of their recruitment needs. This would also contribute to the improvement of the possibilities for addressing the actual needs and problems in specific sectors and/or within specific qualifications, thus providing a more solid foundation for implementing specific corrective actions.
- The central and decentralised public bodies should improve their dialogue with the enterprises in order to stress the importance of seeing recruitment as a strategic field of action in line with e.g. investments in continuing vocational training. Many SMEs are typically local and 'present-day' oriented in their recruitment efforts. If they do not contact the regional PES until all other possibilities for recruiting have failed, the PES does not have a very good chance of helping SMEs to overcome their recruitment difficulties.
- The central and decentralised public bodies should give priority to the smallest SMEs in an improved dialogue. The smallest SMEs' possibilities for relocating staff within the enterprise are more limited, and they do not have the institutional set-up for handling recruitment as the bigger SMEs have, where there is often a special department or dedicated employees with responsibility for recruitment.
- Central and decentralised public bodies should encourage SMEs to use open recruitment channels (e.g. PES and the Internet) in order to make vacancies visible and create transparency in the labour market. It would also seem relevant in this connection to encourage the SMEs to use EURES in order to widen the recruitment possibilities and in order to promote cross-border mobility.
- The existence of skill shortages is to some degree connected to the SMEs' use of closed recruitment channels, and the consequent lack of transparency in the labour market. The proposals mentioned for an SME-oriented policy in the field of recruitment and skill shortages suggest attempts to create transparency in the labour market, and to stimulate SMEs to handle recruitment as a strategic field, making it possible to identify skill shortages beforehand instead of when they have already appeared. Nevertheless, one may expect that SMEs to a certain extent will still use closed recruitment channels, with subsequent difficulties in

attracting people to unfilled vacancies. Part of the job openings/unfilled vacancies will simply not be visible for many job seekers. Therefore, it is assumed to be insufficient for the regional bodies to improve their dialogue with the SMEs. They should simultaneously encourage job seekers (unemployed as well as employed) to contact enterprises in the local/regional area. Since many vacancies are fulfilled by use of closed recruitment channels, job seekers will increase their chances of finding employment by contacting the enterprises directly.

4 Access to finance

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MAIN POINTS

- The financial structure of an enterprise seems to depend more on the financial system and financial habits of the country in which the enterprise operates than on characteristics of enterprises such as size, sector, age and even profitability.
- The smaller the enterprise, the greater are the international differences in their financial structure. In other words, there seems to be an international convergence in financing patterns for larger enterprises.
- In almost all countries of the European Economic Area and Switzerland, entrepreneurs mention access to finance as one of the most important constraints for the development of the enterprise.
- In this chapter four categories of enterprises are distinguished: Early Stage Enterprises, Small Mature Enterprises, Highly Innovative Enterprises and Expanding (High Growth) Enterprises. Compared to the other categories of enterprises a larger percentage of Early Stage Enterprises considers access to finance as the major constraint.
- Apart from bank credit, informal sources including money from friends and relatives as well as Business Angels are important financiers of Early Stage Enterprises. Business Angels are not only providing financial means but also commercial skills, entrepreneurial experience and business know-how.
- Only a relatively small percentage of the Small Mature Enterprises feel the access to finance as a major constraint. In general these enterprises can either finance their activities by bank credit or by retained profits.
- Expanding Enterprises seem to have a slightly better access to bank credit than Early Stage and Highly Innovative Enterprises do. This would suggest that banks have more interest in providing credits to these enterprises probably because of the enterprises' dynamic profile.
- Three main reasons can be mentioned to explain why the financial sector is reluctant to finance Highly Innovative Enterprises through its traditional channels: the uncertainty of expected returns, the benefits cannot be fully protected and the indivisibility of the investment.
- Besides bank credit, venture capital is seen to be an important source for Highly Innovative Enterprises as well as Expanding (High Growth) Enterprises.
- Almost all Member States have developed measures in the field of financing SMEs. Some of these measures are already aimed at the target groups identified.

4.1 Introduction

There is much concern about the specific problems small and medium-sized enterprises (SMEs) encounter in their attempts to access finance. From the perspective of the enterprise, financial capital is a tool necessary for financing the value-added producing activities, whereas from the perspective of financing institutions the same financial capital is an asset entitled to earnings and, in case of loans, to repayment. In consequence, the complex story of enterprise financing is about finding an optimal fit between the supply and the demand for funds.

Possible sources of supply are either internal, retained profits and depreciation accruals (i.e. cash flow), or external. External sources can be distinguished according to the nature of contract between the provider and the user of funds (formal or informal) and the type of contract (own capital financing or debt financing). On the demand side, the reasons for which enterprises may seek additional finance are, broadly speaking, twofold: working capital and investment. In consequence, the job left to the financial system is to find the best possible match between the sources of supply of funds and the types of demand for financing emanating from the enterprises.

The variety of possible contracts may suggest that the financial system is, at least in its operations, highly fragmented, but this is only a first impression. The supply of funds to each of the segments is governed by two main characteristics: expected return and level of risk. If the financial system is operating efficiently, it is supposed to allocate the funds in such a way as to achieve an equal level of expected returns adjusted for risk across all the supply channels¹. This is a theory-driven and highly idealised view.

The underlying question is thus to know whether the financial system is providing sufficient and necessary funding to the SMEs. At this point, two main methodological difficulties have to be mentioned:

- The classification of possible financial contracts mentioned above may seem very simple indeed. When it comes to empirical and comparative studies, however, the picture becomes more and more blurred due to the fact that the same transaction can be described in a number of ways and because of the variety of national institutional contexts and regulations.
- The empirical material generally captures only the final outcome, i.e. the effective financial transaction. Any conclusions about the perception of risk by the providers of funds and the desired level of funding (demand) by the enterprises based on such data are highly tentative in nature.

4.2 Access to finance and bank credit

4.2.1 Access to finance as a constraint

In the ENSR Enterprise Survey 1999², SMEs were asked to identify the main factor impeding their business performance during the previous year from a list of eight possible factors³. The item access to finance was one of these eight factors.

¹ See for example: Brealey, Richard A., and Stewart C. Myers, *Principles of Corporate Finance*, McGraw-Hill International Editions, Singapore, 1988.

² See Annex I to this report: The set-up and analyses of the ENSR Enterprise Survey 1999.

³ Details by sector and size class are presented in Table 3.1 in Chapter 3 of this report.

Large country differences resulted, the proportion of enterprises experiencing no constraints for example varied from 9 % in Portugal to 41 % in the Netherlands.

The second column of Table 4.1 shows that apart from Ireland, access to finance is among the three most important constraints (out of eight) in all 19 countries in the view of the entrepreneurs. Three groups of countries can be distinguished:

- Seven countries - mostly Nordic and Southern with the United Kingdom - where access to finance comes out as the major constraint;
- Six countries - more continental - where access to finance is the second major constraint;
- Six countries - mostly small continental and Ireland - for which the constraint access to finance comes in third or fourth place.

The third column in Table 4.1 shows the percentage of SMEs that identify access to finance as the major constraint.

An alternative measure of the relative importance of access to finance is the proportion of enterprises that mention access to finance as their major constraint with all enterprises that identify any major constraint for their business results. Column 5 of Table 4.1 shows that this measure would result in a ranking of countries, which is very similar to the one used in column 2.

Table 4.1 Access to finance as major business constraint by SMEs, in relative and absolute terms by country*

	<i>Rank of the constraint access to finance</i>	<i>% of enterprises with access to finance as major constraint</i>	<i>% of enterprises with another major constraint</i>	<i>Relative importance of access to finance as major constraint</i>
Greece	1	22 %	63 %	26 %
United Kingdom	1	19 %	57 %	25 %
Denmark	1	19 %	69 %	21 %
Italy	1	18 %	61 %	23 %
Sweden	1	17 %	47 %	26 %
Spain	1	16 %	50 %	24 %
Norway	1	12 %	53 %	19 %
Portugal	2	16 %	75 %	17 %
France	2	13 %	73 %	15 %
Iceland	2	12 %	63 %	16 %
Switzerland	2	10 %	53 %	16 %
Germany	2	9 %	64 %	12 %
Finland	2	7 %	57 %	11 %
Liechtenstein	3	8 %	69 %	10 %
Luxembourg	3	8 %	70 %	10 %
Austria	3	8 %	74 %	9 %
Belgium	3	6 %	66 %	8 %
Netherlands	3	5 %	51 %	9 %
Ireland	4	7 %	65 %	10 %
Europe-19	3	14 %	61 %	19 %

* The countries are ranked according, firstly to the rank of the constraint access to finance (column 2) and, secondly, according to the % of enterprises perceiving it as the major constraint (column 3).

Source: ENSR Enterprise Survey 1999.

Table 4.2 presents the same data as Table 4.1 but broken down by size class instead of by country. Two tentative conclusions can be drawn here:

- The absolute importance of the constraint access to finance as well as its rank is negatively correlated with the enterprise size: the smaller the enterprise the more important is the constraint access of finance (as compared to the other constraints);
- The proportion of enterprises perceiving any major constraint is positively correlated with size, the proportion of enterprises that do not suffer from any major constraint diminishes with size class. In that perspective, it could be argued that the constraint of finance is relatively lowest for medium-sized enterprises, as compared to enterprises without employees and small enterprises.

Table 4.2 Access to finance as enterprise constraint by enterprise size, Europe-19

	<i>Rank of the constraint access to finance</i>	<i>% of enterprises with access to finance as major constraint</i>	<i>% of enterprises with another major constraint</i>	<i>Relative importance of access to finance as major constraint</i>
(1)	(2)	(3)	(4)	(5) = (3) / (3 +4)
0 employees	1	16 %	55 %	23 %
1-9 employees	2	12 %	68 %	15 %
10-49 employees	3	14 %	69 %	17 %
50-249 employees	3	8 %	77 %	10 %
Total	1	14 %	61 %	19 %

Source: ENSR Enterprise Survey 1999.

Generally speaking, for most small enterprises, and to a limited extent medium-sized enterprises, own capital comes from private and informal sources, whereas debt financing is provided by the banking sector. In this context, complaints about access to finance could mean a difficult access to either one or both of the above-mentioned sources of finance. The data presented give an overall indication about the perceived frustrated demand for finance by the enterprises, but they do not identify the kind of finance the responding entrepreneurs had in mind (was it debt financing or own capital financing coming from formal or informal sources). Also the data do not allow one to draw any conclusion about the reasons for this state of affairs. Is it because of insufficient, or inadequate, supply of funds, is it because of inappropriate conditions⁴ or because the financial institutions perceive the demand for funds by the enterprises as being too risky?

4.2.2 Rate of bankarisation

Bank credit is the most common, and for many enterprises the only, external source of funds. Banks usually provide three types of credit to the enterprises: investment credit which is usually long-term, working capital credit, and in some cases an emergency credit like overdraft facilities. In the ENSR Enterprise Survey 1999 information was collected on the proportion of enterprises that currently

⁴ A recent study has shown that between 1993 and 1997 the cost of borrowing for the enterprises has decreased, following the general trend on the world markets initiated in early 1990s. Grant Thornton International, The European Business Survey - prospects and issues for SMEs, Number 7, London, Spring 1999.

have a bank credit, however without further details. The percentage of enterprises having a credit provided by a bank is called here the rate of bankarisation.

Banks across Europe have been segmenting their clients in different ways, but two extreme segments are more or less common. At the lower end retail banking dealing with personal finance, which in practice often includes very small enterprises, and at the higher end corporate finance for important and strong enterprises. In this segmentation micro and small enterprises are somewhere in between. Table 4.3 presents the rate of bankarisation of micro and small enterprises by country.

Generally speaking, one would expect that the rate of bankarisation would be low in countries where access to finance is felt as a major constraint, but this does not seem to be the case: enterprises in Norway and Sweden for example seem to experience the same strength of the access to finance constraint, but have a very different rate of bankarisation. The same paradox holds for Liechtenstein and Austria. The fact of having a bank credit may not prevent many enterprises from feeling constrained in their access to finance. In fact, nearly 12 % of all enterprises without a bank credit see access to finance as the major constraint compared to almost 19 % of the enterprises with a bank credit. Although there are country differences, in France, Belgium and Austria enterprises with a bank credit more often see access to finance as the major constraint compared with enterprises without a bank credit, and in Switzerland and Spain the percentages of enterprises are equal. However, on the one hand the enterprises with a bank credit may still feel finance as a major constraint because of the inadequate volume of the credit, or from its unsatisfactory conditions or term structure, or from the fact that the enterprise is constrained more on the own capital part of its balance sheet than on the debt part. On the other hand one must take into account that the enterprises were only asked to give the major constraint, access to finance can be a constraint but there can be other more important constraints.

Table 4.3 Rate of bankarisation* by enterprise size and country**

	<i>1-9 employees</i>	<i>10-49 employees</i>	<i>Difference:</i>
	<i>(1)</i>	<i>(2)</i>	<i>(2) - (1)</i>
United Kingdom	55 %	40 %	- 15 %
Liechtenstein	43 %	32 %	- 11 %
Germany	43 %	37 %	- 5 %
Austria	77 %	73 %	- 4 %
Iceland	74 %	69 %	- 4 %
Ireland	49 %	51 %	2 %
Norway	57 %	66 %	3 %
Spain	43 %	46 %	3 %
Belgium	57 %	62 %	5 %
Denmark	49 %	54 %	5 %
Luxembourg	39 %	44 %	5 %
Finland	59 %	66 %	7 %
Netherlands	41 %	51 %	10 %
France	43 %	54 %	11 %
Switzerland	35 %	47 %	11 %
Sweden	31 %	45 %	14 %
Portugal	39 %	56 %	17 %
Italy	51 %	70 %	19 %
Greece	29 %	56 %	27 %

* The % of enterprises with a bank credit is called here the rate of bankarisation.

** Countries have been ranked according to the size of the difference in bankarisation rates.

Source: ENSR Enterprise Survey 1999.

The differences in the rate of bankarisation for the two size classes presented in Table 4.3 strongly diverge across the countries covered by this report. In countries at the top of the table, the rate of bankarisation is higher among the micro enterprises (1-9 employees) than amongst small enterprises (10-49 employees). This holds for the United Kingdom, Germany, Liechtenstein, Iceland and Austria. In these countries banks seem to consider the small enterprises as a specific segment of the market and may have developed ad hoc financial packages. For countries in the lower part of the table, the situation is the reverse: banks seem to be reluctant to open credit lines for very small businesses.

4.2.3 Balance sheet structure matters

A complementary way of understanding the *access to finance* constraint as perceived by the enterprises would be to look at the balance sheet structure of the European SMEs. Such an analysis will give more insights into the level of own capital and debt financing⁵. The BACH database (Bank for the Account of Companies Harmonised) can be used as a basis for a number of comparative analyses of the financial structures or profitability of companies, by country, sector, size or year⁶. It covers however mainly the enterprises that, according to their national legal status, are required to publish balance sheet data. In consequence, almost by definition, BACH focuses on incorporated enterprises, leaving enterprises without employees and many micro enterprises aside⁷. Despite this limitation, BACH is the only database providing some kind of comparative picture of enterprises' financial structure across Europe. Only for 7 countries however does BACH provide a split according to enterprise size, here defined in terms of turnover.

A recent study using the BACH database⁸ not only looked at the financial structure but also at the financial flexibility of enterprises, i.e. the capacity of the enterprises to take advantage of new opportunities and to react to external shocks⁹. The main findings of the study as far as access to finance by SMEs is concerned, are shown in Table 4.4.

In Belgium, France, Italy and Spain - i.e. in four out of the seven EU Member States covered by the study - the level of own funding does not vary with the size of the enterprises which could mean that there is little discrimination against smaller incorporated enterprises in access to bank credit.

For Austria, Germany and Portugal the level of own funds increases with the size of the enterprise. This could suggest two things. On one side, in these countries smaller enterprises have more difficulties to find appropriate own capital funding. But on the other side, the same smaller enterprises do not have difficulties in raising debt financing in sufficient amounts.

⁵ Own capital (funds) includes capital of the owner, undistributed profits and depending on countries, specific reserves or provisions. External funds are provided by third parties: trade credit, all kind of bank credits, funds borrowed from the owner, etc.

⁶ European Commission, DG II, Guide for BACH Data Users, Part 1, II/137/98, Brussels, February 1998.

⁷ As described in Chapter 1 of this report, 93 % of the enterprises in the European Union have less than 10 employees.

⁸ Rivaud-Danset, Dorothée, Comparison between the financial structure of SMEs versus large enterprise using the BACH databank, Final report, Institutions et Dynamiques Historiques de l'Economie (IDHE), Cachan, June 1998.

⁹ See also Chapter 7 of the Fifth Annual Report of The European Observatory for SMEs.

Table 4.4 Share of own capital in total balance sheet by enterprise size

Size	Austria	Belgium	France	Germany	Italy	Portugal	Spain	Japan
Turnover of less than 7 million euro	13 %	40 %	34 %	14 %	26 %	31 %	42 %	20 %
Turnover between 7 and 40 million euro	27 %	38 %	35 %	22 %	25 %	40 %	43 %	25 %
Turnover of 40 million euro and more	31 %	39 %	35 %	31 %	28 %	51 %	37 %	39 %
All sizes	28 %	39 %	35 %	30 %	27 %	42 %	38 %	32 %

Sources: Rivaud-Danset, Dorothée, Comparison between the financial structure of SME versus large enterprise using the BACH databank, Final report, Institutions et Dynamiques Historiques de l'Economie (IDHE), Cachan, June 1998.

The conclusions on the *access to finance* constraint across Europe (see Section 4.2.1), should be placed in perspective of more general conclusions on comparative financial patterns derived from the BACH data base:

- The financial structure of an enterprise depends more on the financial system and financial habits of the country in which the enterprise operates than on any other characteristics of enterprises such as size, sector, age and even profitability.
- The smaller the enterprise, the greater are the international differences in its financial structure. In other words, there seems to be an international convergence in financing patterns for larger enterprises.
- Performance and profitability do not depend, as sometimes suggested, on the level of own funds.

By focusing on more specifically defined groups of enterprises, the next sections attempt to shed more light on the specific problems of accessing finance.

4.3 Focusing on the target groups

In the development of financial support measures for SMEs, the results of the Report of the Business Environment Simplification Task-force (BEST)¹⁰, submitted to the European Commission in April 1998, should also be taken into account. As stated in that report SMEs are not homogeneous, therefore different kinds of support measures should be developed for different categories of enterprises.

For the purpose of the present analysis, one of the BEST categories, small business and businesses at an early stage, has been split into two: Enterprises at an Early Stage and Small Mature Enterprises. In consequence, the analysis will be conducted for the four following categories of SMEs:

- Enterprises at an Early Stage;
- Small Mature Enterprises;
- Expanding Enterprises;
- Highly Innovative Enterprises.

¹⁰ European Commission, Report of the Business Environment Simplification Task-force, BEST, Luxembourg, 1998.

Using the ENSR Enterprise Survey 1999, it has been possible to identify broadly the four categories of enterprises and analyse their situation in respect of their access to different sources of finance¹¹.

4.3.1 Target groups compared

Table 4.5 shows that relatively more Early Stage Enterprises, almost one out of four, mention access to finance as the major constraint. Small Mature Enterprises are, out of the four target groups, the least constrained by access to finance. The relevant rate for this category is almost half the rate for all enterprises. This might be explained by the fact that Small Mature Enterprises have a long established financial basis and a long relation with the financial sector. In consequence they are not, structurally speaking, in need of additional or new financing.

The rate of bankarisation suggests that Highly Innovative and Expanding Enterprises seem, by and large, to have better access to credit than the average European SME. This would suggest that banks have more interest in providing finance to these two groups of enterprises probably because of the enterprises' dynamic profile.

Table 4.5 also presents information on the type of guarantee provided by SMEs to the bank for obtaining a credit. The type of guarantee indirectly shows what kind of risk banks take when they give a credit. For example, when private property is asked as collateral, banks do not lend on appreciation of a specific enterprise risk, but mainly take into account the real-estate risk. In such case, access to finance by the enterprise is proportional to the capacity of providing the bank with a guarantee and unrelated to business operations.

Table 4.5 Access to finance, bank credit and collateral, by target groups, Europe-19

	<i>Early Stage</i>	<i>Small Mature</i>	<i>Highly Innovative</i>	<i>Expanding</i>	<i>All enterprises</i>
Enterprises with access to finance as major constraints	22 %	8 %	16 %	19 %	15 %
Enterprises with a bank credit (rate of bankarisation)	40 %	40 %	44 %	48 %	40 %
Enterprises with bank credit guaranteed by collateral:	33 %	37 %	47 %	50 %	37 %
• Owner's or relatives' property as collateral	25 %	26 %	36 %	39 %	28 %
• Fixed assets of enterprise as collateral	4 %	5 %	5 %	7 %	5 %

Source: ENSR Enterprise Survey 1999.

¹¹ The four groups have been defined along the following criteria: Early Stage Enterprises = enterprises younger than 5 years; Small Mature Enterprises = enterprises older than 20 years and with less than 10 employees; Expanding enterprises = enterprises with Birch rate of turnover greater than 1.5 and/or Birch rate of employment greater than 1 (the Birch rate of growth multiplies the standard growth rate with the absolute difference in numbers (of employees or turnover); see Annex I to this report); Highly Innovative Enterprises = enterprises spending more than 7.5 % of wage costs for training, this criterion was taken in the absence of data on R&D under the hypothesis that enterprises spending more than 7.5 % of wages in training would have innovative activities. NB: in case one enterprise would qualify for the two last groups at the same time, it was attributed to the 'highly innovative' (see also Annex I).

The collateral policy used by banks when providing credit varies by target group. The frequency with which banks ask for collateral, especially property, is significantly higher for Highly Innovative and Expanding Enterprises than for the two other groups.

When speaking of access to finance one has to bear in mind that funding needs and possibilities differ from enterprise to enterprise. The following sections will focus on the needs, and corresponding funding sources, that are the most specific for each of the four target groups.

4.3.2 Access to finance of Early Stage Enterprises

By definition Early Stage Enterprises have little to offer to funding organisations apart from a bright future perspective. This is particularly true for enterprises in the seed-stage. By nature they need funds to finance both their fixed assets and their working capital. The ENSR Enterprise Survey 1999 provides data on the principal source of funds used at the moment of establishment by the enterprises, which were less than 5 years old.

- About two thirds of these enterprises started with owner's funding as principal source of finance.
- About one fifth used bank credit as the most important source of funding.
- Love Money, i.e. money from relatives and friends as well as venture capital was seldom seen to be the principal source of funding.

In this section attention will be focused on access to three external sources of finance: banks (credit), Love Money and Business Angels.

Bank credit

Are Early Stage Enterprises exposed to a credit-rationing attitude of the banking sector? The answer to this question cannot be given at a general European level. However, risk aversion of banks toward new enterprises is confirmed by practice and empirical studies, at least in some countries. According to the chairman of one of the leading French financial institutions, banks are particularly risk averse in France; 8 out of 10 enterprises are funded outside the banking system¹². The amounts needed by start-ups are very low: 83 % of very small enterprises (less than 5 employees) are created with less than 7 600 euro. There may well be a kind of funding gap for such small amounts. These amounts could be too small and too risky to be of interest for banks as suggested by the lower rate of bankisation among micro enterprises in 14 out of the 19 countries covered by this report (see Table 5.3). At the same time these amounts may well be too small for guarantees by a guarantee scheme such as SOFARIS in France. Similar experiences exist in other countries. It is said that small and very small loans (in particular for women, unemployed or former students) are often not profitable for banks as the transaction cost such as the cost for filing, decision making and supervision may exceed the return. Micro lending, often realised in partnership between public and private sectors, may well be an answer to such funding needs.

Another problem for Early Stage Enterprises to get bank credit has been identified by a Norwegian study, which found that half of the enterprises surveyed reported

¹² Lebègue, D. (Directeur général de la Caisse des dépôts et des consignations -CDC-), En finir avec l'exclusion financière, in *Le Monde* (To End with the Financing Exclusion), Paris, 1 June 1999.

financing problems¹³. The problem was mainly linked to the delay needed by the bank to clear the loan.

Finally, it is important to emphasise the difference between long-term and short-term loans. Long-term financing provides a certain independence and allows for investment financing whereas short-term financing serves to finance working capital. The lack of long-term financing puts the enterprise in an uncertain situation in respect of the availability and the costs of funding. This problem has been found in Spain, the Netherlands and in Sweden. Several Spanish studies¹⁴ point in the same direction. The authors stress that there is a definitive correlation between financial variables and the size of the enterprise. The smaller the enterprise, the less the importance of external long-term resources. SMEs suffer from an insufficient supply of long-term credit, which makes them over-dependant on short-term debts. Thus SMEs have to cope with higher financing costs than large enterprises. At the other extreme, German SMEs have a good access to bank financing. The traditional Hausbankssystem tends to favour stable and long-term relationships between the enterprise and its bank. The hypothesis of a discrimination of young or small enterprises in respect to costs or to access to long-term credit was not confirmed in the case of Germany¹⁵.

Love Money

Love Money embodies informal finance from relatives or friends given to an entrepreneur one knows in person, often a younger member of the family, to start or to develop an activity. The most important feature of love financing is the personal affective relationship between the provider of finance and the entrepreneur. This aspect makes the difference between Love Money and Business Angels who have different motives. Business Angels will be discussed later.

By definition Love Money refers to own capital and not debts. Because it does not belong to the traditionally acknowledged sources of funding, data and evidence on Love Money are scarce¹⁶. In most statistical analyses of funding of new enterprises Love Money is not identified as such, but considered either as part of the residual 'others' or as part of entrepreneurs' own savings. Despite the lack of quantitative coverage, Love Money seems to be an important - but only complementary - source of funding for very small enterprises.

Estimates derived from the statistics of the Bank of England on external finance indicate that 'other finance', in which Love Money and other informal finance are included, accounts for 7 % of total external finance provided to SMEs¹⁷. Another study carried out in the United Kingdom identified that loans and gifts from

¹³ Waagø, Start og etablering av småforetak i Norge: En undersøkelse av 101 iverksetteretableringer og 10 etableringer ved knoppskyting (Starting up Small Businesses in Norway), Institutt for industriell økonomi og organisasjon, NTH, Rapport, Trondheim, 1979.

¹⁴ Marrero Cabrera, J.L., Primera Ponencia. Financiación (First Panel: Financing), in Información Comercial Española, No. 771, June 1998, and Marato Ucin, J.A., Estructura financiera y crecimiento de las Pymes (Financial Structure and Growth in SMEs), in Economía Industrial, No. 310, 1996.

¹⁵ Stöss, E., Die Finanzierungstruktur der Unternehmen und deren Reaktion auf monetäre Impulse, Eine Analyse anhand der Unternehmensbilanzstatistik der Deutschen Bundesbank (The Financial Structure of Enterprises and Their Reaction to Monetary Shocks. An Analysis of the Balance Sheet Statistics of the German Bundesbank), Diskussionspapier 9/96, Frankfurt/M., 1996.

¹⁶ Dembinski, P., La finance informelle en danger (Informal Finance in Jeopardy), in Reflets et perspectives dans la vie économique, XXXVIII, Geneva, 1999/3.

¹⁷ Bank of England, Quarterly report on Small Business Statistics, London, December 1998.

friends were indicated by 6 % of a sample of 176 businesses as one source of finance to start a new enterprise¹⁸. The study suggested also that this type of financing was more prevalent among enterprises where the owner was under the age of thirty. The study indicated also that high-tech enterprises were less likely to get loans from relatives than enterprises in other sectors.

A Norwegian survey among newly established entrepreneurs emphasised the vital importance of informal finance from relatives and friends in the establishment of new enterprises, but here again no quantitative information is available.¹⁹

In Spain, there is some indirect evidence on Love Money through an analysis of the preferences of the Spaniards for investing their savings. According to a survey, around 12 % of the respondents have invested part of their savings in starting an own business or in starting a relative's business²⁰. Another Spanish study on the financial assets of Spanish families based on information collected from the Spanish Central Bank suggests that up to 7.7 % of the families' financial assets are loans granted to own or a relative's enterprises. These assets are included in the balance sheet under the category 'others'. An interesting trend in this context is that 'other' as a source of finance suffered an important decline between 1985 and 1995 (12.5 % to 7.7 %). The explanation may be that enterprises have nowadays an easier and cheaper access to the banking system whilst during the same period interest rates declined.²¹

An empirical study conducted in Germany on the success and risks of new enterprises showed that 25 % of the enterprises had received capital from relatives or friends²² and that also start-ups had traditionally a relatively good access to bank credit in Germany.

Generally, most of the studies referred to above have analysed and documented that Love Money is mainly provided in the start-up stage, although a study²³ in the UK indicated that such finance had also been used to assist developing business. A Norwegian survey of the manufacturing sector found out that informal finance by family or relatives for investments by established SMEs is almost non-existent²⁴.

Another important dimension of Love Money is the so-called virtual Love Money, i.e. guarantees provided by relatives or family for loans from the banking sectors. In this type of financing, the relatives or family members do not finance the enterprise directly but take a risk in case of insolvency or failure.

¹⁸ Storey, D., and A. Strange, *Entrepreneurship in Cleveland 1979-1989: A study of the effect of the enterprise culture*, in DfEE research Series, No. 3, 1993.

¹⁹ Waagø, G., Bodsberg, Naustdal, Tveito and Weatherstone, *Etablering av småbedrifter - et forprosjekt (Start-up of Small Business - a Pilot Project)*, NTH, Institutt for industriell økonomi og organisasjon, rapport No. 21, Trondheim, 1978.

²⁰ Alvira Martín, F., and J. García López, *Actitud de los Españoles hacia el Ahorro (Attitude of the Spaniards toward Savings)*, in *Papeles de Economía Española*, No. 70, 1997.

²¹ García Tabuena, A., *La financiación de la Empresa en España: Pme e Intervención del Estado 1975-1997 (Financing of Enterprises in Spain: SMEs and State intervention 1975-1997)*, in *Economía Española*, No. 317, 1997.

²² Brüderl, J., P. Preisendörfer and R. Ziegler, *Der Erfolg neugegründeter Betriebe. Eine empirische Studie zu den Chancen und Risiken von Unternehmensgründungen (The Success of New Businesses. An Empirical Study on Chances and Risks of Start-ups)*, in *Betriebswirtschaftliche Schriften*, Heft 140, Berlin, 1996.

²³ Mulholland, K., *The Family Enterprise and Business Strategies*, in *Work, Employment and Society*, Vol. 11, No. 4, 1997.

²⁴ Kvinge and Langeland, *Smått, men ikke bare godt. Lønnsomhet og soliditet i små industriforetak (Small but not only Beautiful. Profitability and Solidity in Small Manufacturing Companies)*, FAFO-rapport 178, FAFO, Oslo, 1995.

Business Angels

Business Angels are another source of informal finance that Early Stage Enterprises can attempt to draw on.

Business Angels are wealthy individuals with substantial business and entrepreneurial experience, who are prepared to take a stake in enterprises. Although they can step in at any development stage, Business Angels invest predominantly in start-ups and seed-stage ventures; they are not interested in transfer of business but in innovative investments²⁵. Business Angels are extremely selective, and generally require the recipients of their investments to have high growth potential.

Most Business Angels are motivated first by the opportunity for capital gain. They are interested in potentially high-growth enterprises, and are looking for businesses that will generate returns of 30 % or more a year on start-ups and at least 20 % for investments in established businesses. Business Angels are also motivated by non-financial considerations from which they derive 'psychic income', notably the opportunity to play a role in the entrepreneurial process and the fun of making informal investment. They feel a personal satisfaction by being involved with an entrepreneurial business and helping it to get started and grow and to contribute to the success of the enterprises they invested in²⁶. As Colin Mason puts it, informal venture capital is 'smart money' as Business Angels are value-added investors. They contribute their commercial skills, entrepreneurial experience, business know-how and contacts through a variety of hands-on roles to make a wide range of strategic, monitoring and supportive inputs. Thus the contribution of Business Angels, to early stage enterprises with high growth potential cannot be measured only in financial terms.

Although the concept of Business Angels is well-known in every Member State, it is not yet developed in every country. Tax regimes in various Member States affect the potential for Business Angels investment either by providing incentives or disincentives for such investment.

For quantitative data on Business Angels one has to rely on estimations. According to a study published by the European Commission, stakes subscribed by private investors, the so-called Business Angels, range between 4 and 8 times the amount of venture capital funds and corporate venture capital²⁷. The European Business Angels Network (EBAN) estimates the number of active investors in Europe at 125 000 and the number of potential investors at 1 000 000. The investment pool of available Business Angels finance is estimated at 3 000 million euro in the UK, 1 500 million euro in the Netherlands, 300 million euro in Finland and 20 million euro in Ireland. Data for other countries is not available for the time being. Nevertheless the EBAN estimates, based on an extrapolation of population, the investment pool of Business Angel finance for the European Union between 10 000 and 20 000 million euro²⁸.

4.3.3 Access to finance of Small Mature Enterprises

Small Mature Enterprises suffer much less from a shortage of financing sources than their younger counterparts and even in comparison to all other types of enterprises.

²⁵ Aernoudt, R., Business Angels Should they fly on their own wings?, in *Venture Capital, An international journal of entrepreneurial finance*, vol. 1, No. 2, Taylor and Francis, 1999.

²⁶ Mason, C., and R. Harrison, Business Angels - heaven-sent or the devil to deal with? in *Mastering Enterprise*, Birley, S., and D. F. Muzyka, Financial Times Series, London, 1997.

²⁷ European Commission, *The competitiveness of European Industry, 1998 Report*, Luxembourg 1998.

²⁸ See: <http://www.Eban.org/overview.htm> (situation on 27 September 1999).

According to the ENSR Enterprise Survey 1999, only 8 % of this group of enterprises feel access of finance as the major constraint for the development of the enterprise. This is less than half the percentage of the other groups (see Table 4.5).

The first explanation for this observation may be given using common sense. Small Mature Enterprises may just need less additional funds as they have less new projects which require external financing. Another reason is that an older enterprise has a track record and has proven its survival capacity, which reduces the risk in the eyes of the financial partner. Usually the Small Mature Enterprise entertains fairly good long-term relations with a bank. According to a study of the OECD, enterprises having a slow growth (which is the case for mature enterprises which stayed small over the years) are even preferred by the banks over fast-growing enterprises because they are perceived to be less risky²⁹. In these circumstances, external financing in the form of long-term bank credit is easily granted in most countries if retained profits can also be used. In some countries, e.g. Germany and Portugal, long-term debt financing dominates whereas in others, e.g. Sweden, Spain or Switzerland, internal financing dominates.

A study on the accumulation of capital in small enterprises conducted in Spain pointed to interesting results, which are relevant for mature enterprises. Micro and small enterprises tend to undervalue the depreciation of their fixed assets, by more than 40 % and 10 % respectively. Therefore, the SMEs could be undervaluing their costs and artificially increasing their profits³⁰. This could imply that, via distribution of dividends and taxes, SMEs could be in a process of de-capitalisation. This tendency could also apply for other countries and would represent a specific problem overlapping both finance and management of Small Mature Enterprises.

As a consequence Small Mature Enterprises have better access to both internal financing and external financing as compared to the other groups analysed. But there may be a problem in countries where larger enterprises are discriminated against because of their size. As was shown in Table 4.3, this could be the case in countries where smaller enterprises, whatever their phase in the life cycle, are less likely to have a bank credit: Greece, Italy, France, Portugal, Netherlands, Sweden and Switzerland.

4.3.4 Access to finance of Highly Innovative Enterprises

When touching the problems related to financing innovations and innovative enterprises, one enters a field where the difficulties of estimating future benefits of a given venture or project are greatest. For this reason, financing of innovations requires a high level of skill from the financing institution. Three main reasons can be mentioned to explain why, by and large, the financial sector is reluctant to finance innovative enterprises through its traditional channels³¹:

- Uncertainty of expected returns: the financial system knows how to handle risk but not how to cope with uncertainty. The level and price of risk can be estimated by theoretical calculation whereas the level of uncertainty can only be established from experience or observation. Traditional banks are reluctant

²⁹ OECD, SMEs, Job creation and Growth, Facts, Obstacles and Best Practices, Paris, 1997.

³⁰ Illueca Munoz, M., and J.M. Pastor Monsalvez, Analisis Economico Financiero de las empresas espanolas por tamanos (Financial Economic analysis of the Spanish enterprises by enterprise size), in *Economia Industrial*, No. 310, 1996.

³¹ OECD, National Systems for Financing Innovation, Paris, 1995.

to finance innovation since they are unable to evaluate risk and inflate bank charges in uncertain situations.

- Not all benefits from innovation can be retained by the innovator: The possibilities for an innovative enterprise to protect itself against copy and imitation are limited. Most of the time, the enterprise shares involuntarily the fruits of its innovation with competitors. Patents, because of their compulsory publicity, are one of the least efficient means to protect the benefits of an innovation. From a business point of view sharing the benefits of innovation means reducing profitability.
- The indivisibility of investments linked to innovation: the logic and functioning of the financial systems make it very difficult to split the technological investment into several projects each having its own source of finance. Ideally, to finance the maximum number of projects in an enterprise, the financial institutions should be sufficiently sophisticated to allow a wide variety of parallel financial options.

The above-cited OECD study has reached three general conclusions worth mentioning here:

- The financing problems are especially acute for those innovative SMEs which operate in the global product market and face global competition, but do not benefit from the advantages of access to global capital markets.
- Financing of product innovations geared toward the consumer is perceived more risky by the finance providers than financing a process innovation. In the eyes of the financial world, the behaviour and mood of the consumer are seen as more difficult to grasp than the technical problems of the producer.
- High-tech innovation is not, paradoxically, the worst off. Low and medium technology innovation suffers the most from financial shortage. Indeed they combine three handicaps: they are too risky for the banks, they offer too modest expectations of return for risk financiers and they are not dazzling enough for public bodies and government authorities³².

Many national studies collected by ENSR confirm the dimensions of the above analysis.

A survey among 545 Swedish new technology-based enterprises showed that it is particularly hard to get financing for enterprises which use new technology on new markets, but also for enterprises which use known technology on new markets. On the other hand, enterprises developing new products with known technology for known markets have reported to have fewer problems to find finance³³. This survey gives a hint to the valuation of the various components of the uncertainty by financiers. The highest level of uncertainty seems to be attributed to the market, the next level concerns the product, while technology or innovation comes in third place.

Many empirical studies stress specifically the problems faced by enterprises that are both newly created and innovative. Indeed, those enterprises face the problems of early stage and at the same time the more specific problems of innovating enterprises. As they are seen as potentially important for a well-functioning and

³² OECD, *National Systems for Financing Innovation*, Paris, 1995.

³³ Olofsson, C., and G. Lindström, *New technology-based enterprises, NTBFs in early development stages*, November 1998.

dynamic market economy (i.e. a Schumpeterian point of view) many public policies target this specific group of enterprises.

The financial sector has also developed ad hoc channels to stand up to the challenges of highly innovative enterprises. Most of the efforts take the form of own capital financing through venture capital funds rather than in a more classical, but inadequate in these circumstances, debt financing. In this respect, the development of venture capital financing in Europe deserves some attention.

Venture Capital

Trends in the venture capital industry indicate that this type of financing gains importance (see Table 4.6) and that the access to venture capital by Innovative Enterprises is enhanced. According to the European Venture Capital Association (EVCA), Europe experienced a strong upward trend in early-stage investment in high-tech companies over the past five years. The amounts raised for both early-stage and technology investments have more than tripled between 1993 and 1997. Investment in the technology sectors increased by 75 % in 1998 and 71 % in 1997. During 1997 amounts invested in Early Stage Enterprises increased by 60 %, in 1998 amounts committed to early stage and start-up deals more than doubled³⁴.

Table 4.6 Venture Capital (Amounts and number of deals 1997-1998)

	1997 million euro	1998 million euro	Growth	1997 number of deals	1998 number of deals	Growth
United Kingdom	4 428	7 106	60.5 %	1 686	2 018	19.7 %
Germany	1 326	1 948	46.9 %	1 067	1 518	39.2 %
France	1 248	1 777	42.4 %	1 551	1 544	-0.5 %
Netherlands	780	1 059	39.3 %	425	707	66.4 %
Italy	603	933	54.7 %	234	267	14.1 %
Spain	262	363	38.7 %	244	244	0.0 %
Belgium	179	258	44.6 %	189	233	37.9 %
Switzerland	55	215	291.8 %	47	86	82.7 %
Sweden	351	203	-42.3 %	120	11	-4.2 %
Finland	113	189	67.0 %	193	274	42.0 %
Norway	170	165	-2.8 %	170	161	-5.3 %
Ireland	36	64	77.1 %	66	108	60.6 %
Austria	19	50	164.0 %	40	83	132.5 %
Portugal	63	50	-21.4 %	79	68	-13.9 %
Denmark	22	40	81.4 %	55	50	-9.1 %
Iceland	5	22	332.5 %	54	120	122.2 %
Greece	16	20	22.1 %	32	29	-10.4 %
Total	9 858	1 4461	49.8 %	6 252	7 628	22.0 %

Source: EVCA, Yearbook 1999, European Venture Capital Association, Bruges, 1999.

Despite the rising trend and the increase of the share of Innovative Enterprises, the number of enterprises financed by venture capital remains marginal. Indeed, venture capital funds finance only a small portion of new funds raised by innovative enterprises. In the United Kingdom, where venture capital is most developed in Europe, the venture capital industry supplied only 2.9 % of new funds raised by SMEs

³⁴ EVCA, The Impact of Venture Capital in Europe, European Venture Capital Association, <http://www.evca.com/pdf/economicimpact.pdf> (situation on 24 September 1999).

between 1987 and 1990. Reasons which hinder its further development, are situated both on the demand and on the supply side. Entrepreneurs may fear a loss of control of their business and may also be reluctant to share benefits of attractive and profitable projects whereas venture capitalists complain about the lack of viable projects³⁵.

This being said, it is important to point out that, although real and important, the access to finance is not the major constraint for the development of Innovating Enterprises. The ENSR Enterprise Survey 1999 revealed that 16 % of the Highly Innovative Enterprises named access to finance as their main constraint, whereas 22 % mentioned the lack of skilled labour as the main constraint for their development.

4.3.5 Expanding Enterprises

As Table 4.5 showed, Expanding Enterprises, also known as High Growth Enterprises, experience important shortage of finance. Around 19 % of these enterprises considered access to finance as the major constraint for the development of their enterprise. Their needs of funding both for investment and working capital are high and are likely to exceed their internal possibilities of financing.

The most common source of finance remains bank loans as suggested by the relatively high rate of bankarisation of this group of enterprises (see Table 4.5). In addition to traditional channels of financing, High Growth Enterprises have also, like their innovative counterparts, a privileged access to other channels as for example venture capital funds or Business Angels. Although marginal in macro-economic terms, venture capital is a growing source of finance. The potential high returns, 18.6 % cumulative net return per annum according to the EVCA, attract new investors looking for expanding enterprises to invest in. A survey among enterprises receiving venture capital showed that over the period 1991-1995, these enterprises showed an increase in turnover of, on average, 35 % annually and increased employment by 15 % annually. Plant, property and capital equipment grew on average 25 % and exports by 30 % per year. R&D expenditure represented, on average, 8.6 % of sales³⁶.

In Finland, for example, where the venture capital market is quite young, there seem to be large sums available but good projects and interested companies are scarce. This may be due to the fact that venture capitalists have too high expectations on return, but also due to the fact that high-growth Finnish enterprises do not want participation by venture capital funds. The favourable public-funding system may be one of the explanations.

Expanding Enterprises are negatively affected by a lack of finance but have a relatively wide range of financing possibilities as mentioned by several European studies. They have access to credit but also to venture capital and, to some extent, Business Angels.

4.4 Reasons impeding access to finance

This section provides a synthesis of the information and findings presented in the previous sections and stresses the main factors impeding the access to finance: the size class, the phase in the life cycle and the innovation and growth perspective of the enterprises.

³⁵ OECD, *Fostering Entrepreneurship*, The OECD Jobs Strategies, Paris, 1998.

³⁶ EVCA, *The impact of Venture Capital in Europe*,

<http://www.evca.com/pdf/economicimpact.pdf> (situation on 24 September 1999).

Assuming that the professional investors, bankers, venture capitalists and other actors, are rational, they invest only if they expect the enterprise to return the capital and if they anticipate a capital gain. It is their business and expertise to evaluate enterprises and projects with regard to their expected profitability. The relevant question is therefore: Do some types of enterprises have difficulties in getting the necessary capital even though they are potentially profitable?

The size-class dimension

The differences in the rate of bankarisation by size class in a given national, legal context was taken as a possible indicator of discrimination as far as external bank financing is concerned. Table 4.3 showed that the situation is rather different in the countries covered by this report. In some of them, the rate of bankarisation of micro enterprises is even higher than that of small enterprises. This is the case for Austria, Iceland, Liechtenstein, Germany and the United Kingdom. In those countries there is, theoretically, no reason for public support for enterprises only because of their size.

On the contrary, in other countries micro enterprises report more difficult access to external debt financing through banks. This applies for the countries at the lower end of Table 4.3. The access to debt financing for micro enterprises is particularly difficult in Greece, Italy, Portugal, Sweden and, to a slightly lesser extent, in Switzerland, France and the Netherlands.

The reasons why micro enterprises have less bank credits may be twofold. Looking at the demand side, it is possible that smaller enterprises voluntarily decline bank credits either because they have access to alternative sources, in particular informal capital, in which case public support may not be necessary, or because the costs are too high for them. If the latter were the case, public support to reduce the costs would have a beneficial effect. Looking at the supply side the lower rate of bankarisation of micro enterprises may be an indication of discrimination by the banking system. The reasons therefore are less clear. As was demonstrated in the Fifth Annual Report of The European Observatory for SMEs, micro enterprises are less prone to insolvency and failure than bigger enterprises are. Although in absolute terms more small enterprises go bankrupt than large ones, these enterprises are underrepresented in their size class. Thus, looking only at the relative risk of failure and under the hypothesis of rationality, banks should not be reluctant to grant them credits. However a rational explanation might be the cost of and the time spent on handling a credit. Indeed the burden is approximately the same irrespective the size of the credit, but the fact that small credits are less profitable than large credits, is deterring banks to enter this market segment.

The life-cycle dimension

Enterprises in an early stage of their life cycle, as newly created ones and in particular enterprises in the seed-stage, may be disadvantaged in their access to finance for the following reasons:

- The lack of track record and the fact that financiers judge mainly on past figures, which raises the question of information asymmetry and the insufficient information of the financiers;
- The lack of collateral the enterprises or their owners are able to offer;
- Their restricted ability to rise internal finance due to the need for large investments in the early years combined with the limited period of time, due to the product life cycle, in which to accumulate profits;

- The amounts needed are sometimes too small to be interesting to be financed because of the fixed costs associated with handling of the transaction of the loan.

The innovation and high-growth perspective

The reasons why Innovating and Expanding Enterprises may face financing shortages are a result of on the one hand the financial means these enterprises need to realise their projects and on the other hand the problems financial institutions have with evaluating these projects.

As far as Innovative Enterprises are concerned the main problems may be summarised as follows:

- The uncertainty of expected returns;
- The benefits cannot be fully protected;
- The indivisibility of investment;
- The asymmetry of information (between the lender and the borrower);
- The adverse selection problem³⁷.

The reasons why Expanding Enterprises face financing shortages may be the same as for Early Stage Enterprises. Similar to Early Stage Enterprises, Expanding Enterprises may be disadvantaged because of the novelty of the project, the lack of experience and track record linked to that new project and the fact that the project requires important funding which cannot be financed internally by retained profits. At the same time Expanding Enterprises face the same problems as Innovative Enterprises due to the uncertainty of expected returns. When the project concerns entering new markets and/or developing new products the problems are most severe. One out of five Expanding Enterprises claims to be hindered from growth because of financing shortage.

4.5 Selected policy measures

Taking as a starting point the main reasons impeding the access to finance, some government support measures in Europe were selected which seem to be particularly interesting as they seem to alleviate some of the obstacles described above.

Early Stage Enterprises

DtA-Startgeld-Programm (DtA Start-Up Money Programme)

This new measure, geared toward newly created enterprises, was set up in April 1999 by the Deutsche Ausgleichsbank (DtA). The programme is also called DtA-Startgeld-Programm. The objective of the programme is to help entrepreneurs to get credits between 25 000 and 49 000 euro. Banks are not interested in providing these credits. This measure was especially created to help starting a business but also established enterprises can ask for a credit.

³⁷ The higher risk for the bank cannot be compensated by a higher price for the credit due to the asymmetry of information. The enterprises are better informed on the real chances of a project than the financier. Therefore only the very risky enterprises are willing to accept higher financing cost. At the end there is an adverse selection toward very high risk.

Tante Agaath regeling (Aunt Agatha scheme)

This measure was implemented in 1996 in the Netherlands. The programme aims at stimulating the provision of risk capital to start-up businesses by private persons, either directly or indirectly through special participation companies. The interest received from the loan is free from income tax (max. 2 500 euro). In addition the loss if the loan cannot be repaid is tax deductible (max. 25 000 euro). Due to the maximum amounts of tax deductibility, the Aunt Agatha agreement is only attractive to small investors who participate with small amounts in enterprises. However, for direct lending, deductibility of interest income generally results in lower financial costs for the entrepreneur.

Although the scheme is relatively new, the following observations have been made. For direct loans, the interest rates were usually lower than the commercial rate due to the tax advantage. For indirect loans, the interest rates were not less than the commercial rates. The majority of indirect loans seem to be in the agricultural sector and involve security of mortgage. In these cases, they would most likely also have been made without the measure.

*Innovative and Expanding Enterprises**SMART scheme*

The revised SMART scheme was implemented in 1997/98 by the Department of Trade and Industry in the United Kingdom. The programme gives financial support to carry out feasibility studies for the development of new products and processes. Access to this programme is based upon regional competition between enterprises. Maximum assistance is 75 % of project costs.

Linea de Financiación para la Investigación y el Desarrollo Tecnológico (Line of Finance Technological Research and Development)

As with the former measure, the aim of this measure is to help Spanish SMEs to finance R&D projects aimed at improving and developing products and production processes. In collaboration with the main Spanish banks and financial institutions support is given at favourable interest rates.

These measures were chosen because they help financing projects which are most difficult to finance and geared at the most hazardous phase of the project, e.g. the feasibility study.

PME-Excelência (SME-Excellence scheme)

This measure was implemented in 1997 (previously in 1992 under the name Prestige) in Portugal and is geared toward high-growth and innovative enterprises. In order to have a chance to be selected, net profit must have increased between 20 % and 40 % (according to the sector) in the previous year. The measure involves a group of financial benefits: the provision of long-term loans with special interest conditions, advantages from loan analysis which are transpiring very quickly and other financial product and services. Another benefit is the publicity and the fame, which is going with it when an enterprise is selected to receive support. This measure was selected because it is one of the rare (if not only) measure addressing specifically high-growth enterprises.

From a policy point of view this group of measures is very interesting, for example from an employment and growth perspective, but innovative enterprises are difficult

to find as no size class or sectoral characteristic helps to identify and address them. Innovative enterprises are even more difficult to identify and to address if they are not located in an innovative sector.

4.6 Policy issues

Taking the rationality of the financial system as a starting point and assuming that the financial system provides enough financing if the project is potentially profitable according to the evaluation made, the following policy conclusions can be drawn:

- Taking into account that it is often difficult for a financial institution to assess the projects to be financed and for SMEs to present and explain their projects clearly to institutions, policy measures dealing with this would be particularly valuable.
- For projects that require a small amount of funding, the cost of proper risk assessment, not to mention the administrative costs, make them from the beginning uninteresting for many banks unless the enterprises can provide collateral. Combined guarantee schemes and micro-lending programmes, where these costs are either reduced or taken over by the public sector, are an attempt to solve this problem. Policy makers as well as financial institutions should look for specific solutions to solve the problems linked with the provision of small amounts.
- For a person outside the enterprise it is very difficult or even almost impossible to make an evaluation of a newly created enterprise or of a new project of Expanding Enterprises because of the lack of a track record. This obstacle can be removed if the investor has more insight into the enterprise and is closer to the management. In this context tax incentives, which favour the development of private investors such as Business Angels, are interesting.
- Tax regimes in various Member States affect the potential for Business Angels investment either by providing incentives or disincentives for such investment. National policy makers should consider action in this area and remove the disincentives.
- The evaluation of enterprises or projects in the fields of high technology requires thorough understanding of both technical and financial matters. Because of very high costs of experts' evaluation venture capital funds are often specialised in a particular sector or technology. In that way they can acquire the necessary knowledge of the market and of the technology, which allows them to make informed decisions. In that context measures aiming at supporting the development of venture capital are important. Measures aimed at favouring the collaboration between specialists from universities and financiers can also be very interesting.
- Most policy measures in the field of innovation and technology address high technology. Policy makers should also remember to address enterprises and projects located in the medium technology area, or at least not exclude them from measures since these investments are: too risky for banks, the expected returns are not high enough for the financiers willing to take risk and they are not glamorous enough for public authorities.
- The size-class argument is not sufficient to justify the implementation of policy measures in every country. This may be the case if smaller enterprises are discriminated in their access to external finance. Although the importance of credit financing varies from country to country, it is an important source of funding. If smaller enterprises have a lesser access to external financing it is a problem for the economy as a whole.

5 Electronic commerce and SMEs

Co-ordinated by Agder Research Foundation

MAIN POINTS

- 42 % of the European SMEs have access to the Internet.
- More than 20 % of the European SMEs are already using the Internet for presenting information about their products or services, and about 10 % use it for receiving orders.
- The online population in the European Union is expected to match that of the US by 2003, whereas the current penetration of the Internet on a private basis is about one third of that among the US consumers.
- In Europe, web-based co-operation for jointly offering products or services is most advanced in the Business Services sector, Other Services, and least in the Repair sector.
- Larger SMEs access the Internet more frequently than smaller ones. The larger SMEs also use the Internet for business activities such as distributing information on products and receiving orders more frequently than the smaller ones.
- Over 40 % of the European SMEs not using the Internet for commercial operations, feel that electronic commerce does not apply to their enterprise.
- The perception that electronic commerce does not pay off is a more important barrier when introducing electronic commerce for most European SMEs than trust in technology and security issues.
- There is a considerable language barrier in Europe, limiting the spread of international electronic commerce. English is the most widely spoken foreign language in Europe. However, in some countries less than 20 % of the population can speak English.
- SMEs can reach a larger market without opening new sales offices by means of electronic commerce. The small SMEs without large sales organisations have an advantage over larger organisations when restructuring their organisation for using electronic commerce. However, many SMEs will not have immediate access to the required skilled personnel.
- In Finland, Italy and Portugal support programmes for training in international trading and marketing, in particular for SMEs, have been launched.
- SMEs using electronic commerce are more frequently exporting than those who do not use electronic commerce.
- Electronic commerce can be expected to cause changes in the purchasing patterns of consumers. Especially in the retail sector consumer preferences can cause lost revenue for SMEs.

5.1 Introduction

A large number of European enterprises can now reach the international marketplace by means of electronic commerce. The use of Internet technology for supporting co-operation and managing information among enterprises has recently become more frequent, including SMEs. This may open up markets so far only accessible to the larger enterprises. Electronic commerce can change how business is conducted throughout the entire process.

Electronic commerce is the issue for Key Action number two of the 5th Framework Programme of the European Commission. In addition, initiatives for dissemination concerning electronic commerce have been launched. For example INFO2000 and MIDAS NET, and the ISPO server financed by the European Commission are promoting the use of electronic commerce. Also dedicated initiatives like WeCan and awareness creation activities in electronic commerce for SMEs¹ are important. Several compilations of cases have been developed, e.g. Business Transformation through Technology: 21 Striking Cases from Technologies for Business Processes².

The Third Annual Report of The European Observatory for SMEs described what was thought to be the most promising IT applications for SMEs. These included distance learning, teleworking, electronic tendering and telematic networks. The Fourth Annual Report of The European Observatory for SMEs dealt with use and production of information technology related to SMEs. In the Fourth Report electronic commerce was also recognised as an important marketing tool for SMEs.

5.2 What is electronic commerce?

Several definitions of electronic commerce have been suggested³, which generally refer to business activities where physical items and transactions such as money and payment are replaced by electronic counterparts. The traded commodities may or may not be represented electronically. A more open definition of electronic commerce refers to the use of Information and Communication Technology (ICT) applied to the exchange of information between participants in the market. The White Paper on Commerce⁴, published by the European Commission, proposes the following:

'Electronic commerce covers any form of business, administrative transaction or information exchange carried out using any information and communication technology. From the point of view of businesses, it encompasses simple shopping systems and complex solutions that integrate the whole commerce cycle. From an organisational perspective, electronic commerce enables the seamless operation of existing flows between businesses and consumers, businesses and businesses, and businesses and the public sector. Moreover, electronic commerce encourages the

¹ <http://www.ispo.cec.be/Ecommerce/> (situation on 24 September 1999), <http://www2.echo.lu/imo/en/imopapers.html> (situation on 24 September 1999).

² European Commission DG XIII, Business Transformation through Technology: 21 Striking Cases from Technologies for Business Processes, Brussels, 1998, <http://www.ispo.cec.be/ecommerce/publications.html> (situation on 24 September 1999).

³ OECD Committee for information, computer and communication policy, Measuring electronic commerce, Paris, 1997.

⁴ European Commission DG XIII, White Paper on Commerce, Brussels, 1999, http://europa.eu.int/en/comm/dg23/commerce/l_blanc/whitepaper.htm (situation on 24 September 1999).

emergence of new, innovative ways of co-operation among enterprises that will help them to successfully face the challenges of globalisation.'

This chapter deals primarily with electronic commerce based on the Internet. Topics dealing with credit cards or other forms of digital money will, when not specially related to the Internet, not be dealt with here.

In many cases all trade transactions, marketing, ordering, payment, delivery and customer support can be carried out digitally. Electronic commerce can change how business is conducted in all respects. The front office activities, buying and selling, can be conducted through a web home page, but also the back office activities concerning inventory, logistics and customer behaviour analysis can be performed much more effectively by integrating a web application.

For the business-to-consumer electronic market, the Internet is now by far the most frequently used channel. This market relies on ad hoc, usually short-term, connections among potential business partners. In this context the Internet is the most versatile vehicle available today. The Internet allows smaller organisations to reach a larger market at a limited cost. For example, there are travel agencies on the Internet, which used to be a small firm with a local client group, and now have national or even international coverage.

Business-to-business electronic commerce has, in some sectors like the car and electronics industries, already been established for several years. These business networks are not necessarily using the Internet. Dedicated networks can largely ignore security issues related to the Internet. Long-term business relations such as seen in business-to-business relations can benefit from using Electronic Data Interchange (EDI)⁵ for handling ordering and payment. The key motivation for introducing EDI is to increase the quality of business documentation by allowing the entry of one piece of information only once, thus achieving a large reduction in costly errors⁶. This is accomplished by using formats based on the EDI standard for representing business information.

The business-to-administration electronic market can contribute to wider participation in calls for tenders, resulting in more effective public procurement. The Internet, as a carrier of updated information on products and tenders, is useful for both SMEs and the public sector. In addition, participation in this market will foster co-operation based on the Internet among SMEs. Also administrations are now beginning to use EDI.

The Internet activities are developing rapidly and new forms of commerce are emerging. For example, lately, a market where consumers are selling directly to consumers is becoming popular. This market is commonly organised as online auctions. One major difference compared to traditional auctions is that the bidding can be carried out over a longer period of time. In addition, several objects can be under the hammer simultaneously.

In the following, a presentation of business activities and use of the Internet in the context of electronic commerce is given. The activities dealt with are marketing,

⁵ <http://www.echo.lu> (situation on 24 September 1999).

⁶ ENSR, The European Observatory for SMEs. Third Annual Report 1995, Zoetemeer; 1995.

ordering, paying and the distribution of products. In addition, reference is made to the use of the Internet for business co-operation.

5.2.1 Marketing

Products can be marketed in different ways on the web. The mere presence of an SME on the web may have some effect, but usually further measures are required to exploit the potential. The most popular ways currently are direct mail, advertising through traditional channels, referring to the web site, and providing search engines and other frequently visited sites with banners to find the firm's web site. The most important difference compared to traditional marketing through e.g. papers, magazines or TV, is that marketing on the web requires the potential buyer to actively pursue a link or type in a Universal Resource Locator (URL) to arrive at the marketing material. Another crucial difference seems to be that, as opposed to TV marketing, which repeats the same message over and over, web messages must be varied over time to reach more customers.

Internet marketing can adapt the message to the consumer by collecting information when a visitor comes to the Internet site. Apart from information provided by the potential customer in a registration form, further information can be automatically collected. Effective access to cheap and detailed information on customer behaviour and preferences can be used to tailor the marketing individually. In order to protect personal privacy, the legal framework restricts the registering and processing of personal data. The general rule⁷ is that data may only be processed if the person who is registered (data subject) has given his/her consent to this. Obviously this is not catered for in some of the commercial applications found on the Internet where detailed information on purchases is automatically stored in a customer profile without any further notice. On the other hand, some sites allow the customer to view and edit what has been stored in a profile.

Another difference compared to traditional marketing is the structure of cost. In a newspaper the number of copies, presumed audience, location and size of the advertisement will determine the price. On the Internet the effort is focused on getting users to visit the site and maintain their interest. The cost for providing more information (larger advertisement) is very low. This is good news for small enterprises operating with lower capitalisation and needing greater value for money. Many companies now use a combination where traditional channels are used to draw attention to an Internet site.

5.2.2 Ordering

Generally, online forms, similar to those known from mail ordering, are used for ordering in the electronic commerce market. After completion of the form, submitting the order (user confirmation by mouse click) will automatically generate a message, fax or database entry with the customer's information. To build a profile of the customer such forms will often prompt for more information than actually needed for the business transaction. Other forms of ordering, like a manually written message, phone call or fax are also in use. For new customers in the electronic market those more traditional forms can encourage entry by limiting the initial 'culture shock'.

⁷ Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

Before confirming the purchase to the customer, a vendor will need to verify that payment will be made e.g. with a credit card company or Internet bank. Sophisticated solutions will relay information to the authorising organisation online. The authorisation can also be carried out offline. A message to the customer confirming the order can be generated. Depending on the payment system, such a message can simply confirm the purchase, prompt the user to send a fax with a credit card number, or request some other action to make sure that the vendor receives payment.

5.2.3 Paying

Electronic banking is often the first contact with electronic commerce for SMEs managing their bank account from the PC.

Several ways of representing money digitally have been developed. They can all be used to pay for products or services purchased on the web. Digital money can be traceable like credit cards, or, like real cash, anonymous and reusable. Many online shops accept different ways of payment including more traditional ones like cash on delivery (COD), or charging the purchaser's credit card after receiving a signed order via fax.

Most models for transferring money have in common that a third party is involved to handle verification of authorisation and the actual payment transaction. This is valid for a virtual bank account, credit card and digital cash. For example, the purchaser can be equipped with an electronic wallet, which in turn can be connected to a credit card or a bank account. This is, however, not visible to the vendor receiving payment. Credit card companies have launched the SET⁸ standard (Secure Electronic Transaction) to protect the privacy of personal and financial information.

Different schemes for authorisation have been developed. The consumer may 'log in' to the wallet or confirm a transaction by answering an e-mail sent to a personal account, transferring a PIN code by phone, etc. A digital cheque is also in use. This works similarly to the paper version, only this is digital, making use of encryption, digital signatures, and private and public keys.

Charging for electronic services is conveniently handled for the registered users of a commercial web site. When registering, an agreement is made between purchaser and supplier concerning payment. The actual payment can here be handled via e.g. a bank account. Finally, transfer from one bank account to another is also possible over the Internet. One frequently seen way of authorisation is the use of a security card prompting the user for a PIN code, returning a new code to be entered into a field of the online page provided by the bank.

Introducing one or more of these ways of receiving payment to a commercial site will be a larger leap for a small company than a larger company, mainly because the fixed cost for getting started is higher compared to turnover than for a larger enterprise. A small company not in the Internet business will have to hire competence, buy hardware and software or settle for a one-size-fits-all solution. The cost of applying payment systems may be significant for an SME in relation to the size of the turnover. Depending on the remote contact with customers and business design, there may be an increased risk of non-paying clients. The handling of several currencies also represents a more significant cost for an SME than for a larger company. However, there is still the option of taking the actual payment transaction offline via e.g. COD.

⁸ The SET specification developed by MasterCard and Visa uses public keys and cryptography, <http://www.setco.org/> (situation on 24 September 1999).

5.2.4 Distribution of products

Any digitally represented product can be transported using the Internet. This includes any kind of document, sound, film and software.

Clearly, not all commercially available products can be transported electronically. In many cases the product or service simply cannot be digitally represented (yet). Tangible goods such as cars, clothing need to be transported in a traditional way. However, electronic commerce has the potential of eliminating some links in the traditional chain of distribution where the producer would deliver via the wholesaler, and retailer, and then finally to the consumer. The lower cost of transactions and information handling in the electronic market encourages the producer to offer products directly to consumers.

The mode of transport will also be different for various kinds of tangible goods. Food and flowers will be delivered predominantly directly to the door, and hence only be available in urban regions, whereas cars can be fetched from the nearest port.

For many services a fully digital point-of-sale will be more convenient both for the consumer and for the service provider. For example a travel agency can reach more potential travellers in more flexible working hours with more up-to-date information when using the web. Even for tangible goods like flowers, online sale can be worthwhile. In fact, selling flowers has been one of the first prosperous businesses on the web, first and foremost by reducing the cost of sale significantly, although the product is not transported via the web.

Over the past few years we have seen initiatives to meet the new demands of distribution. Package tracking online is becoming more common. This kind of after sales support is significantly less expensive to deliver than answering questions by phone.

5.2.5 Use of the Internet and enterprise networking technology among SMEs for business co-operation

Co-operation among SMEs in networks based on Internet technology can open new markets⁹. Of special interest are networks enabling small enterprises to compete jointly with larger enterprises in markets otherwise only reserved for the large enterprises. Public procurement is a good example¹⁰ here. Further examples of co-operation are found in retail where virtual shopping centres are available¹¹. Another form is co-operation among several SMEs in the same business, such as wine producers or printing offices.

5.3 Status of European electronic commerce

Several different ways of measuring Internet penetration have been suggested in the relevant literature. The general activity level on the Internet can e.g. be

⁹ Clusters in Electronic Commerce, <http://www.ispo.cec.be/ecommerce/clusters/Welcome.html> (situation on 24 September 1999).

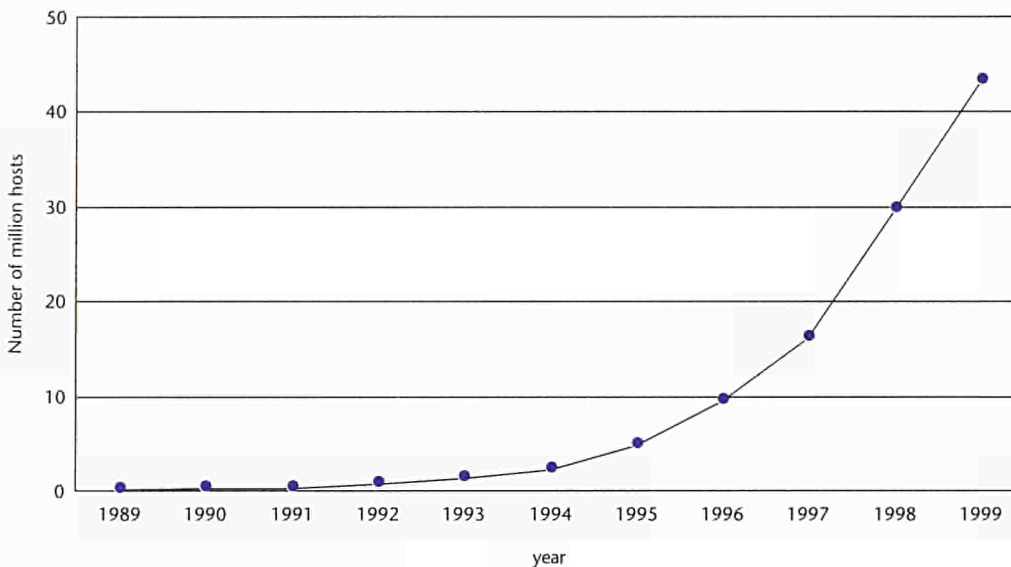
¹⁰ See also Chapter 2 of this report.

¹¹ Electronic Mall Bodensee, <http://www.emb.net/> (situation on 24 September 1999).

measured by means of the total number of registered domain names or the total number of registered hosts.

Figure 5.1 shows the world-wide growth in terms of registered hosts over the last 10 years. Alternatively the number of PCs and modems or other Internet connections per inhabitant can be used. An elaborate overview is available from the OECD¹².

Figure 5.1 Growth in the number of Internet hosts world-wide, 1989-2000



Source: Internet Software Consortium.

The Internet has spread much faster, about 10 times faster, than previous comparable technological media leaps, such as the radio. The Internet was opened for commercial use in 1991. European electronic commerce on the Internet started about three years ago. The American share of global electronic commerce was about 74 % in 1998¹³. As the non-US market grows, the non-US share will rise from 26 % in 1998 to 46 % of world-wide electronic commerce spending by 2003. The European online marketplace is expected to have a substantial share with 411 000 million euro in 2003. Another report¹⁴ predicts that the European electronic revenues will equal 55 % of the US total by 2002, and that the online population in the European Union is expected to match that of the US by 2003.

In the following sections, the status of European electronic commerce by country, size of business and business sector is presented.

¹² OECD, OECD communications Outlook 1999, Paris, 1999, and <http://www.oecd.org/dsti/sti/stat-ana/index.htm> (situation on 24 September 1999).

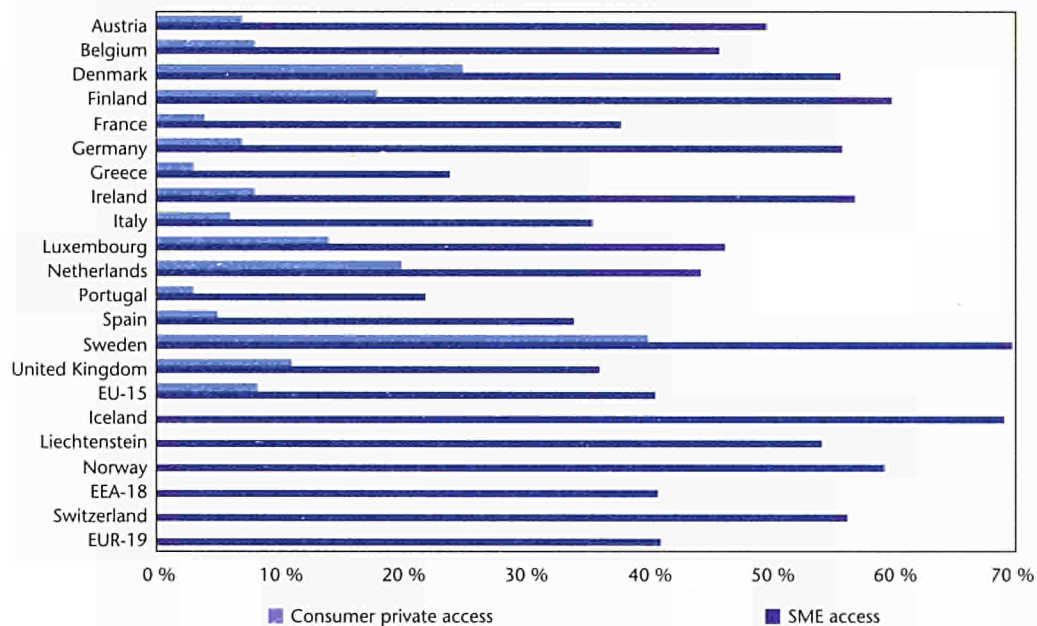
¹³ IDC, The globalization of eCommerce, <http://www.idc.com>, 1999, (situation on 24 September 1999).

¹⁴ Andersen Consulting, eEurope takes off, 1999, <http://www.ac.com/> (situation on 24 September 1999).

5.3.1 Status by country

In order to enter the electronic marketplace the consumers and the SMEs need to have access to terminals (currently PCs) for communicating via the Internet. The percentage of consumers and SMEs with access is presented in Figure 5.2. The figure shows Internet access on a private basis in all countries in the European Union, and SME access in all countries covered by this report.

Figure 5.2 Percentage of population with private-based Internet access in some European countries and SME access to the Internet



Source: ENSR Enterprise Survey 1999 and INRA (EUROPE), Measuring Information society, Eurobarometer 50.1, 1999 (covers consumers in EU countries only).

The consumer Internet penetration¹⁵ is comparatively high in Sweden (40 %), Denmark (25 %), the Netherlands (20 %), and in Finland (18 %). The average access percentage is about 8 % within the EU, which is less than one third of the corresponding average reported in the USA (26 %) for 1998¹⁶. Attractive pricing for local calls in Iceland¹⁷ has contributed to the highest Internet penetration in the world¹⁸ among the population in Iceland at year-end 1998¹⁹.

The deregulation and reform of the European telecom market is underway, although this is a slow process²⁰. The Greek telecom market is under government monopoly until 2003, and the Austrian monopoly was removed in 1998. An interesting

¹⁵ Internet connection used on a private basis by consumers in the EU Member States.
¹⁶ Ernst & Young, The second annual report, Ernst & Young Internet shopping study, London, 1999.
¹⁷ OECD, OECD communications Outlook 1999, Paris, 1999.
¹⁸ 32 % of the population in Iceland access the Internet every week at year-end 1998 (according to Computer Industry Almanac). Note that percentages in Figure 5.2 include also occasional users. The percentage for weekly users will be 15 to 30 % lower than those in Figure 5.2.
¹⁹ Computer Industry Almanac Inc., Press Release, Arlington Heights IL, 1999, <http://www.c-i-a.com/199907ciaiu.htm> (situation on 24 September 1999).
²⁰ OECD, OECD communications Outlook 1999, Paris, 1999.

development lately is that some European Internet Service Providers (ISP) are starting to offer subscribers not only free Internet access but also free dial-up phone calls as well. This is accomplished in co-operation with a telephone carrier²¹.

A greater SME presence on the web may, without a corresponding presence of the population like in Italy and Germany (see Figure 5.2), indicate a more developed business-to-business market, a focus on export, or that the consumers are lagging behind. Note that when including additional bases of access, i.e. home, mobile phone, etc. the penetration among consumers will increase. About 13 % of the European consumers have access to the Internet at work. There is of course an overlap between the group having access at home and the group having access at work. Electronic Commerce based on the Wireless Applications Protocol (WAP) is expected to increase the penetration dramatically.

42 % of all European SMEs have access to the Internet according to the ENSR Enterprise Survey 1999²². Both in Sweden and Iceland some 70 % of all SMEs have access to the Internet. In Finland and in Norway the access rate is about 60 %. The lowest percentages are found in Portugal and Greece, although both above 20 %.

Table 5.1 Use of Internet among European SMEs for commercial purposes. Percentages refer to share of SMEs pursuing a certain online business activity in each country

	<i>Use of Internet</i>							
	<i>Distrib. Prod. Info.</i>	<i>Distrib. Products</i>	<i>Receive orders</i>	<i>Confirm orders</i>	<i>Payment</i>	<i>Receive payment</i>	<i>Average Number of activities*</i>	<i>Co-op. on web</i>
Austria	33 %	13 %	16 %	14 %	7 %	5 %	2.2	26 %
Belgium	15 %	7 %	8 %	9 %	5 %	7 %	1.4	13 %
Denmark	20 %	9 %	12 %	9 %	7 %	5 %	1.8	10 %
Finland	21 %	10 %	13 %	11 %	21 %	8 %	1.7	12 %
France	24 %	3 %	7 %	4 %	2 %	3 %	1.3	25 %
Germany	32 %	14 %	15 %	9 %	7 %	5 %	1.7	19 %
Greece	11 %	1 %	4 %	1 %	0 %	0 %	1.4	4 %
Ireland	22 %	3 %	9 %	9 %	1 %	1 %	1.5	12 %
Italy	22 %	7 %	11 %	9 %	3 %	3 %	1.7	9 %
Luxembourg	28 %	6 %	5 %	4 %	3 %	2 %	1.3	15 %
Netherlands	21 %	8 %	11 %	11 %	7 %	3 %	1.8	7 %
Portugal	6 %	3 %	3 %	3 %	2 %	0 %	1.5	1 %
Spain	17 %	2 %	5 %	3 %	2 %	1 %	1.2	4 %
Sweden	34 %	15 %	25 %	27 %	21 %	8 %	2.1	21 %
United Kingdom	15 %	5 %	8 %	7 %	3 %	4 %	1.8	6 %
EU	21 %	7 %	10 %	7 %	4 %	3 %	1.6	11 %
Iceland	31 %	13 %	23 %	21 %	20 %	12 %	2.3	12 %
Liechtenstein	26 %	8 %	9 %	6 %	4 %	2 %	1.5	16 %
Norway	24 %	7 %	16 %	14 %	15 %	10 %	2.0	13 %
Switzerland	38 %	8 %	9 %	8 %	7 %	3 %	1.5	22 %
Europe-19	21 %	7 %	10 %	7 %	4 %	3 %	1.6	12 %

The average number of activities was computed as the average number of the first six business activities for which the Internet is used among SMEs with access to the Internet in each country. Co-operating for jointly offering products or services is not included in this average.

Source: ENSR Enterprise Survey 1999.

²¹ Screaming net initiated this move and AOL have announced the planned implementation of a similar service.

²² See Annex I to this report: The set-up and analyses of the ENSR Enterprise Survey 1999.

In the ENSR Enterprise Survey 1999 the SME use of the Internet has been analysed. Some of the results are presented in Table 5.1. The average number of activities (out of six) for which the Internet is used, gives an indication of how advanced the SMEs, currently using the Internet for business activities, are in their use. According to this measure the SMEs in Iceland (2,3), Austria (2,2) and Sweden (2,1) are most advanced.

Additionally Table 5.1 shows the share of SMEs using the Internet for distributing information on their product or service. The Swiss and the Austrian SMEs are the most active in using the web for presenting information on their products and services.

The third column of Table 5.1 refers to the share of SMEs who are distributing their product or service on the web. Sweden and Germany are closely followed by Austria and Iceland as the most advanced countries in this regard.

Approximately 10 % of the European SMEs is receiving orders via the Internet. In three countries the SMEs receive orders via traditional channels and sometimes confirm via the web, Belgium (8 % receiving vs. 9 % confirming), Sweden (25 % vs. 27 %) and in the United Kingdom (8 % vs. 7 %).

Many European SMEs still seem reluctant to use the Internet for paying and receiving payment. On average over all countries in the survey about 4 % are paying via the Internet, and some 3 % receive payment in this way.

Finland and Sweden both with (21 %) together with Iceland (20 %) are clearly in the lead concerning online payment. In most countries the SMEs are using the web more for paying than for receiving payment. Note that many French enterprises are using the Minitel²³ network in addition to or instead of the Internet (see Case Study).

Among European SMEs the Austrian (26 %) and the French (25 %) SMEs are most frequent users of the Internet for co-operation in jointly offering products. These are followed by SMEs in Sweden and Switzerland both with more than 20 %. In some countries the SMEs are more advanced in their use of the Internet for co-operating than for distributing information on their products.

Case Study: French Minitel network

The Minitel Network was established in the early 1980s and was initially funded by the public sector. The first terminals were distributed free of charge. In 1994 1.2 million French households had used Minitel to make a purchase, whereas 800 000 American households had used the Internet to buy at least one product. In 1997 80 % of all French businesses used the Minitel and in 1998 about 22 % of the population were connected. A well-known and trusted third party, France Télécom, acts as a payment intermediary between supplier and the consumer. The original user interface was based on a monochrome page-by-page scrolling monitor, no hypertext, and no possibility of saving information. The Internet, based on open standards, has developed faster, both concerning technology and number of users connected. Minitel is likely to be gradually merged with or replaced by the Internet.

Source: OECD, France's experience with the MINITEL: lessons for electronic commerce over the Internet, Paris, 1998, and INRA (EUROPE), for DGXIII of the European Commission, Measuring Information Society, Eurobarometer 50.1, 1999.

²³ OECD, France's experience with the MINITEL: lessons for electronic commerce over the Internet, Paris, 1998.

French enterprises gained early experience from the Minitel network. This has possibly caused their strong position here. The Austrian lead can be a result of a long tradition of co-operation among SMEs in tourism. A highly visible sector like tourism will contribute to dissemination into other sectors. Tiscover²⁴ is the most well-known Austrian site for tourism. In 1998 the site received 87 000 bookings and requests for information. The number of visits and bookings are growing rapidly.

Case Study: A dedicated network for co-operation among SMEs in the printing industry

In 1994 seven independent printing offices in different locations in Norway decided to start a co-operation for business development. They received some national funding for developing the network. The purpose of the network 'Trykk i Nor A/S' was to form a common business profile that increases the product specialisation of each member, and to optimise the use of resources within the network to increase the overall profit. All participating SMEs have a staff of 6-12 employees. Their local markets do not overlap.

The network can support two kinds of flexibility. Firstly, the capacity for processing orders is increased, and secondly the product spectrum provided is extended. In 1996 the network decided to implement an intranet for trading among the enterprises. Information on capabilities and prices from all participating SMEs is required. The application is based on standardised forms for calculating and confirming requests. Thus, requests are always comparable and complete. The network has been most useful for the participating partners.

Source: Spilling, Olav R. (Ed.), *Perspektiver på næringsutvikling (Perspectives on business development)*, BI årbok 1997.

A network among enterprises offering similar products/services can be used to extend their capacity regarding processing time and variations of products. A network among different but complementary enterprises can provide more complex products and solutions than one enterprise alone. The 'Trykk i Nor A/S' network is primarily duplicating the use of existing technology for changing how their business network operates. A similar larger initiative taken in another sector is the Dutch Metacom co-operation among forty companies in the metallurgic industry. This co-operation facilitates outsourcing.

Autolinkki²⁵ is a dedicated network where spare parts for cars are traded among Finnish wholesalers and retailers. The system is based on EDI and transmits over 15 000 orders per month. In Greece another dedicated network linking 65 regional commercial partners has been established by Lambda S.A. The network handles the commercial transactions for distributing cars and parts.

Both in France and Luxembourg vineyards are co-operating to offer their products. The French site²⁶ is not a shop but a wholesale trade enterprise, also selling directly to private customers abroad. 75 % of the turnover comes from export. Both sites are presented in French and English. The site in Luxembourg²⁷ is in addition to online wine vending, also providing further services such as information for tourism, a glossary for wine tasting and wine club information.

²⁴ <http://www.tiscover.com> (situation on 24 September 1999).

²⁵ <http://www.elma.net/> (situation on 24 September 1999).

²⁶ <http://www.chateaunet.com> (situation on 24 September 1999).

²⁷ <http://www.vinsmoselle.lu> (situation on 24 September 1999).

5.3.2 Status by size and business sector

The results of the ENSR Enterprise Survey 1999 indicate that in Europe as a whole the percentage of SMEs connected to the Internet increases with the size of the SMEs. Table 5.2 shows that larger SMEs use the Internet more frequently for most of the listed activities. Among the SMEs with access to the Internet there are only small differences in the average number of business activities for the different size classes.

Table 5.2 Use of the Internet by enterprise size, Europe-19

	<i>Number of employees</i>				
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	<i>Total</i>
Average number of activities (among SMEs with Internet access)*	1.7	1.6	1.6	1.8	1.6
Having direct access to the Internet	33 %	49 %	67 %	86 %	42 %
Distribution of product information via the Internet	14 %	27 %	42 %	59 %	21 %
Distribution of products via the Internet	6 %	7 %	9 %	13 %	7 %
Receiving orders	8 %	10 %	15 %	20 %	10 %
Confirming orders	6 %	9 %	12 %	16 %	8 %
Paying via the Internet	4 %	5 %	8 %	9 %	4 %
Receiving payment via the Internet	3 %	3 %	4 %	7 %	3 %
Co-operating in offering products or services jointly	9 %	13 %	19 %	29 %	12 %

* The average number of activities is derived in the same way as in Table 5.1.

Source: ENSR Enterprise Survey 1999.

Co-operation over the Internet is influenced by the size of the enterprise. There is also a trend indicating that older enterprises tend to use this option more than younger ones.

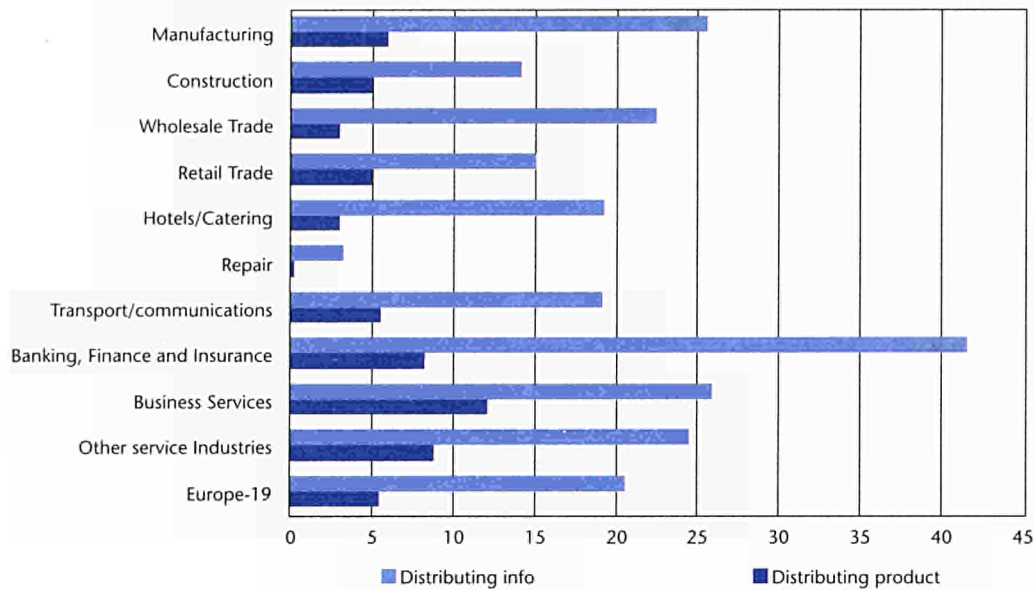
The commercial use of the Internet varies not only among countries but also among business sectors. To some extent this is caused by the different nature of pursuing business. Figure 5.3 shows the share of SMEs presenting and distributing their products on the Internet by business sector. All business sectors use the web for presenting their products or services. Banking, Finance and Insurance is the leading sector concerning use of the Internet for distributing information on their services (41 %). The Business Services Sector is most frequently using the web for distributing products (12 %).

Concerning paying and receiving payment, the relationship among the sectors looks different. All percentages are considerably lower. The hotel and catering sector (less than 1 % use the Internet for paying) does not really need to handle the financial transaction over the Internet since the customers physically appear at the hotel reception. The wholesale sector is the most advanced, where 8 % of the SMEs use the Internet for paying.

The degree of co-operation over the Internet also varies over business sectors. In Europe as a whole about 12 % of the SMEs use the Internet for offering products or services jointly.

The sectors Banking, Finance and Insurance, and Business Services both reach more than 15 %, concerning co-operation using the Internet, ranked after Other Services with 20 %. Those sectors are followed by the Hotels/catering sector with 13 %. In the Repair Sector only 1 % of the SMEs are using the Internet for jointly offering services.

Figure 5.3 Percentage of SMEs distributing product information and products via the Internet, Europe-19



Source: ENSR Enterprise Survey 1999.

5.4 Opportunities and barriers concerning SMEs' use of electronic commerce

SMEs can act both as vendors and buyers in the electronic market. Depending on who is involved in the market, there are different barriers and opportunities. For example a network open to the world will face security challenges hardly existing in a closed business-to-business network.

5.4.1 The European consumer in the electronic market

The consumers of the European electronic commerce market play a most important role, however their attitudes and trust in this market are yet to be more thoroughly investigated. Some investigations have been carried out in Europe and other markets and results from the other markets can partly, but not completely, be used to predict the European development. Some special European preferences and features may distort such a prediction. The identified properties are as follows:

- The language barrier is still significant in Europe. Most consumers prefer to conduct business in their mother tongue. English is the most widely spoken foreign language in Europe, however in some European countries more than 80 % of the population cannot speak English²⁸.
- The cost of telecommunication is still a barrier for European consumers whereas the US consumers have, for a long time, been able to connect to the Internet at low or no cost.

²⁸ European Commission DG XIII/E/6, MLIS, Europa Multilinguis Language and Business, Luxembourg, 1998.

- Cultural pluralism requires more evolution than just the translating of words to reach all countries. By developing technology and strategies for coping with this cultural evolution, the countries may gain an important competitive edge.
- Mail order sales per capita are about half of those in the US, suggesting that Europeans are less interested in using this mode of shopping²⁹.
- Payment without a signature on a piece of paper is widely accepted in the US electronic commerce market. This is not very common in many European countries.
- The online population in Europe is somewhat younger than in the US³⁰. In the coming years the average age of the overall online population is expected to continue to increase³¹.

General advantages for consumers using electronic commerce include more up-to-date product information, lower prices, and a larger sample of products from a larger number of suppliers. Most niche products will not be available at the local store. In addition, the business transactions can be handled more efficiently.

A survey conducted in 1998³² among Internet shoppers shows the relative importance among four reasons for shopping online (see Table 5.3):

Table 5.3 Ranked reasons for shopping online in the USA

<i>Reason for shopping online</i>	
Convenience	53 %
For more choice/variety	46 %
To save money	45 %
It is more fun	25 %

Source: Ernst & Young, Internet Shopping, 1998. Respondents were selected among American consumers buying on the Internet.

Another consumer survey, conducted in 1997³³, also indicates convenience as the main reason for shopping online. In addition, time saving, vendor information and absence of pressure from sales personnel are important reasons. Results from 1998 show similar findings, only with a higher percentage of agreement. These surveys only include people already using the web for shopping. A survey conducted in Finland indicates that an important barrier is the limited domestic supply.³⁴

One feature of electronic commerce, similar to the mail order market, is that a buyer cannot physically inspect the merchandise. This, combined with a certain time for delivery, will be a disadvantage for selling some types of products, like

²⁹ OECD, The Economic and Social Impact of Electronic Commerce, Paris, 1998.

³⁰ GVU, GVU 10th WWW User Survey October 1998, Atlanta Georgia, 1999 http://www.gvu.gatech.edu/user_surveys/survey-1998-10/graphs/ (situation on 24 September 1999).

³¹ eMarketer, Net User Demographics, 1999, http://www.emarketer.com/estats/demo_age.html (situation on 24 September 1999).

³² Ernst & Young, Internet Shopping Survey 1997, 1998, <http://www.ey.com/> (situation on 24 September 1999).

³³ GVU, GVUs 8th WWW User Survey, Atlanta Georgia, http://www.gvu.gatech.edu/user_surveys/ (situation on 24 September 1999), respondents divided into US, Europe and other markets.

³⁴ Research by Finnish Gallup web, <http://www.gallupweb.com/press9.htm> (situation on 24 September 1999; in Finnish).

fresh fruit. Nevertheless, in Iceland two electronic auctions for fresh fish have already been available for a number of years.

Traditional shopping includes the personal attention of sales personnel. This can, as far as information is concerned, be replaced by discussion groups online involving other customers and technical experts from the vendor. By using the benefit of the asynchronous communication this could, for the online SME, mean that more customers could be served by a small number of employees. However, some customers (and products) will still require personal face-to-face advice. For example, most consumers still prefer to buy a suit personally. The personal side of business is hard to convey on the Internet with its limitations to provide only vision and sound.

5.4.2 Opportunities for SMEs in the electronic market

Expanding the market is one of the main reasons for SMEs to start using electronic commerce. Additional motivation includes better quality of service for customers, and competitive advantages. Whilst this channel also reduces time to market, viable advertising and evoking impulse purchases are difficult, perhaps especially on the Internet with the persistent information overflow.

The power of a well-known trademark can, for SMEs, be balanced by directory services on the Internet branding the SMEs as trustworthy. Another way is regular assessment. In the United Kingdom chartered accountants will provide a 'kitemark' service in late 1999, reassuring users of site integrity. The sites will be assessed quarterly concerning security, privacy and site integrity. A similar initiative is also underway in Norway³⁵.

Presence on the web can be used to improve the communication with customers, leading to greater customer satisfaction and better products. By providing necessary information, the SME can ensure that a buyer, ordering online, will know what to buy before contacting the sales personnel, thus arriving at more effective business transactions. Online product support can reduce the cost of after-sales service and still increase the quality of service. Electronic commerce can also be a way of profiling the SME.

The public procurement market will often be inaccessible to individual SMEs, however the SMEs can compete with larger companies when they co-operate in this market. By co-operating a group of SMEs can deliver products and services in a similar manner to LSEs. Some important aspects are; delivery volume and time to deliver. Also the ability to deliver stable after sales support can be crucial for delivering to a public authority. Small companies can co-operate to jointly improve their performance concerning these aspects. By using the Internet, the co-operation can be strengthened and demonstrated to potential customers.

For public organisations putting out calls for tenders, electronic commerce opens up new, more efficient ways of comparing more offers. For example Tenders Electronic Daily (TED)³⁶ is a database on the Internet containing calls for tenders published by the European Commission. National administrations have developed analogous systems, for example in Sweden. The Swedish authorities report considerable savings from more efficient invoice handling³⁷.

³⁵ <http://www.eforum.no/> (situation 24 September 1999; in Norwegian).

³⁶ <http://ted.eur-op.eu.int/index2.htm> (situation on 24 September 1999).

³⁷ http://www.linkoping.se/kommun/it_verksamhet/it_projekt/e_handel/default.asp (situation on 24 September 1999; in Swedish).

In Italy, the Municipality of Bologna is in co-operation with Telecom Italia, starting to experiment with different types of interactivity for selecting products and for the financial transactions in electronic commerce. The town provides electronic means of accepting payment for school services, taxes, duties, etc. A retailer and a travel agency are also providing their products in this context. In Finland another initiative has been launched to develop an Electronic Identification and Electronic Citizen Card and also to make the public sector more accessible and create infrastructure for electronic commerce³⁸.

A web interface for doing business can produce better management information, and lead to better inventory control. Handling of payment and business documents can be carried out more cost-effectively online. In addition, records of the transactions are automatically produced.

Fine-tuning of just-in-time production can often significantly reduce the cost of inventory. This is not new, but the tools for doing it are sharpened by utilising electronic commerce. This, combined with a small sales organisation, can give small enterprises a competitive edge compared to larger established ones. Interestingly, the ENSR Enterprise Survey 1999 indicates that larger SMEs (typically with an established offline sales organisation) are more concerned with the customer's access to the electronic market than the smaller ones are (see also Table 5.4).

Traditional forms of commerce are being adapted and transferred to the Internet. For example auctions,³⁹ where consumers or companies can offer their goods or surplus through a third party, are growing in popularity. Another emerging form is aggregators serving the purpose of aggregating product or service information of interest to their customers. Aggregators concentrate on gathering, instead of creating data of their own. Examples can be found e.g. in the field of chemistry⁴⁰, insurance or in the business of organising weddings. Exchanges provide a spot market for online trading in industry commodities. Further examples are found in energy trading⁴¹ and industrial emission trading. Those and other new emerging forms represent opportunities for new SMEs with regard to entering the electronic market.

5.4.3 Barriers limiting the use of electronic commerce

Electronic commerce for SMEs in Europe has not really taken off yet. Barriers can be created from different sources, namely the SMEs, the consumers, technology and the legal framework.

All commerce requires a certain degree of trust between the vendor and the buyer. For electronic commerce all parties involved in the business transaction also need to have trust in the technology to pursue business in this way. Another premise is the available infrastructure. PCs or other access devices must be available and connected to the Internet. The given infrastructure must be capable of handling the applications needed. Below, potential barriers are listed in four categories.

³⁸ http://www.vn.fi/vm/english/public_management/eid.html (situation on 24 September 1999).

³⁹ <http://www.jubii.dk/>, <http://www.Quixell.com/> (situation on 24 September 1999).

⁴⁰ <http://www.chemdex.com/> (situation on 24 September 1999).

⁴¹ <http://www.altranet.com/> (situation on 24 September 1999).

Case Study: A plumber with a new grip

Brdr. A&O Johansen is a wholesaler operating in the market for independent plumbers. Since plumbers generally work on the location of the customers, they need to have well-functioning travelling workshops and stores. To solve this problem, Brdr. A&O Johansen has developed a best practice concept based on ICT.

Brdr. A&O Johansen sells travelling workshops fully equipped with tools and a basic range of goods. The van is well-organised with shelf systems and boxes. All the goods are bar coded and the parts used are registered by a bar code pen and stored in the van's computer.

The ingenuity of this is that Brdr. A&O Johansen, on the basis of the ICT-based inventory management system, offers to refill the stock on a daily basis or according to the customer's wishes. The only thing the plumber has to do is to e-mail his order. The wholesaler has been able to bring added value to his services in the form of additional service so that the customers do not have any incentive to buy from anyone else.

The success can be pinpointed as follows:

- The construction of the van promotes efficiency in the daily work through a carefully organised system, which is not always easy to maintain in a plumbing van.
- The immediate registration of the goods used means reduced waste, since the error margin is reduced significantly.
- The bar code and computer system help the plumber to manage his own stock, including efficient stock-taking and ordering of new goods.

Source: KRS-Consult, Coopers & Lybrand, DTI Industrial Analyses for the Danish Chamber of Commerce, Best Practice Manual for the Use of Internet and Electronic Commerce, 1998.

SME issues

- Perception of electronic commerce as not applying to the enterprise;
- Protection of established sales channels;
- Concern about return on investment;
- Expectations concerning consumer participation in the electronic market;
- Language barrier for international commerce;
- Distrust in payment system;
- Non-availability of required IT skills.

Technical issues

- Sufficiently fast infrastructure;
- Payment system not established.

Consumer issues

- Insufficient knowledge and awareness among customers about electronic commerce;

- Consumer habits and the status of Internet shopping;
- Language barrier for international commerce;
- Distrust in payment system;
- Cost of telecommunications and end-user equipment;
- Personal integrity.

Legal issues

- Consumer rights;
- Security issues and personal integrity;
- Protection of intellectual property rights;
- Fiscal problem (VAT) and other regulations concerning the use of international electronic commerce.

The ENSR Enterprise Survey 1999 shows that the most important reason for not using the Internet for selling products or services is the perception that it does not apply to the enterprise (43 %) (see Table 5.4). This reason is more important for the smaller SMEs than for the larger ones. This perception is least spread in Liechtenstein (20 %), Denmark (23 %), and Austria (24 %). Portugal (62 %), Greece (56 %), and France (53 %) are the countries where this viewpoint is most frequent. These percentages refer to SMEs not using the Internet for business activities.

Lack of information and awareness of good examples concerning electronic commerce, can cause the perception that selling products or services on the Internet does not apply to the enterprise. For the French SMEs however, access to Minitel can be an alternative to the Internet.

Reasons behind this large category will include the perception that the enterprise is too small for electronic commerce. Some believe that this channel is not relevant for the nature of their business, such as cleaning, other that the organisation or its clients are too conservative to embrace the new opportunities. Existing sales channels work well, and so there is no need for new ones.

The three most important barriers following after the perception that electronic commerce does not apply, are; concern about return on investment (10 %), lack of skilled personnel (7 %) and lack of consumer access to the electronic market (6 %).

Table 5.4 The most important reasons for SMEs for not using the Internet for selling products or services as percentage of enterprises not using the Internet for business activities, Europe-19

Barrier	Number of employees				
	0	1-9	10-49	50-249	Total
Does not apply to the enterprise	44 %	42 %	36 %	30 %	43 %
Do not believe it would pay off	10 %	10 %	11 %	10 %	10 %
Skilled personnel are not available	8 %	7 %	6 %	5 %	7 %
Customers' access to Internet is insufficient	5 %	7 %	8 %	10 %	6 %
Phone costs are too high	6 %	4 %	2 %	0 %	5 %

Source: ENSR Enterprise Survey 1999.

Sufficient customer access to the Internet is of course an important prerequisite for business-to-customer commerce. The perception of this potential bottleneck among SMEs is shown in Table 5.4. See also Figure 5.2 for Internet penetration among the population and the SMEs. This barrier can also be linked to the perception that electronic commerce does not apply to the SME.

SMEs who are already online are more concerned with consumer access to the Internet (11 %) than those who do not have access (5 %). Customer access to the Internet is the most important barrier for 20 % of the medium-sized enterprises already having access to the Internet.

Some SMEs do not believe that entering the Internet market would pay off. Interestingly this is the most important reason for not using electronic commerce in some of the countries with the most advanced use of electronic commerce, such as Austria, Finland and Sweden (all more than 15 %) (see also Table 5.1). However, SMEs in Iceland rank this barrier lowest (less than 1 %).

The SMEs perceive a lack of skilled personnel as the most important reason for not using the Internet primarily in France (16 %), Greece (12 %) Germany (10 %), and in Sweden (9 %).

The French (16 %), Italian and Austrian (both 9 %) SMEs show the highest percentages among the Europe-19 SMEs, referring to the cost of getting online as the most important barrier. The Internet hardware is expensive compared to the French Minitel hardware.

Phone costs are given as the most important barrier by 11 % of Spanish and Austrian SMEs, and 9 % in Italy, and in Iceland (although in Iceland the consumer access is the highest in the world). Attractive tariffing compared to analogue lines has e.g. in Germany and Luxembourg accelerated the installation of ISDN lines. Telephone costs are a more important barrier for small companies than larger ones, see Table 5.4. Many SMEs are already extensive users of telecom implying that the connection charges for the Internet will not be crucial. Cost of communications is more likely to have a decisive impact on consumer participation.

Distrust in the technology (1 %) and lack of security (less than 1 % in Europe) are not selected as the most important barriers by most SMEs in most of the countries. However, in Germany 5 % and in Norway 6 % of the SMEs selected distrust in technology as the most important barrier. Lack of confidence in the regulatory environment received a low percentage among SMEs in Europe-19. This is possibly a more important concern for consumers.

In addition to the above-mentioned perceived barriers, language is still a prevalent barrier for international trade in Europe today. For example, a study⁴² shows that 60 % of the inhabitants in the 'old' EU Member States cannot speak English⁴³. In some countries less than 20 % of the population can speak English. On the supply side the situation is similar. Within the European Union about 40 %⁴⁴ of all commercial web sites are not available in English. The Internet, primarily being an

⁴² European Commission DG XIII/E/6, MLIS, Europa Multilinguis Language and Business, Luxembourg, 1998.

⁴³ Belgium, Denmark, Germany, Greece, Spain, France, Italy, Luxembourg, the Netherlands and Portugal.

⁴⁴ European Commission DG XIII/A3, Study GI 2.2196, by Databank Consulting, IDATE, TNO, Brussels-Luxembourg, 1997.

English speaking arena, is therefore largely out of reach for many potential customers with another native tongue. The current development will produce more sites in national languages. The national use of the Internet is however expected to be of increasing commercial importance. For example in Finland most online purchases are made in the home country⁴⁵. Some European governments already have programmes in place to remove barriers for international trade, for example in Finland and Italy⁴⁶. The Finnish Institute for International Trade (FINTRA) publishes handbooks and language learning materials to help companies in their international operations. The Italian Institute for Foreign Trade provides training in international trading and marketing, in particular for SMEs. A similar initiative has been launched by FORMEDIA in Portugal.

Regarding business-to-business and business-to-administration, the barriers are partly the same as for business-to-consumer. Business-to-business refers mostly to longer lasting business relationships with known and trusted partners where transactions can be streamlined. The cost of introducing EDI is still a barrier for many small companies to join. The business-to-business part of electronic commerce is estimated at about 70 %⁴⁷ of the entire online business volume. The most interesting potential for electronic commerce currently is the business-to-consumer market.

5.5 The impact of electronic commerce

Use of the Internet for conducting business has already changed business to some extent. For example, purchasing, customer support and product maintenance in the ICT industry are now often carried out by using the Internet. Interactivity is one of the most important technical features enabling change. Potentially there are some major changes in further business sectors to come.

5.5.1 The global impact on the market

Depending on the nature of the traded goods or services and the way the trade is carried out, one can expect a different impact of electronic commerce with regard to structure of distribution, size and development of SMEs. For example auctions addressing consumer-to-consumer trade will reach a larger audience by supplying more local sites, taking language and cultural differences into account whereas the software vendor can manage with one central outlet. However, software vendors can benefit from national and regional customisation.

Currently large companies in e.g. consumer electronics are experimenting with direct retail via the web as an add-on combined with the traditional retail channels. This may in the long run have an impact on the distribution pattern.

One example of structural change can be found in the Swedish real estate market. Many real estate brokers are present on the Internet. However most of them do not fully exploit the potential of the marketplace. This site⁴⁸ is not only open to buyers but also to the people selling houses. Thus, by increasing volume, real estate can provide cheaper service.

⁴⁵ Research by Finnish Gallup web, <http://www.gallupweb.com/press9.htm> (situation on 24 September 1999; in Finnish).

⁴⁶ European Commission DG XIII/E/6, MLIS, Europa Multilinguis Language and Business, Luxembourg, 1998.

⁴⁷ EITO, European Information Technology Observatory 99, Frankfurt, 1999.

⁴⁸ <http://www.agarendirekt.se/> (situation on 24 September 1999).

New enterprises solely based on virtual activities⁴⁹ have already emerged. They are often intermediaries in new market areas. Redefinition, and in some cases elimination of middlemen, is also a general trend in the course of moving towards the electronic economy⁵⁰. There is no technical need for distributing goods via intermediaries. However, there will still be a role to fill for pursuing accompanying measures before sale and after sale. In addition new roles, such as information broker, are being defined as a result of the previously unseen combination of size and accessibility of the international market. Amazon.com is a new intermediary fully exploiting the new media. The bookstore on the corner would do well to consider in what way a customer could benefit from physically entering the store and being in real contact with the personnel and the products. What add-on services could keep customers coming, even if the same books can be bought cheaper on the web?

The nature of asynchronous communication enables a smaller group of staff to serve a larger number of customers. This aspect is analogous to the mail order business since one net site can serve the entire market, this implies that there is no need to establish offices in each country where trade is pursued. However, in some lines of trade physically closer contact to the market is crucial. For example the consumer-to-consumer auction site Quixell⁵¹, set up in 1997, is already established in several European languages. This site offers a system to small companies to add the auction feature to their own sites. Amazon.com is also opening local sites in Europe.

There are some potential threats to SMEs concerning the development of the electronic commerce market, especially in retail a development comparable to the one experienced in the course of introducing shopping centres is possible. Shopping centres have changed the way consumers pursue their shopping. Many SMEs have experienced a negative impact on turnover as a consequence.

More and more, small SMEs from other sectors than ICT, will be able to enter this market as ICT products are streamlined and the prices fall. Using a site for doing business will eventually be just as common as using the telephone. Of course, there are examples of enterprises that have entered the market without success. Therefore, best practice cases are useful, and a sound business strategy is crucial.

Increased interactivity can involve customers to a larger extent in the product development. Thus, enterprises can also get a better understanding of their customers and their needs and preferences. This both poses a threat to privacy and provides an opportunity for better product tailoring.

SMEs having access to the Internet are more frequently exporting and have a larger share of turnover from export than those who do not have access. This is valid for all size classes. Table 5.5 shows that the enterprises having access to the Internet, and are using electronic commerce in at least one way, are more frequently exporting than those who do not use electronic commerce. In addition this table shows an increased use of electronic commerce by increased size. A Swiss study⁵² indicates that 90 % of the Swiss SMEs targeting the international market have an Internet access whereas 40 % of the regionally oriented have access.

⁴⁹ <http://www.yahoo.com/> (situation on 24.9.1999) or Digi <http://w3.digi.no/> (situation on 24 September 1999).

⁵⁰ <http://www.oecd.org/> (situation on 24 September 1999).

⁵¹ <http://www.quixell.com> (situation on 24 September 1999).

⁵² <http://www.kmuinfo.ch/> (situation on 24 September 1999).

Case Study: Buyonet - a Swedish software retailer

The company has emerged from a small Swedish software distributor that struggled with the physical aspects of delivering software. It recognised the potential of the Internet as a delivery mechanism, worked out a concept that supported payment, delivery and sales reporting and approached venture capitalists for funding to build a commerce system.

Buyonet sells software electronically, presented (to some extent) in six European languages. The currency displayed is adapted to the nationality of the visitor or manually selected.

The company has no physical inventory but sets up agreements with software publishers allowing them to create copies of their software and distribute them over the Internet to consumers. Sales reports are sent monthly to each publisher and accounts settled electronically. Buyonet has also built into its commerce system a checking mechanism that publishers can use to check sales of their products themselves. The company went online in 1997. The enterprise currently covers the cost of its employees but does not expect to be profitable for some time. It is investing heavily in building its brand name as the long-term basis for the profitability of the company. It intends to become the amazon.com of the computer software world. It currently has thousands of software titles on its lists and its objective is to be able to supply every title there is. The electronic commerce channel has virtually eliminated the handling expenses, enabling the company to offer products at competitive prices. The company is based in Sweden and in the US.

Source: <http://www.buyonet.com> (situation on 24 September 1999).

The difference in percentage is decreasing when the size of the SME is increasing. This could imply that using electronic commerce increases access to the international market especially for small SMEs.

There is little evidence that electronic commerce will cause job dislocation. In the short term one may rather experience the contrary as a consequence of enterprises experimenting with the new form of business.

Electronic commerce has already had an impact on prices. For example flight operators like SAS provide time-limited offers on the web, and some IT vendors offer a general discount when purchasing over the web. Using the geographical flexibility provided in the network economy can drive this development further.

Table 5.5 Relation between use of electronic commerce and export in 1997-1998, by enterprise size, Europe-19

<i>Size class</i>	<i>Exporting enterprises</i>	<i>Non-exporting enterprises</i>
0 employees	27 %	18 %
1-9 employees	55 %	29 %
10-49 employees	59 %	49 %
50-249 employees	71 %	69 %

Source: ENSR Enterprise Survey 1999.

5.5.2 The internal impact on SMEs

For enterprises using electronic commerce, expanding business will be accomplished by a system upgrade rather than by opening a new sales office. Both approaches require investments. However, the virtual store is more flexible and in most cases less costly than acquiring a physical, new store or sales office. Entering the electronic market is for many SMEs a natural way of expanding into a nationally or even internationally oriented business from being a regional one.

To face this new way of conducting business additional new skills are needed, both for technically launching and maintaining a commercial application and sometimes for expanding the market into new regions with another language or culture.

Fully introducing electronic commerce in an enterprise will call for co-ordination among all the functions of the company. This may for example require new forms of co-operation among departments for marketing and IT.

A recent study⁵³ shows the emergence of leaders; companies that are taking electronic commerce seriously. They realise that this is not simply an additional responsibility for the IT department, and are devoting a dedicated budget to it.

So far, security, privacy and cost of infrastructure have been central issues in the discussion about electronic commerce⁵⁴. However, it is well-known that some products such as magazines and books can only be sold in large quantities when they are available in the native language. Most technical products come with an instruction manual in several languages. There are no reasons to believe that electronic commerce is an exception to this rule in Europe. Therefore, European SMEs wanting to access the European market will need to consider how to meet their potential customers speaking different languages. Initiatives are trying to come up with more or less automatic solutions to the problem. However for the time being, the SMEs will need to rely on personnel speaking the language of their market to gain a larger share. This will be emphasised for enterprises wanting to involve their customers in a dialogue for developing new products. Also cultural insights will be most valuable for marketing.

5.6 Support programmes relating to electronic commerce

There are some striking examples of national and local governments supporting the introduction of electronic commerce. One of the first was the French Minitel initiative.

5.6.1 National programmes promoting electronic commerce

There are several ways in which national governments can contribute to accelerating the introduction of electronic commerce. These include promotion and facilitation. Relevant measures include:

⁵³ KPMG, Electronic Commerce: Research project 1998, Pan European study of 500+ companies.

⁵⁴ The Multi Lingual Information Society programme (MLIS) initiated by the European Commission to promote language diversity within the European Information Society.

- Starting to use electronic commerce for public procurement;
- Funding R&D programmes;
- Producing newsletters;
- Providing free web space;
- Compiling best practice information;
- Providing access to course material;
- Providing a legal and infrastructural framework encouraging electronic commerce;
- Promoting web co-operation;
- Pursuing education policy enabling SMEs and consumers to easily enter the electronic market.

Case Study: Information Society Initiative (ISI)

The UK Department of Trade and Industry in 1996 launched the Information Society Initiative (ISI) to encourage businesses to take full advantage of the explosion of new ways to access, use and send information. The target group is UK companies, particularly those who may be inexperienced in the use of new technologies. Many of the initiatives focus specifically on the needs of smaller firms concerning decisions on adopting information technology in their business. ISI has established 100 'Local Support Centres' to help promote and guide electronic commerce. A further 31.74 million euro has been committed to ensure that the following aims are met:

- Complete a nation-wide network of support centres based on business links in England;
- Establish an E-commerce Resource Centre on the Internet;
- Help develop a private sector-led initiative to assist small business advisors - in the public sector, banks, accountancy firms, and in other sources across the country - to deliver high quality, consistent and integrated advice on doing business electronically;
- Launch a national award to recognise excellence in digital business.

The initiative is active till 2000.

In Sweden an initiative aimed at SMEs has been launched as a co-operation between the Ministry for Industry and a private foundation⁵⁵ to improve the competitiveness of SMEs by means of co-operation and use of the Internet. Here students are engaged to introduce the Internet to SMEs. The site provides useful information like TED, and advice on product developments. In addition, discussion groups and possibilities for SMEs to set up an extranet are offered.

In 1998 a permanent observatory on electronic commerce was established in Italy to monitor development and deal with policies. A support programme for SMEs

⁵⁵ The Knut and Alice Wallenberg Foundation, <http://www.smelink.se> (situation on 24 September 1999).

will start from 1999. Analogous to the UK support centres, Technical Assistance Centres (TAC) are being established in Italy.

Several European nations have high Internet ambitions. For example governments in Ireland, Finland, the United Kingdom and the Netherlands have all launched action plans to take a leading position in Europe.

5.7 Policy issues

Electronic commerce is and will be an important issue for many European SMEs. More than 20 % of the SMEs are already using the Internet for presenting information on their products and services. The development concerning electronic commerce may cause a considerable change in consumer behaviour patterns. Policy issues should enable SMEs to face this and related potential changes in the market.

Based on the findings in this chapter the following policy issues are proposed:

- Encouraging the progress towards lower cost for connecting to the Internet. The development in Iceland can be taken as a good example. This could remove the SMEs' concern about consumer access to the online market.
- Pursuing education policies to enable consumers to participate in the online community and make use of electronic commerce and also to support education paths to provide skilled personnel in this field.
- Involving more SMEs in public electronic tendering. The public sector could be challenged to lead on this by entering the electronic market to a larger extent. As a basis for this, a study investigating the cost of 'lost opportunity' for public electronic tendering would be useful.
- Promoting further research on the impact of electronic commerce on the performance of SMEs. So far, many projects and SME initiatives for deploying electronic commerce or creating online business networks have not yet been evaluated in this regard.
- Providing descriptions of different ways for SMEs to enter the online market based on business models derived from case studies. A systematic description of how SMEs with different initial conditions have successfully entered the online market and also the pitfalls to avoid could increase the success among SMEs entering the technology.
- Providing a facilitating legal framework to help countries that have not yet fully adapted their legal framework to related directives concerning processing of personal data⁵⁶, and pursue harmonisation of consumer rights.

⁵⁶ <http://europa.eu.int/comm/dg15/en/media/dataprot/law/impl.htm> (situation on 16 September 1999).

6 Access to Community Programmes

Co-ordinated by Austrian Institute for Small Business Research (IfGH)

MAIN POINTS

- The amount allotted to SMEs within the different kinds of Community Programmes varies between 10 % and 20 %. While, for example, 11.2 % of total loans provided by the European Investment Bank were distributed among SMEs, 18.2 % of Structural Fund resources (excluding Objective 3, 4 and Community Initiatives) have been addressed towards measures benefiting SMEs. The share of total budget allocated to SMEs within the 4th Framework Programme for RTD accounted for 11.1 %. It has remained constant in relation to the 3rd Framework Programme.
- In the last five years only 9 % of SMEs in the European Economic Area and Switzerland have participated in any support programme in the field of financial assistance, training support, consulting or information offered by regional, national or European institutions. 69 % never even considered an application since they were not even aware of the existence of such a scheme. Another 22 %, although aware of a programme, refused or had been refused participation.
- One fifth of SMEs which are aware of European support schemes, but have not yet participated, believe that it might be too complicated to take part in Community Programmes. Another 15 % lack information on how to participate. Furthermore, still 18 % state that there is no appropriate programme at the European level.
- To 50 % of SMEs which have participated in a Community Programme, obtaining information was still one of the major obstacles. 30 % suffered from the time lag between application and project start and another 30 % found the complexity of application procedures and administrative requirements a major barrier.
- While only 10 % of enterprises which participated in Community Programmes did not face any major barrier, these enterprises account for more than 20 % within regional and national support programmes.
- Whereas the utilisation-rate of funds has been rather high within the Community Initiative ADAPT, by the end of 1998 (e.g. 95 % in Denmark, 91 % in Germany, 92 % in Finland and even 100 % in the United Kingdom), only a small amount of funding has been exploited within the SME Initiative during the same period (26 % in Denmark, 55 % Germany (Thuringia) and 47 % in Finland).
- Barriers to the access of SMEs to the Community Initiatives SME and ADAPT seem to be more binding within the SME Initiative than within ADAPT. However, getting information, complex application procedures and administrative requirements as well as the time lag between application and project start hamper SMEs from participating in both Initiatives.

6.1 Introduction

The European Union is aware of the impact SMEs have on the creation of employment and economic welfare. Thus, the aim of the co-ordination of enterprise policies in favour of SMEs, which is confirmed in the Integrated Programme in favour of SMEs and the Craft Sector,¹ is to ensure that the SME aspect is integrated in the definition and implementation of Community policy and to increase SMEs' access to Community Programmes.

In its 1997 report on the co-ordination of activities to assist small and medium-sized enterprises (SMEs) and the craft sector², the Commission stressed that the accessibility of Community Programmes to SMEs had been improving. However, it could and should still be further improved. Therefore, it was important to assess participation of SMEs in Community Programmes and to identify the barriers which hamper SMEs from fully participating in European support schemes. It is the aim of this chapter to contribute to this analysis.

6.2 Participation of SMEs in Community Interventions

Participation of SMEs in Community Interventions differs from programme to programme, some of them being more 'SME-friendly' than others. However, assertions concerning the access of SMEs to certain Community Interventions are largely influenced by the kind of indicators used. The assessment of the distribution of SMEs participating in a certain programme over countries, for example, might lead to different results than the analysis of percentages of SMEs per country participating in a certain programme. The choice of the indicator thereby depends on the nature of the corresponding programme, as well as on the availability of data. In order to give comprehensive insight into the subject concerned, different indicators have been used in this section to assess the participation of SMEs in the various Community support measures. The analysis has been carried out for those Interventions that are in accordance with the lines of action defined in the Third Multiannual Programme for SMEs³. However, the International Co-operation Programmes are not being considered here.

European Investment Bank (EIB)

The main task of the European Investment Bank (EIB) is to contribute towards the integration, balanced development, and economic and social cohesion of the Member States of the Union through its long-term loans. With the objective of supporting SMEs and small and medium-scale projects, the EIB had developed, back in 1968, a decentralised financing facility called 'global loans'⁴. These are

¹ European Commission, Integrated Programme in favour of SMEs and the Craft Sector, COM(94) 207 final, Brussels, 3 June 1994, and COM(96) 329 def, 10 July 1996, Brussels, 1996.

² Report from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, COM(97) 610 final, Brussels, 1997.

³ European Commission, Third Multiannual Programme for SMEs in the European Union (1997 to 2000), Brussels, 9 December 1996.

⁴ Large-scale projects (upwards of euro 25 million) are financed by the EIB through 'individual loans' concluded with promoters in both, the public and private sectors, including banks.

made available to financial institutions and commercial banks, which deploy them for financing small and medium-scale projects in the industrial, service, health, education and infrastructural sectors. Local authorities or enterprises employing fewer than 500 persons can benefit from the proceeds of these loans⁵.

Financing provided by the EIB for capital investment within the European Union in the period 1994-1998 totalled 105 000 million euro. From this amount, a sum of about 11 600 million euro was distributed among 50 000 SMEs via global loans⁶, accounting for 11.2 % of total loans provided by the EIB. Some 8 000 million euro underpinned capital projects in industry, while 3 600 million euro was allocated to the service sector, particularly tourism. An examination of the benefiting SMEs highlights the predominance of very small businesses, with those employing fewer than 50 persons receiving 85 % of overall assistance given⁷. Table 6.1 gives a breakdown of the global loans to SMEs concluded with the EIB in the period 1994-1998, by country.

Table 6.1 Allocation of EIB funding by country, 1994-1998

	<i>Traditional global loans*</i>			<i>Total EIB funding per enterprise**** (EUR)</i>
	<i>Number of SMEs benefiting per 100 000**</i>	<i>Average amount per benefiting SME (EUR 1 000)</i>	<i>Percentage of global loans to SMEs***</i>	
A	204	863	23.4 %	7 500
B	283	470	27.0 %	4 900
DK	468	208	5.8 %	16 700
D	110	500	11.2 %	4 900
EL	17	1 396	4.3 %	5 600
E	132	249	5.4 %	6 100
F	1 344	71	15.6 %	6 100
FIN	41	679	3.9 %	7 000
IRL	638	229	9.0 %	16 000
I	128	795	18.3 %	5 500
L	27	750	1.0 %	19 300
NL	56	471	6.0 %	4 400
P	44	454	2.1 %	9 400
S	20	286	0.5 %	9 500
UK	133	264	9.4 %	3 700
EU	265	237	11.2 %	5 600

* In 1997, the EIB introduced a new approach called 'portfolio-based global loans', which is not considered here.

** Number of SMEs benefiting from global loans per 100 000 small and medium-sized enterprises.

*** Percentage of total EIB funding to SMEs in the form of traditional global loans.

**** Total EIB funding per non-primary private enterprise.

Source: European Commission, 41st annual report of the European Investment Bank, Brussels, 1999, and <http://www.eib.org/loans/cbceu98.htm> (situation at 6 July 1999); calculations by IfGH.

⁵ <http://www.eib.org/loans/cbceu98.htm> (situation on 6 July 1999).

⁶ The definition of SMEs here also includes enterprises from 250 to 500 employees.

⁷ European Commission, 41st annual report of the European Investment Bank, Brussels, 1999.

Considerable differences between Member States can be observed in the allocation of global loans. For example, a large share of the total EIB loans is distributed to SMEs in Austria and Belgium, resulting in a high number of SMEs benefiting from comparatively high amounts of loans, especially in Austria, where total EIB funding per enterprise is above EU-average. On the other hand, global loans for SMEs constitute a very small share of the total EIB funding in Sweden, Portugal and Luxembourg. These loans are distributed to only a few SMEs; however, as total EIB funding per enterprise is comparatively high in these countries it results in rather large amounts per loan, especially in Luxembourg, where total EIB funding per enterprise is the highest within the EU.

In 1997 the EIB introduced a new approach with a number of its long-standing partners called 'portfolio-based global loans'. Projects are now funded on the basis of the loan portfolio of the institution concerned rather than on an individual basis. In 1998, four operations with three different partners, totalling 1 640 million euro, were signed for assisting both small-scale infrastructure and SMEs. At the same time, under the Amsterdam Special Action Programme (ASAP), the EIB introduced, jointly with the banking sector, an 'SME Window', the purpose of which was to develop new venture capital instruments for financing high-technology SMEs with strong growth potential. By the end of 1998, contracts worth 393 million euro had been signed under the SME Window for 16 operations based on risk-sharing arrangements in 12 different countries.⁸

European Investment Fund (EIF)

The European Investment Fund is a financial institution, which was established as a joint venture by the European Union, and private and public financial institutions from all 15 Member States. The objective of the EIF is to support the integration of the Union by promoting medium- and long-term investment in two fields essential to the development of the European economy: (1) Trans-European Networks (TENs), which strive to form partnerships between the public and private sectors, and (2) SMEs, facilitating access to funding at a reasonable cost. Hence, the EIF provides guarantees on debt finance to banks and to financial institutions by funding investments in the eligible areas. Between 1994 and 1997, the sum of the guarantee operations signed in favour of SMEs amounted to 613.5 million euro, accounting for 34 % of total EIF activities.⁹

Structural Funds (1994-1999)

The European Union has at its disposal four Structural Funds (SF) through which it channels financial assistance to reduce structural, economic and social problems:

- The European Regional Development Fund (ERDF, 49.5 % of the total Structural Funds budget), which targets the most disadvantaged regions
- The European Social Fund (ESF, 29.9 % of the total Structural Funds budget), which concentrates on vocational training and employment aids
- The European Agricultural Guidance and Guarantee Fund (EAGGF, 17.7 % of the total Structural Funds budget), which promotes the adjustment of agricultural structures and rural development measures

⁸ European Commission, 41st annual report of the European Investment Bank, Brussels, 1999.

⁹ European Commission, Activities in favour of SMEs and the craft sector, Brussels, 1998.

- The Financial Instrument for Fisheries (FIFG, 2.9 % of the total Structural Funds budget), which groups together the Community instruments for fisheries.¹⁰

In the 1994-1999 period, Structural Fund resources amounted to 154 500 million euro, which was roughly one-third of the Community budget. Table 6.2 provides, by country, a global estimate of the extent to which these resources were devoted to measures benefiting SMEs during the corresponding period.¹¹

Table 6.2 Global Estimate of Structural Funds (SF) expenditure, 1994-1999

	<i>Average amount per SME* (EUR)</i>	<i>Percentage of SF expenditure on SMEs</i>	<i>Total SF expenditure per enterprise** (EUR)</i>
A	68	15.0 %	3 018
B	26	13.5 %	1 434
DK	201	51.6 %	752
D	491	44.5 %	2 470
EL	409	13.0 %	24 178
E	377	17.3 %	12 587
F	235	24.4 %	3 937
FIN	45	10.0 %	4 502
IRL	851	11.0 %	69 943
I	231	21.2 %	5 140
L	131	30.5 %	1 399
NL	166	30.4 %	1 794
P	41	4.5 %	20 454
S	972	72.3 %	1 854
UK	242	34.2 %	2 063
EU	209	18.2 %	6 311

* Average amount of SF Expenditure on SMEs per SME.

** Total Structural Funds Expenditure per non-primary private enterprise.

Source: European Commission, Thematic Evaluation of Structural Fund Impacts on SMEs, Synthesis Report, Version 4, Brussels, 1999.

According to the analysis, 18.2 % of Structural Fund resources (excluding Objective 3, 4 and Community Initiatives) or 21 300 million euro were directly allocated to measures in favour of SMEs. Compared with the earlier period, 1989-1993 (when an estimated 10 000 million euro was allocated to SMEs), there has been a substantial increase in the resources committed to SME promotion. However, the situation varies within Member States. For example, Portugal, an Objective 1 region, receives a comparatively high amount of Structural Funds resources per enterprise, but the proportion devoted to SMEs tends to be very low. Similar observations can be made for Greece, Spain and Ireland, where SF expenditure on SMEs accounts for less than the EU average (but still results in comparatively high amounts per SME). However, in the Nordic countries such as Sweden and Denmark more than 50 % of Structural Funds expenditure is allocated to measures benefiting SME. This may be a result of a higher priority of investments into infrastructural measures in regions whose development is lagging behind.

¹⁰ http://www.inforegio.cec.eu.int/wbpro/prord/prords/prds1_en.htm (situation on 4 July 1999), and http://www.inforegio.cec.eu.int/wbpro/prord/prords/fund/psff_en.htm (situation on 4 July 1999).

¹¹ European Commission, Thematic Evaluation of Structural Fund Impacts on SMEs, Synthesis Report, Version 4, Brussels, 1999.

Community Initiatives (1994-1999)

In order to address specific Europe-wide problems, the Commission implemented special programmes of action called 'Community Initiatives'. There are 13 Community Initiatives for the programming period 1994-1999, and they have a total budget of 13 460 million euro (9 % of the total financial allocation to the Structural Funds).¹² All Community Initiatives are available to SMEs, but since the Member States are responsible for implementing the Initiatives, and funding within the Community Initiatives frequently passes through intermediary bodies, there is little information available on SME participation or the amount allotted to SMEs at the project level.

However, apart from the SME-Initiative, which is specifically designed for small and medium-sized enterprises and has a budget of 1 100 million euro, the SME share in the overall budget of the Initiative EMPLOYMENT-NOW (496 million euro, equal opportunities for men and women) accounts for 50 % of the total. Support for small and craft firms is also one of the most important aspects of the LEADER II Initiative (1 755 million euro, development of rural areas), accounting directly for about 20 % of appropriations.¹³ Further on, the ADAPT Initiative (1 600 million euro, adaptation of workers to industrial changes) is largely focused on small firms, with a high concentration on the organisation of work and the changes brought about by the new technologies. Finally, INTERREG II (3 472 million euro, border areas) and the Initiatives for industrial conversion KONVER (725 million euro, conversion of areas seriously affected by industrial decline and military installations), RECHAR II (453 million euro, conversion of areas affected by the decline of the coal industry), RESIDER II (568 million euro, conversion of steel-making areas) and RETEX II (596 million euro, conversion of textile areas) include measures related to the specific requirements of SMEs.

In spite of the promotion of important themes for economic and social cohesion and the successful implementation of many of these concepts, the added value and visibility of some Community Initiatives has often been questioned.¹⁴ Thus, in order to give them a clearer definition and to improve the effectiveness of the Initiatives, the European Commission has decided to reduce the number of Community Initiatives for the programming period 2000-2006 to the following four: INTEREG (4 875 million euro, cross-border, transnational and interregional co-operation), EQUAL (2 847 million euro, transnational co-operation to combat all forms of discrimination and inequalities in the labour market), LEADER (2 020 million euro, rural development) and URBAN (700 million euro, economic and social regeneration of cities and urban neighbourhoods in crisis with a view to promoting sustainable urban development).¹⁵

Fourth Framework Programme for RTD (1994-1998)

The Fourth Community Framework Programme (FP4) for Research and Technological Development (RTD) covered all EU-funded RTD activities in the

¹² <http://www.inforegio.cec.eu.int/wbpro/prord/guide> (situation on 28 June 1999).

¹³ European Commission, *The Structural Funds in 1997*, Ninth annual report, Brussels, 1999.

¹⁴ European Commission, *The Community Initiatives 2000-2006*, Working document of the Commission Services, Commission Work Programme No: 97/020, Brussels, 1997.

¹⁵ European Commission, *Presidency Conclusions - Berlin European Council 24 and 25 March 1999*, Brussels, 1999, and http://www.inforegio.org/wbnews/reform/reform5_en.htm (situation on 29 July 1999).

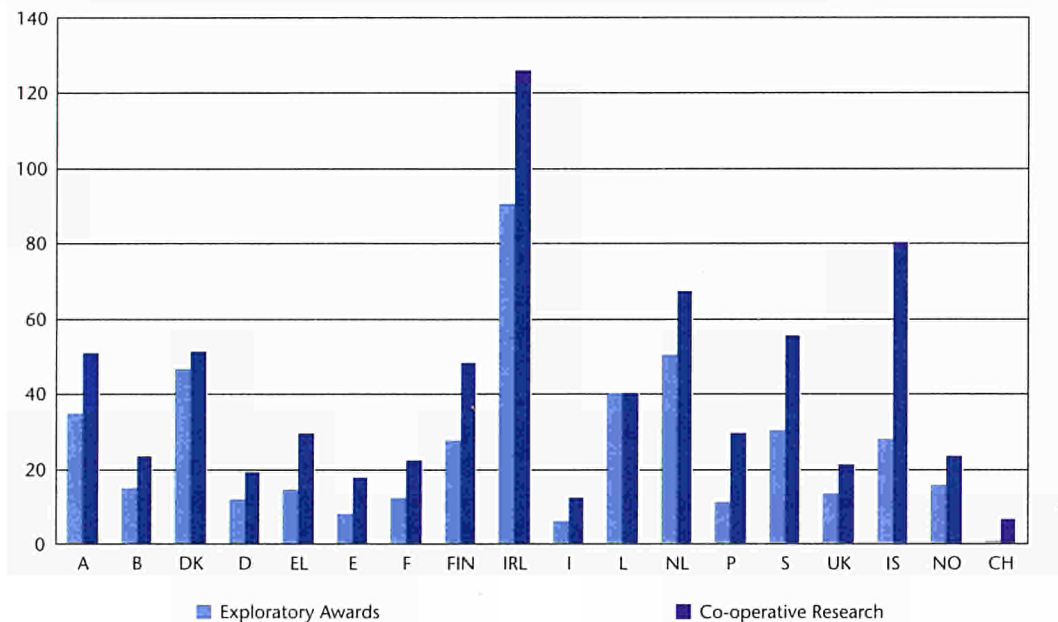
non-nuclear sector for the period 1994-1998. To foster and facilitate the participation of SMEs the Commission implemented a special set of measures. Consequently, SMEs could participate in FP4 in two main ways:¹⁶

- Like any EU legal entity (large company, university or research centre), they could join a 'Collaborative Research project', in which each partner carried out part of the research effort and shared the results with others. The Commission supported such projects by funding 50 % of the costs incurred by each partner.
- They could benefit from the Technology Stimulation Measures for SMEs (TSME), which was implemented in 9 specific programmes and offered two pathways for SMEs:
 - 'Exploratory Awards', which allowed SMEs to benefit from EU funding (up to 75 %) for preparing a better research proposal (be it for collaborative or co-operative research).

'Co-operative Research (CRAFT) projects', which enabled groups of SMEs having similar technical problems but lacking the means to do research, to engage third parties (called 'RTD performers') to carry out the task on their behalf. The Commission supported this research by funding up to 50 % of the total project costs.

In Figure 6.1, the number of SMEs participating in both measures is presented. On the whole, 4 300 SMEs from the EU, plus Iceland, Norway and Switzerland

Figure 6.1 SME Participation in the TSME by country (number of signed contracts per 100 000 small and medium-sized enterprises), 1994-1998



Source: European Commission, Framework Programme IV, SME Participation 1994-1998, Draft, Brussels, 1998, and ENSR, The European Observatory for SMEs, Fifth Annual Report, 1997; calculations by IfGH.

¹⁶ Within the 4th Framework Programme the definition of SMEs also included enterprises from 250 to 500 employees.

participated in the TSME,¹⁷ which is equivalent to 23 SMEs per 100 000 enterprises in the corresponding area. However, considerable differences can be observed by country size. While the share of SMEs taking part in the TSME in Ireland, Iceland and the Netherlands is comparatively high, countries such as Italy, Spain and Germany are lagging behind. On the other hand, in the new Member States Austria, Sweden and Finland, a relatively large share of SMEs benefited from the Technology Stimulation Measures.

The distribution by size class in Table 6.3 shows that more than 60 % of all SMEs participating in co-operative research projects in the 4th Framework Programme have less than 50 employees. Enterprises with more than 250 employees account for only 6 % of contractors and tend to belong to more traditional sectors such as construction, food, mining, textiles and wood.¹⁷

Table 6.3 Distribution of SME participation in the 4th Framework Programme by size class, 1994-1998

<i>Size class</i>	<i>Exploratory Awards</i>	<i>Co-operative Research</i>
1-50 employees	72.6 %	62.0 %
51-100 employees	13.4 %	15.8 %
101-250 employees	11.1 %	15.9 %
251-500 employees	2.9 %	6.3 %
Total	100.0 %	100.0 %

Source: European Commission, Framework Programme IV, SME Participation 1994-1998, Draft, Brussels, 1998.

By implementing the Technology Stimulation Measures for SMEs into the Fourth RTD Framework Programme, EC funding to SMEs (1 115 million euro) increased considerably in absolute terms compared to that of the Third Framework Programme (732 million euro). However, the share of total budget allocated to SMEs in FP4 (11.1 %) remained stable in relation to FP3 (total budget: 6 600 million euro; EC Funding to SMEs: 732 million euro). Table 6.4 gives a breakdown of EC funding to SMEs within FP4 by programme.

12 365 SMEs participated in the 4th Framework Programme for RTD in the period 1994-1999 (compared to 5 424 in the 3rd Framework Programme) and received a median funding of 90 000 euro. However, while some of the thematic programmes seem to be quite well-suited for SMEs (e.g. Industrial Technologies, Renewable Energy and Transport), SME share in the overall budget within the programmes Life Science or Environment accounts for less than 6 %.

In order to further promote SME participation in research and technological development programmes of the European Union, additional attention is given to SMEs within the Fifth Framework Programme for RTD, where they can, apart from the Exploratory Awards and CRAFT, benefit from specific SME measures such as an open call for proposals, improved participation conditions and simplified application procedures. In addition, a centralised SME-Helpdesk has been implemented within the 5th Framework Programme.

¹⁷ European Commission, Framework Programme IV, SME Participation 1994-1998, Draft, Brussels, 1998

Table 6.4 EC funding to SMEs by Programme in FP4, 1994-1998

	<i>Number of participating SMEs</i>	<i>Average amount per participating SME (EUR 1 000)</i>	<i>Percentage of funding to SMEs</i>	<i>Percentage of total budget of FP4</i>
Industrial Technologies	6 452	67	20.3 %	21.4 %
Life Science	1 410	69	5.7 %	17.1 %
Environment	439	82	3.1 %	11.6 %
Renewable Energy	1 093	142	14.4 %	10.7 %
Transport	668	79	20.2 %	2.6 %
Telematics	904	95	9.4 %	9.1 %
ACTS	373	110	6.1 %	6.7 %
ESPRIT	1 026	207	10.2 %	20.8 %
FP4	12 365	90	11.1 %	100.0 %

Source: European Commission, Framework Programme IV, SME Participation 1994-1998, Draft, Brussels, 1998, and http://www.cordis.lu/src/i_004_en.htm (situation at 6 July 1999); calculations by IfGH.

LIFE

LIFE is a financial instrument for three major areas of action: Environment, Nature and Third Countries. While SME participation in LIFE-Nature and LIFE-Third Countries is traditionally low, SMEs are basically supportive to LIFE-Environment. From 1993-1995 (the first phase of LIFE), 394 demonstration projects in the Member States were co-financed via EU funding of 145.9 million euro within LIFE-Environment. In 1996 and 1997, an additional 215 projects were supported. Among these projects, it is estimated that about 250 projects concerned SMEs, which benefited from some 40 % funding under LIFE.¹⁸

6.3 Barriers to SME participation in Community Programmes

For SMEs, the reasons for not participating in an optional support programme vary considerably, and barriers and obstacles with regard to the access to such a programme are only one part. To get a clearer understanding of what is meant by 'barriers' and 'obstacles' (and, thereby, be able to distinguish these concepts from other reasons for not utilising the offered support), it might be helpful to consider why an SME or an enterprise in general does not participate in a particular support scheme. Clearly, every programme has a political intention as a background, which regularly is not (only) the promotion of enterprises as such. Pursuing a certain objective in the area of economic policy most often means focusing on a particular group of enterprises (or projects) at the level of the scheme and, hence, excluding other enterprises (or projects) from participation. Put differently, setting up basic requirements for firms is a necessary condition for attaining the programmes' purpose. For example, a programme with the aim of promoting border regions will exclude enterprises located outside of the border area from participation. A scheme designed for restructuring a certain industry will only be open to enterprises of that industry. Thus, requirements, which are essential to the political intention of the support programme, might be the reason for a low number of enterprises utilising the scheme, but they cannot be defined as barriers

¹⁸ European Commission, The Structural Funds in 1997, Ninth annual report, Brussels, 1999.

or obstacles related to the access to the programme. Of course, the distinction between an 'essential' and a 'non-essential' requirement is not always clear-cut.

The same holds true in the reverse case; i.e., an enterprise may not be interested in carrying out a project or activity which fits the 'essential' requirements of the programme. For instance, if an enterprise is not willing and/or has no need to ensure that its employees are further qualified, this may be a reason for not participating and, moreover, may result in a low number of participants in a corresponding support scheme. But again, such indifference to the basic contents of the assistance will not qualify as an obstacle or barrier to SME participation. Summing it up, barriers with respect to the accessibility of the scheme can only occur for actual/potential SME activities or SME projects which already comply with the 'essential' conditions of the support programme.

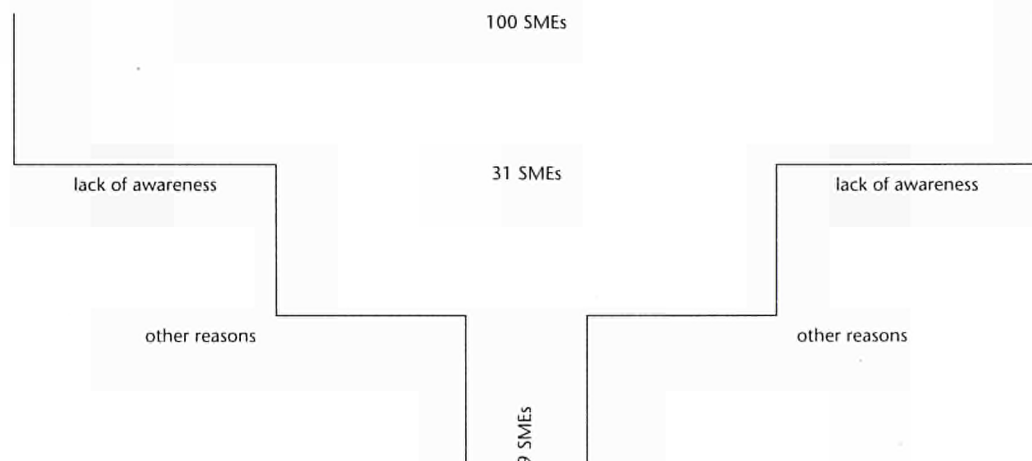
6.3.1 Awareness and participation

Certainly, the first prerequisite for participation in any kind of regional, national or European support programme is knowledge of the scheme. In other words, a lack of awareness of existing assistance is, in a logical sense, the first obstacle to be overcome. Even a perfectly designed, SME-friendly programme is ineffectual if the programme is not known. 'You are not going to look for or make use of something if you do not know that it exists.'

To what extent can a low participation rate (i.e. the share of SMEs participating in a support scheme) be attributed to a weak degree of awareness (the share of SMEs being aware of the programme)? Results of the ENSR Enterprise Survey 1999 reveal that, in the last five years, only 9 % of SMEs in Europe-19 have participated in any support programme in the field of financial assistance, training support, consulting or information, offered by regional, national or European institutions. Out of 100 SMEs, some 69 never considered an application since they were not even aware of the existence of a scheme. Another 22 firms, although aware of a programme, refused or had been refused participation. Thus, only 9 SMEs actually remained to participate (see Figure 6.2).

At first glance, it seems as if the low level of knowledge would be the most significant barrier as it filters out more than two-thirds of SMEs, whereas other

Figure 6.2 Filtering process in the participation of SMEs in regional, national or European support programmes



reasons are responsible for only a little more than one-fifth of potential applicants. However, considering the 31 % of informed SMEs, once again, only approximately 30 % of these firms ultimately participated in a support scheme. From this perspective it is obvious that low awareness is more or less of equal importance when compared to other reasons for not participating in a programme.¹⁹

It should be noted that 'other reasons' comprise of a collection of specific obstacles (see sections below), as well as a general lack of interest in utilising particular support. The latter factor might not qualify as an obstacle or barrier with respect to the definition used here, but, nevertheless, causes low participation rates. For instance, with reference to Community Programmes, every fifth responding enterprise in the frame of the ENSR Enterprise Survey 1999 mentioned 'no interest' as reason for not participating. But this, in turn, underlines the outstanding role of low awareness as a hindrance to higher participation rates in support programmes.

There is strong evidence that both the rate of participation as well as the rate of awareness (or, put differently, the probability that a particular enterprise is aware of or participates in a support scheme) significantly and positively depend on enterprise size. Whereas the average size in the whole sample of the ENSR Enterprise Survey 1999 is 5.1 employees, enterprises aware of any support programmes employ 7.1 people on average (see Table 6.5). The average size of firms which have actually participated in such programmes is even higher (11.2 employees).

Table 6.5 Average size of SMEs being aware of and participating in support schemes (number of employees), Europe-19

	<i>Yes</i>	<i>No</i>	<i>Total</i>
Awareness	7.1	4.2	5.1
Participation	11.2	5.4	7.1

Source: ENSR Enterprise Survey 1999.

Another presentation of the same phenomenon is shown in Table 6.6. From the enterprises without employees only 28 % of respondents are aware of any measure, and only 22 % of those actually participated in any such programme (i.e. 6 % of the 'enterprises without employees' sub-sample). By comparison, of medium-sized firms, 58 % are aware, and about 34 % actually participated. Thus, the significance of lack of information and other reasons for not participating rises as size of enterprise falls. Larger firms appear to be better informed and more easily overcome hindrances²⁰. But, remarkably, the *relative* importance of level of knowledge and other reasons, respectively (i.e. the ratio between 'participation rate 1' and 'awareness rate') remains more or less constant over size classes.

A differentiation of size patterns by types of programme reveals that participants in Community Programmes are, on average, distinctly larger as compared to participants of schemes offered by national or regional governments. Whereas the

¹⁹ To be precise, this statement assumes that if the currently non-aware SMEs actually became aware of any support programme, their participation rate would again be approximately 30 %.

²⁰ This fact might also be part of the explanation for the statistical significant correlation between the awareness of public tender procedures and the awareness of support programmes among SMEs. It is the larger SMEs where awareness of tender procedures is higher, too (see also Chapter 2 of this report).

Table 6.6 Awareness rate and participation rates with regard to support schemes by size class (% of enterprises), Europe-19

Size class	Awareness rate	Participation rate 1*	Participation rate 2**
0 employees	28 %	22 %	6 %
1-9 employees	33 %	33 %	11 %
10-49 employees	44 %	50 %	22 %
50-249 employees	58 %	58 %	34 %
Total	31 %	30 %	9 %

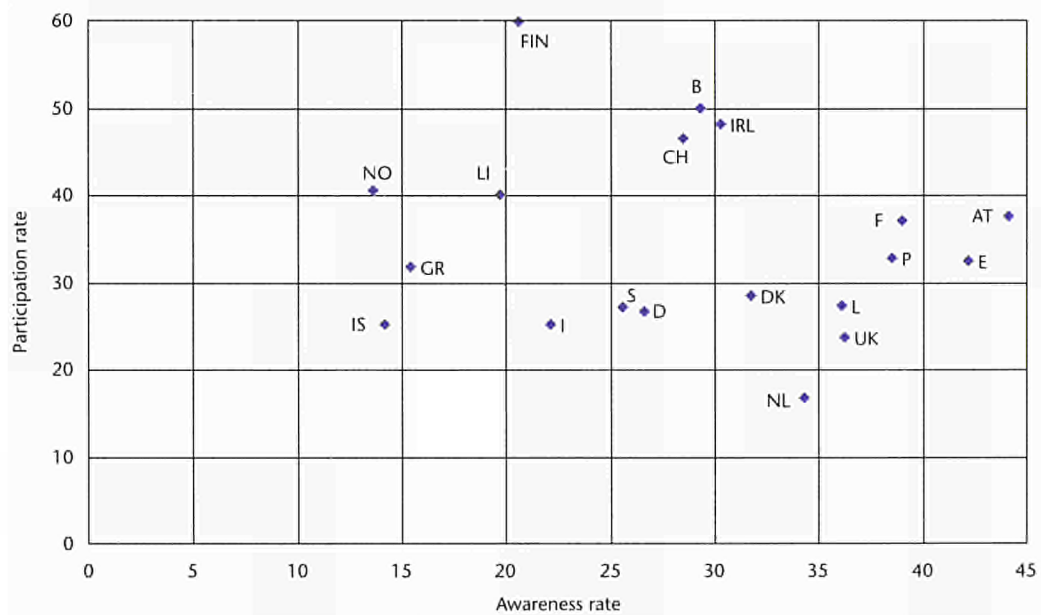
* Participation rate 1: number of enterprises being aware of any support programme as denominator.
 ** Participation rate 2: total number of enterprises as denominator.

Source: ENSR Enterprise Survey 1999.

mean size of enterprises in Community schemes is 17.6 employees, for regional and national schemes, the corresponding values are 9.4 and 13.2, respectively. Hence, obstacles to EU-programmes, be it awareness or other reasons, seem to be particularly high for smaller businesses.

Moreover, again considering any support programme offered by regional, national or European institutions, there are significant differences in awareness and participation rates²¹ by country (see Figure 6.3). A clear relationship between these two concepts is not noticeable, however, a slightly negative correlation prevails. Such a result seems to be plausible for several reasons. For countries which follow a strategy of concentrating their funds on particular groups of enterprises, awareness of measures amongst SMEs in general will be low. At the same time, within these groups of enterprises, uptake of assistance might be rather high. On

Figure 6.3 Awareness and participation rates* of SMEs with regard to support programmes by country (% of enterprises)



Source: ENSR Enterprise Survey 1999.

²¹ Calculated with number of enterprises being aware of any support programme as denominator (participation rate 1).

the contrary, countries broadly dispersing their funds or putting much effort into raising knowledge of schemes possibly experience high awareness rates but, at the same time, relatively low participation, due to, for example, restricted budgets.

Austria, Spain, France and Portugal show relatively high awareness rates and medium participation rates at the same time. A comparatively low awareness rate is discernible for Norway, Greece and Iceland. For Finland, a rather high participation rate is accompanied by a below average degree of awareness.

One may assume that nearly every SME is addressed by some promotion scheme. Therefore, it seems reasonable to carry out the above analysis on the basis of SMEs and support programmes in general. A comparable analysis on the level of specific programmes is much more difficult to perform, since this would require the identification of potential addressees for calculating valid awareness rates. However, evaluation studies on particular programmes repeatedly cite the low level of knowledge as a major reason for low participation in the schemes studied. For example, with regard to the British Small Firms Training Loans (SFTL), of the respondents asked why they thought uptake of the scheme had been so low among small businesses, 38 % answered that enterprises were not aware of the SFTL. Another 17 % referred to the lack of publicity and promotion.²² According to an investigation by the Ministry of Economic Affairs in the Netherlands, SME entrepreneurs identified as a main problem the fact that support schemes are not known. The results of a study on EU-financing of companies in Finland²³ are quite similar:

The most obvious reason for possible low participation was the low level of knowledge of the support measures and the possibilities offered by them. Finally, with relation to a programme supporting start-ups in Germany, more than 25 % of surveyed start-ups in the province of Brandenburg stated that they were not aware of the scheme in question.²⁴

6.3.2 Reasons for SMEs not to participate in Community Programmes

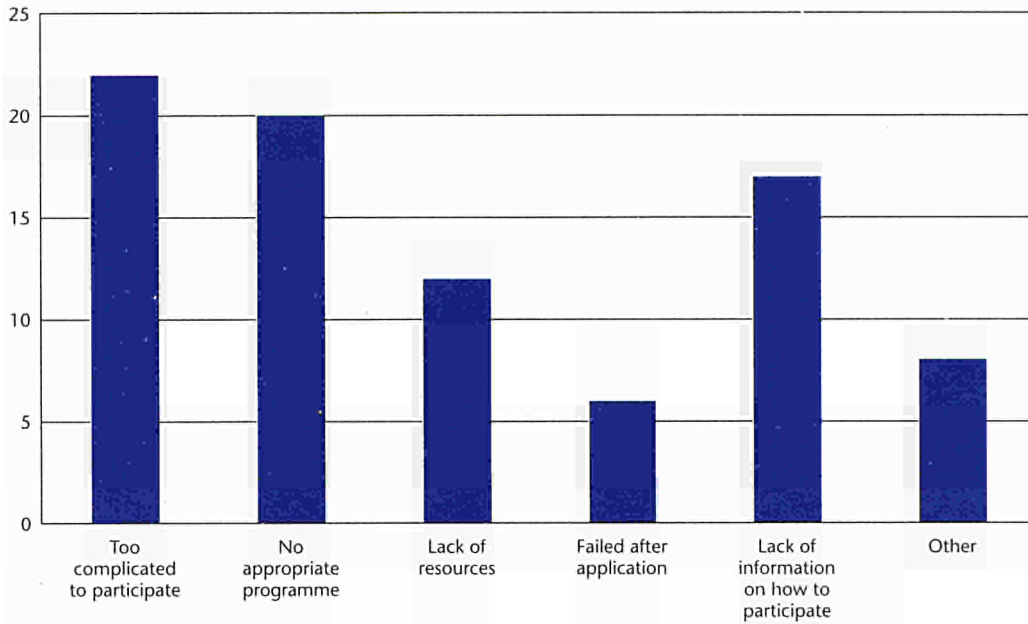
Once the barrier of awareness has been overcome, there may be other obstacles which deter SMEs from taking part in Community Programmes. These might stem from a strong disagreement with the corresponding programme, leading to the decision not to participate, or from existing prejudices regarding participation, thus preventing SMEs from taking part in Community Programmes. Some of these obstacles may be similar to those named by SMEs that have already participated. However, they are different in meaning and even more sustaining when mentioned by SMEs, which have not yet had first-hand experience in dealing with Community Programmes. As this concerns a large part of the SME population, special efforts have to be made to overcoming these areas of indifference. Within the ENSR Enterprise Survey 1999, some general obstacles deterring SMEs from participating in Community programmes have been identified and summarised in Figure 6.4.

²² Maton, K., Evaluation of Small Firms Training Loans, DfEE Publications, UK Research Partnership Ltd, 1999.

²³ Keskuskauppakamari, EU-rahoitus ja suomalaiset yritykset, kohtaavatko tavoitteet ja tarpeet, Keskuskauppakamarin selvitys yritysten ja viranomaisten käsityksistä EU:n rakennepolitiikan ja tukiohjelmien toimivuudesta sekä tunnettuudesta (EU-financing and Finnish companies: Do the objectives and needs meet?), Helsinki, 1997.

²⁴ Ministerium für Arbeit, Soziales, Gesundheit und Frauen des Landes Brandenburg, Wirkungsstudie zu den Brandenburger Existenzgründungsprogrammen (Impact analysis of the start-up programmes in Brandenburg), Potsdam, 1996.

Figure 6.4 Reasons for SMEs not to participate in Community Programmes (% of enterprises which are aware of European support schemes, but have not yet participated), Europe-19



Source: ENSR Enterprise Survey 1999.

Although barriers related to the characteristics of enterprises, such as lack of personal or financial resources (12 % of respondents), hamper SMEs from taking part in Community Programmes, they seem to be of minor importance when compared to reasons concerning specific features of Community Programmes. For instance 22 % of enterprises which are aware of European support schemes but have not yet participated, believe that it might be too complicated to take part. Another 17 % lack information on how to participate. Finally, 20 % of enterprises within the ENSR Enterprise Survey 1999 stated that there is no appropriate programme, thus emphasising the need to promote properly SME-relevant support schemes and implement a bottom-up approach when developing support measures in favour of SMEs. However, country-specific differences have to be taken into account; while, for example, the lack of an appropriate programme has been mentioned as an obstacle by more than 25 % of SMEs aware of European support schemes in Austria, Belgium, Finland, Germany, Iceland, Italy, Liechtenstein and Luxembourg, less than 10 % of those aware did not find an appropriate programme in Sweden, Norway and Spain. Thus, reasons for SMEs not to participate in Community Programmes vary considerably from country to country, as can be seen from Table 6.7.

More than 40 % of SMEs which were aware of European support programmes in France and Switzerland found it too complicated to participate, compared to less than 10 % in the Netherlands, Ireland, Liechtenstein and Norway. However, the comparatively high value for Switzerland might be explained by the fact that participation of Swiss enterprises is not allowed in all of the Community Programmes. The lack of information on how to participate has been mentioned as a barrier by more than a quarter of SMEs in Greece, Italy and Spain, while no more than 5 % of SMEs aware of European support programmes considered this an obstacle in Finland, Iceland, Liechtenstein and Switzerland. 'Other reasons' combines factors such as 'too much bureaucracy', 'national programmes preferred', 'problems in identifying partners', etc.

Table 6.7 Reasons for SMEs not to participate in Community Programmes by country (% of enterprises which are aware of European support schemes, but have not yet participated)

	<i>Too complicated to participate</i>	<i>No appropriate programme</i>	<i>Lack of resources</i>	<i>Failed after application</i>	<i>Lack of information on how to participate</i>	<i>Other reasons</i>
Austria	12 %	29 %	4 %	1 %	16 %	11 %
Belgium	22 %	25 %	12 %	1 %	13 %	12 %
Denmark	10 %	16 %	7 %	2 %	15 %	10 %
Finland	10 %	27 %	26 %	0 %	5 %	4 %
France	43 %	15 %	3 %	0 %	8 %	2 %
Germany	16 %	29 %	22 %	15 %	13 %	12 %
Greece	13 %	17 %	2 %	16 %	38 %	20 %
Ireland	9 %	19 %	5 %	14 %	18 %	17 %
Italy	33 %	25 %	18 %	11 %	26 %	8 %
Luxembourg	16 %	27 %	7 %	5 %	7 %	18 %
Netherlands	8 %	18 %	14 %	1 %	11 %	6 %
Portugal	19 %	16 %	3 %	9 %	10 %	7 %
Spain	16 %	9 %	4 %	7 %	29 %	0 %
Sweden	31 %	8 %	27 %	1 %	16 %	11 %
United Kingdom	13 %	22 %	12 %	2 %	10 %	14 %
Iceland	51 %	41 %	17 %	2 %	2 %	12 %
Liechtenstein	8 %	33 %	15 %	0 %	1 %	19 %
Norway	5 %	7 %	16 %	0 %	23 %	10 %
Switzerland	37 %	17 %	7 %	1 %	3 %	5 %
Europe-19	22 %	20 %	12 %	6 %	17 %	8 %

Source: ENSR Enterprise Survey 1999.

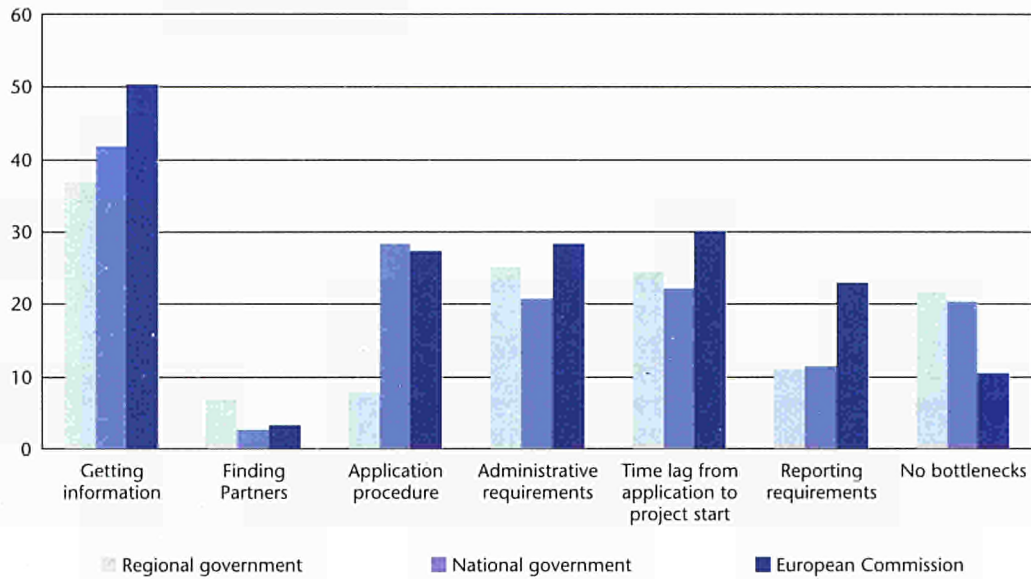
6.3.3 Barriers and obstacles

While barriers and obstacles which prevent enterprises from taking part in European support schemes have been described above, obstacles experienced by SMEs which have, within the last five years, participated in any kind of support programme offered by regional, national or European institutions are identified in this section. A comparison of Community support with national and regional support measures shows that the relative importance of problems faced by participating enterprises is similar within all kinds of support programmes, irrespective of the source of financing. However, barriers seem to vary with regard to their difficulty, being more severe in Community support programmes than in others (see Figure 6.5).

Obtaining information again seems to be a major obstacle for the access of SMEs to support programmes. This seems especially true within Community Programmes, where this has been mentioned as a bottleneck by more than 50 % of participating enterprises. This observation is also supported by empirical evidence collected in several evaluation reports. For example, the evaluators of the Objective 2 Programme in Finland ascertained that one of the biggest problems relating to the participation of SMEs has been insufficient information about the programme, which the enterprises also found to be unclear, inconsistent and difficult to understand.²⁵ Similar results have been obtained from the evaluation of

²⁵ Sisäasiainministeriö, Suomen tavoite 2-ohjelman 1995-1996 arviointi (Evaluation of the Finnish Objective 2 programme), Sisäasiainministeriö, Aluekehitysosaston julkaisu 5/1997, Helsinki, 1997.

Figure 6.5 Barriers experienced by SMEs when participating in support programmes (% of participating SMEs)



Source: ENSR Enterprise Survey 1999.

the Objective 2 Programme in Sweden, where many participating enterprises mentioned inadequate information on eligible costs as a major barrier.²⁶ The same holds for information provided by the European Commission for participation in LEONARDO projects, as specifically stressed by the German evaluators.²⁷

Lacking availability and ambiguity of information, however, is not the only problem within European support schemes, as can be seen from Figure 6.5. Even SMEs participating in regional or national support measures suffer most from difficulties in obtaining information. For example, in 1999 seminars with entrepreneurs have been organised by the Ministry of Economic Affairs in the Netherlands to discuss the access of SMEs to the support measures implemented by the Dutch ministries. Insufficient information distribution among others has been identified as a major obstacle by enterprises in these sessions. Nevertheless, in the Netherlands this obstacle has been overcome quite successfully within the 4th Framework Programme, where participation of Dutch enterprises by far exceeds that of other countries (as can be seen from Figure 6.1, 1 228 Dutch SMEs took part in this support scheme due to an effective information policy applied by the National Focal Point (EG Liaison) (see box).

The time lag between application and project start seems to be another important barrier to overcome for SMEs when participating in Community Programmes, as mentioned by 30 % of enterprises within the ENSR Enterprise Survey 1999. The relevance of this obstacle is being underlined by the findings of various evaluation reports of different Community Programmes. To start with, the mid-term reviews of the LEONARDO programme in Ireland and Germany list a number of difficulties faced by participating SMEs, among others, stating that the time taken to approve

²⁶ Hallin, G., and S. Larson, *Företagsutveckling Frystad och Företagsstart Frystad* (Business development and business start-up in Frystad), Nordregio WP 1998:6, Sweden, 1998.

²⁷ Bundesinstitut für Berufsbildung, *Leonardo da Vinci in der Bundesrepublik Deutschland* (Leonardo da Vinci in Germany), Zwischenbericht gemäß Ratsbeschluss Art. 10, Abs. 3, Berlin, 1999.

Case Study: Information provision within the 4th Framework Programme for RTD in the Netherlands

Apart from the Information services provided by EG Liaison through the monthly newsletter 'R&D in Europe', an annual publication called 'Guide for European R&D', the fax service and the homepage, as well as courses and workshops on topics related to the European R&D Programmes (such as legal and financial aspects and how to make use of the CORDIS services), EG Liaison also has personal contacts with managers of SMEs in order to inform them about the possibilities offered by European support schemes. Additionally, EG Liaison assists SMEs in formulating project proposals, gives legal advice concerning European R&D programmes, provides assistance in finding suitable research partners abroad, and even undertakes activities in order to encourage dissemination and application of research results. The success factor in this approach is the organisational structure of EG Liaison, which combines every discipline needed in-house, such as lawyers, financial experts, engineers, etc., as well as its involvement in several national and international networks.

Source: EG Liaison.

projects is too long. The same factor has been identified as a real barrier within the 4th Framework Programme, for instance, in the Netherlands and Portugal,²⁸ and has also been stressed by evaluators of the Objective 2 Programmes in Finland and Sweden.²⁹ The time lag between application and project start seems to affect participation of SMEs in national and regional support schemes as well, where it has been mentioned by 22 % and 24 % of enterprises, respectively.

Closely related to this is the complexity of application procedures and administrative requirements as experienced by 27 % and 28 % of enterprises, respectively, within European support schemes. Several steps have been taken at the European level to tackle this problem, which has already been recognised by the Commission. However, it is important to concentrate further on a simplification of bureaucratic requirements, including less demanding reporting (mentioned as a barrier by 21 % of participating enterprises) in order to improve future SME participation in Community Programmes.

The fact that barriers pertaining to accessibility are comparatively high in Community Programmes also becomes evident from the relatively low share (10 %) of SMEs experiencing no difficulties when participating in such schemes. With regard to regional and national support programmes, this share accounts for more than 20 %. Analyses of size patterns in Section 6.3.1 revealed that larger firms show a higher capability to overcome existing obstacles. Therefore, one may conclude that access to Community Programmes, as compared to regional or national measures is particularly difficult for small enterprises. Indeed, this hypothesis is confirmed by and in line with the (on average) distinctly higher size of participants in Community support schemes compared to participants of schemes offered by national or regional governments.

²⁸ Personal Interviews with an expert from EG Liaison in the Netherlands and the Science and Technology Foundation in Portugal.

²⁹ Sisäasiainministeriö, Suomen tavoite 2-ohjelman 1995-1996 arviointi, Sisäasiainministeriö, Aluekehitysosaston julkaisu (Evaluation of the Finnish Objective 2 programme), 5/1997, Helsinki, 1997, and Hallin, G., and S. Larson, Företagsutveckling Frystad och Företagsstart Frystad (Business development and business start-up in Frystad), Nordregio WP 1998:6, Sweden, 1998.

6.4 The access of SMEs to the Community Initiatives SME and ADAPT

6.4.1 General information

According to the methods and procedures applicable to the Structural Funds, the Community Initiatives SME and ADAPT supplement the actions under the Integrated Programme in favour of SMEs and the craft sector. The actions of ADAPT are therefore complementary to those of the SME Initiative. Fundamentally, both programmes promote adaptation to industrial change. However, the SME Initiative's focus is on the introduction of new production and organisation systems into enterprises, whereas ADAPT focuses on developing companies' human capital through training and qualification schemes.

While the SME Initiative aims to stimulate small and medium-sized industrial or service enterprises (particularly in the less developed regions) to adapt to the Single Market and to ensure that they become internationally competitive, ADAPT is aimed at helping the European workforce respond to the changing needs of the labour market. Since this workforce is active mostly in SMEs, the beneficiaries of ADAPT are, to a great extent, SMEs. However, contrary to the SME-Initiative, ADAPT is not aimed exclusively at SMEs. Table 6.8 gives a breakdown of the resources approved within these two initiatives by country. Although it is difficult to give an exact amount of the budget allocated to SMEs within ADAPT, it is estimated that more than half of ADAPT projects refer directly or indirectly to SMEs.

Table 6.8 Assistance adopted under the SME-Initiative and ADAPT by country (% of total budget), 1994-1999

	<i>SME-Initiative</i>	<i>ADAPT</i>
Austria	0.8 %	0.7 %
Belgium	1.2 %	2.4 %
Denmark	0.2 %	1.9 %
Finland	1.0 %	1.4 %
France	5.5 %	17.0 %
Germany	17.8 %	15.7 %
Greece	23.7 %	17.9 %
Ireland	2.7 %	1.7 %
Italy	18.1 %	13.4 %
Luxembourg	0.03 %	0.02 %
Netherlands	1.0 %	4.3 %
Portugal	11.8 %	1.3 %
Spain	7.9 %	2.0 %
Sweden	1.5 %	0.8 %
United Kingdom	6.5 %	19.5 %
Total	100.0 %	100.0 %

Source: European Commission, The Structural Funds in 1997, Ninth annual report, Brussels, 1999.

The European Union contributed 1 600 million euro to ADAPT's overall budget of 3 340 million euro for the period 1994-1999, and 1 079 million euro to the SME Initiative during the same period. Within both initiatives, a considerable part of the budget was distributed to Objective 1 regions, amounting to 840 million euro (almost 80 %) within the SME Initiative.

Whereas the utilisation rate of funds was quite high within ADAPT (e.g. 95 % in Denmark, 91 % in Germany, 92 % in Finland and 100 % in the United Kingdom, where there has been an additional (3rd) call for projects to ensure that all remaining funds were committed to projects), by the end of 1998, only a small amount of funding had been committed within the SME Initiative during the same period (26 % in Denmark, 55 % Germany (Thuringia) and 47 % in Finland). In many countries, for example in Austria, Finland and Sweden, there have been considerable delays in the implementation of the SME Initiative, resulting in a late launching of projects, which might explain the comparatively low utilisation rates so far.

6.4.2 Barriers and obstacles

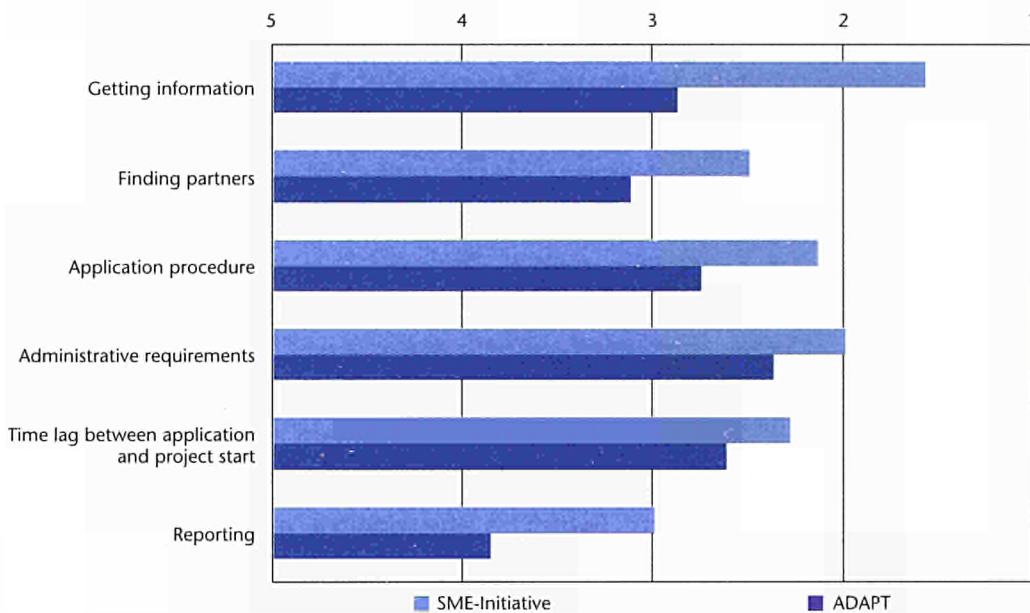
Barriers and obstacles to SME participation in the Community Initiatives SME and ADAPT may be related to the different kinds of SME involvement in these programmes. On the one hand, SMEs are the main target group of projects launched by local and regional authorities, social partner organisations, chambers of commerce, training providers, service organisations, etc., and can benefit from participation in these projects (which is the original intention within both Initiatives). On the other hand, SMEs can apply for funding as project takers as well, thus being responsible for the promotion of the projects. For instance, within ADAPT some Member States (e.g. Belgium and Greece) give priority to projects led by SMEs. However, the barriers and obstacles referred to in this section basically concern the participation of SMEs in projects implemented by the respective institutions; their roles as project takers are only considered as far as funding can be demanded for their own needs (this is not possible in all countries, such as for example within the SME-Initiative in Finland).

Reasons for SMEs choosing not to participate in projects implemented by intermediary organisations might be related to the specific characteristics of SMEs. Scarcity of time and resources due to 'business demands', for example, seem to be common reasons for the reluctance of enterprises to participate in projects launched within the SME-Initiative and ADAPT, as specifically mentioned in Germany, Denmark, Finland and the United Kingdom. SMEs also tend to be unwilling to release staff for training, especially for longer-term programmes of human resource development, which are not seen to produce prompt, tangible results in business terms. In Germany, project promoters tackled this problem by changing extensive long-term lessons into shorter learning units and more flexible time schedules, as well as replacing external seminars with internal ones during times when capacity utilisation is low within enterprises.

However, especially when regarding SMEs' participation in the development of projects, some of these 'enterprise-related' obstacles are also closely linked to specific implementation features of the corresponding programme, in particular the time lag between application and project start. Regarding the bottom-up approach, which is supposed to be a specific feature of both Initiatives and is intended to ensure a demand-side development of projects, this time lag requires longer-term planning from managers of SMEs when developing their training and business objectives and counteracts the idea of finding solutions to very immediate problems, as specifically mentioned by Denmark, Finland, Germany and the Netherlands. Figure 6.6 shows the comparatively high relevance of this obstacle within both Initiatives.

While most of the problems for SME participation in Community Programmes (as identified in Section 6.3.3) hold for the SME-Initiative and ADAPT as well, they vary considerably where their severity and ranking within these two Initiatives is

Figure 6.6 Relevance of problems for the participation of SMEs in the SME-Initiative and ADAPT*



* 1= very relevant, 5= not relevant.

Source: Personal interviews with the national managers of the SME-Initiative and ADAPT in Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, the Netherlands and Spain.

concerned. Especially within the SME-Initiative, obtaining information seems to be a major obstacle to SME participation, highlighted in Austria, Germany, Greece and Ireland; but also in ADAPT, a lack of knowledge on the opportunities offered by the Initiative to SMEs has been identified in most Member States. However, this lack of information might be closely related to a shortage of funds available for advertising and marketing projects, and thus stimulating SMEs to participate, as pointed out specifically by Finland. In Spain, for example, the non-existence of a responsible public authority promoting projects in certain areas/sectors is seen as a major problem.

Furthermore, the complex application procedures and administrative requirements specifically within the SME-Initiatives seem to hamper SMEs from participating in this programme. This has been a particularly strong barrier in Denmark, Spain, Portugal, Greece and Ireland. In Germany, within the SME-Initiative in Thuringia, where one of the key measures is the promotion of environmentally sound management and eco-auditing, programme administration has succeeded in relieving SMEs almost totally from administrative tasks by transferring this job to employees from the Umwelt-Innovation-Centers (UIC), who analyse the environmental requirements of interested SMEs and, if necessary, formulate the request for funding for them. The reporting and further administrative work is then done by consultants from the Rationalisierungskuratorium der deutschen Wirtschaft (RKW), who also support the SMEs in carrying out the eco-audit. Since the UIC has been founded by the Industrie- und Handwerkskammer (IHK) and different SME associations, it possesses a high degree of credibility.

In spite of all difficulties, there are examples of successful projects within both Initiatives. One, an ADAPT project in the textile sector in Denmark, is shortly described in the next case study. The success factor of this project was most probably an immediate need for new qualifications within the corresponding SME,

Case Study: A successful ADAPT project in Denmark

Project taker of this ADAPT project was an SME in the textile sector which, some years ago, had faced increased competition from low-wage countries. As a result, the enterprise changed its production process and now only makes prototypes while subcontracting the main production to low-wage countries. During transition to this system, many structural changes were required within the enterprise. For example, employees who were previously producing products were given different responsibilities in which consistent interaction with the sub-suppliers was essential. This challenge was faced in the SME by introducing the key factors of a learning organisation and implementing autonomous working groups. The ADAPT programme proved valuable to this SME since the enterprise is now easily able to obtain information about other cultures and improve communication with foreign partners.

Source: Arbejdsmarkedets Center for Internationale Uddannelsesaktiviteter (ACIU).

and the fact that the manager of the SME was experienced and well-qualified in the use of Community support programmes.

6.4.3 Measures to improve SME participation in the SME-Initiative and ADAPT

Some measures have been suggested by the national managers and evaluators of the respective programmes in order to stimulate SME participation in the SME-Initiative and ADAPT. However, a few key factors have been identified which seem to be of major importance in this context, some basically related to ADAPT, and others found to be specifically relevant within the SME-Initiative.

- With regard to the Community-Initiative ADAPT, many countries stressed the importance of involving SMEs and institutions familiar with the functioning of business in the drafting stage of the project in order to enhance a demand-driven orientation of projects. Actually, this should have been assured by the required bottom-up approach. However, this condition does not seem to be followed strictly enough when approving and launching projects, thus resulting in the development of supply side projects, focusing on services that can be offered by the receptive Institutions, rather than focusing on actual needs and requirements of SMEs. Especially in smaller countries like Austria, Denmark, Portugal and the Netherlands, this seems to be a major obstacle to SME participation in ADAPT. Thus, greater attention to the condition of bottom-up when approving projects might contribute to an increased participation of SMEs within ADAPT.
- With regard to the SME-Initiative, many Member States, for example Austria, Ireland, the Netherlands, Spain and, to a certain extent, also Italy, complained about the lack of consideration by the Commission for the regional structure of their countries when setting the guidelines for the implementation of the Initiative. This has also been one of the main reasons for the delayed launching of projects within the SME-Initiative, for example, in Austria. It is believed that the Initiative can benefit from decentralisation, i.e. giving regional and national bodies more power to decide the most appropriate policies for their specific area. Additionally, it has been stressed that since only SMEs in specific regions are eligible for funding, it is difficult for associations or employers' organisations to launch projects, as they prefer developing projects aimed at all their members, not only at the ones located in a certain area. However, deliberations in this direction have to be balanced with the political intention of the Initiative.

- Further suggestions for improving SME participation in both Initiatives concern additional measures in the field of information provision and communication using television, the Internet, newspapers and regional information seminars or conferences. In Finland, for example, a homepage of the SME-Initiative has been introduced, which offers basic information on the programme and the application process and also presents successful on-going projects within the different measures. In a survey on the familiarity of the Finnish SME-Initiative among project implementers, brochures and regional representatives have been identified as the most popular sources for information.³⁰ In the German ADAPT programme, personal dialogues between representatives of chambers of commerce or training associations and managers of SMEs have proved to be the most effective way to stimulate SME participation. In that context, also an increased involvement of existing networks of SME intermediaries (social partners, SME associations and regional and local industrial policy institutions) has been proposed by different Member States.
- Specifically within ADAPT, a shift in guidelines regarding less demand for transnational partners (which would also contribute to a reduction of the time horizon) may increase SME participation, as specifically stressed by Denmark, Finland, the Netherlands, France and Germany. It is put into question by these countries, whether the output from a large international co-operation matches the resources allocated to it by SMEs. Additional problems occur when SMEs apply for funding in an existing partnership, but projects do not get approved in all countries concerned. Similar considerations have been made with regard to the demand for the 'innovativity' of activities. Although it is considered one of the essential features of ADAPT, it is gradually being seen as a barrier to SME participation because many employees in very small enterprises lack knowledge in even basic areas, for example, Word or Excel, which makes it difficult for them to be open to more innovative ideas. However, an appropriate redesign should not run counter to the political intentions of the programme.

6.5 Best practice to stimulate SME participation in Community Programmes

Several elements of good practice can be identified in many countries of the EU for improving access of SMEs to Community support measures. In addition to the one-stop-shops, the European Information Centres and the Exploratory Awards implemented within the 4th and the 5th Framework Programme for RTD, such elements include: simplification of procedures, information provision, decentralisation to regional/local level, and proper advertising and promoting of programmes. Some good examples in these fields have already been mentioned. However, the following two cases illustrate in further detail the importance of these factors for stimulating SME participation in Community Programmes.

Growth and Environmental Programme in Finland³¹

The Growth and Environmental Programme of the European Investment Fund (EIF) was implemented to encourage new environmental investments in small and medium-sized enterprises by providing guarantees on loans to SMEs. The guarantees

³⁰ Small Business Institute, Turku School of Economics and Business Administration, Suomen SME-yhteisöaloiteohjelman väliarvionnin loppuraportti (Evaluation of the Finnish SME Initiative), Turku, 1999.

³¹ Source: Finnvera plc.

cover up to 50 % of the loans granted by financial institutes (usually banks) in Member States. In Finland, this programme is administered by Finnvera plc., which is specialised in supporting growth and development, domestic activities, export and internationalisation of Finnish enterprises. Finnvera plc. advertises this programme in many ways: over the Internet, via brochures, as well as advertisements on radio and in newspapers. Furthermore, Finnvera has 15 offices around Finland where enterprises may receive information. Subsequently, the usage of the loan has been extensive in Finland. In total, 38 SMEs benefited from the programme since January 1998. By contrast, in Denmark, where the scheme is not being promoted at all and information is only provided when SMEs ask for it, only 5 loans have been approved so far. However, the mechanism of the Growth and Environmental Programme in Denmark does not seem to be attractive to the institutions responsible for its implementation themselves, thus resulting in low utilisation by SMEs as well.

Aids for Preparing Community Proposals (APC) in Spain³²

The Centre for Industrial Technological Development (CDTI) runs a programme that provides financing for the preparation of proposals for European R&D actions. The goal of the APC-programme is to further promote the participation of newcomers in projects within the 4th Framework Programme in international consortia. Once the call for proposals has been published in the Official Journal, the entity interested in participating can contact CDTI, where support is offered in the search for partners and preparation and financing of proposals. The APC-Programme then provides credits without interest, only reimbursable if the Commission approves the proposal. Eligible for funding are Spanish SMEs that have not participated in projects of FP4 before, and envisage participation equal to 10 % or more of the total budget of the project. From 1995 until July 1998, CDTI has received 1 307 eligible requests from SMEs, 646 of which have been approved. The European Commission finally financed 236 of these projects. However, the remaining 410 SMEs did not have to return the loan. Key points for success in the APC-Programme include a very simple application process (2-page information packet and 7-page application form which requests information about the entity and the proposal) and attractive payment conditions for SMEs (e.g. disbursement of the money within 15 days).

6.6 Policy Issues

A couple of obstacles that hamper SMEs from fully participating in European support schemes have been identified in this chapter. Measures in order to improve the access of SMEs to Community Programmes should, therefore, be directed towards helping SMEs to overcome these barriers. The fact that the average size of enterprises participating in Community Programmes is higher compared to the one in national or regional support schemes exemplifies the bigger difficulties that smaller SMEs face in tackling these obstacles. This might be taken into account when considering certain measures, for example by addressing specifically micro or small enterprises. However, simplifications especially in the following areas seem to be necessary in order to facilitate the access of SMEs to Community Programmes:

- *Awareness:* Lack of awareness has proven to be the most significant barrier to SME participation in support programmes. With regard to the creation of awareness, increased use should be made of media such as television, the Internet, brochures and existing networks of SME intermediaries (chambers of

³² Source: Centre for Industrial Technological Development (CDTI).

trade and commerce, banks and professional associations). Also, forming a more personal relationship with managers of SMEs at regional or local level has proved to be a very effective way for creating awareness in many Member States. Additionally, there seems to be an increased need for promoting programmes, which of course requires extra budgets for advertising, marketing, etc. Monitoring of the efficiency of the comprehension process might thereby endorse best economic use of such budgets.

- *Information provision:* Once awareness has been created, lack of information on how to participate has been identified as the major difficulty (by participating as well as non-participating enterprises). The necessity to improve the quality of information provided by the European Commission has already been stressed above. However, preference might be given to one single representative at the regional or local level, who should be involved in all phases of a programme (definition, promotion, implementation and assessment) in order to increase the effectiveness of the information provision process. This might be undertaken in the form of a partnership with those responsible for the programme. Additionally, the introduction of success fees may give an extra impulse. Anyway, information should be adapted to the target groups and take into account the language of the addressee.
- *Administration procedures and administrative requirements:* In order to simplify administration procedures, standardised forms on various media might be used. Shorter and more suitable forms would allow a greater number of SMEs to apply and reduce the time of administrative processing, as well as lead to a reduction in bureaucracy. In addition, permanent open calls for projects and technical assistance for applicants might be helpful to SMEs. Lastly, reporting requirements should not be too detailed or require confidential information from businesses.

7 Associations and foundations in the social economy

Co-ordinated by Aprodi (Association pour la Promotion et le Développement Industriel)

MAIN POINTS

- Associations, voluntary organisations and foundations are particularly active in the provision of health and social services and in the fields of education and training, sports, culture, human rights and the environment. They also play an increasing economic role, particularly when measured by their share in employment.
- At least as important is their role in the fields of active citizenship, development of democracy and social cohesion.
- Legal frameworks and regulations applying to associations and foundations vary greatly among the countries of Europe-19.
- Many differences exist regarding general policies towards the 'sector', mostly depending on the type of relationship governments have developed with associations and foundations especially in the framework of education, health and social policies.
- In many countries, national or local authorities also use specific instruments to secure revenues for associations and voluntary organisations. These are mainly the public lotteries and a system of tax exemptions favourable to private giving.
- Some efforts are also made to promote and encourage voluntary work, but a clear statute for volunteers is lacking in most countries.
- Those European countries that have a high unemployment rate and/or where policy makers pay great attention to the job generation potential of the third sector or the social economy as well as to their role in the field of social integration, have developed some specific employment incentives that apply only to non-profit organisations (NPOs). It must be stressed that, in most cases, the final objective of these schemes is not to provide support for NPOs but rather to provide employment and training opportunities for specific categories of unemployed.
- On average, it seems that public finance is the major source of revenue for these organisations, but there are considerable disparities both between countries and sectors of activity, as well as between size classes.
- In most countries, the reduction of the public budget, new rules for the allocation of public funds (such as the system of co-financing) and also sometimes the will to preserve their autonomy, push voluntary organisations to search for an increase of their private sources of finance. New tools are developed such as 'produits partage', ethic finance and long-term relationships with private donors.
- Smaller organisations face major difficulties in obtaining financial resources. These are mainly: lack of information, the public authorities' annually based

financial support, bureaucracy and ‘incoherence’ of rules, delay of payments of public funds, increasing competition in attracting private giving and poor access to bank loans.

- The voluntary world has developed European partnerships and networks that are very active in ‘lobbying’, the exchange and supply of information, joint research projects, and exchanges of best practices.
- Nevertheless, there are still many barriers to the development of cross-border co-operation; the main one being the lack of harmonisation of regulations and policies applying to associations and foundations in many countries.

7.1 Introduction

Everywhere in Europe men and women are joining forces, knowledge and financial means in order to develop common activities for the advancement of causes, to benefit general interests or of specific groups of disadvantaged human beings such as minorities, disabled, elderly, unemployed, homeless, etc. In all countries of the European Economic Area and Switzerland, and in many cases for hundreds of years, people have set up organisations such as associations or voluntary organisations and foundations.

It is the aim of this chapter, in compliance with Communication of the European Commission on ‘Promoting the role of voluntary organisations and foundations’¹ and building on the knowledge of previous comparative studies, to give some insight into topics which are of particular importance for this specific part of the social economy². Indeed, associations and foundations play an important role in Europe and, in particular, the new Declaration attached to the Amsterdam Treaty recognises ‘the important contribution made by voluntary service authorities to develop social solidarity’³.

7.2 The role of associations and foundations goes far beyond their economic weight

In this chapter, associations or voluntary organisations are defined as being those private organisations that fulfil the following main criteria:

- They are first of all associations of persons and not of capital;
- They pursue an objective other than the mere search of profit;
- They are independent of public and political authorities⁴, and;
- They rely on freedom of membership and a meaningful voluntary input.

¹ European Commission, Promoting the role of voluntary organisations and foundations in Europe, COM (97) 241 final 6 June 1997, Brussels.

² Social economy as defined by the ‘sector’ constituted by Co-operatives, Mutual societies, Associations and Foundations (CMAFs) has already been the subject of a theme study in the Fourth Annual Report of The European Observatory for SMEs.

³ European Commission, Treaty of Amsterdam amending the Treaty on European Union and certain related acts, Declaration on voluntary service activities, Luxembourg, 1997.

⁴ Independence means that associations and foundations are established at the initiative of private persons and are managed in a private way. Public authorities do not interfere directly neither in their ‘strategy’ nor in their daily management. This does not prevent that public authorities can be represented in the board of administrators and can grant subsidies to associations.

Foundations are defined here as private organisations, totally independent of public authorities, constituted on a non-profit basis, which have their assets permanently assigned to an object for the public good⁵.

Associations and foundations are active in almost all sectors of the economy. Although countries show some differences, mainly due to history, cultural and policy reasons, it can be said that, on average, in Europe, associations and foundations are particularly important in health services, social services, sports and recreation, culture, education and training, humanitarian aid and co-operation for development as well as in the field of environment, human and civil rights⁶. In France, it is estimated that the 120 000 associations with salaried employees provide jobs for 1 200 000 persons (approximately 800 000 jobs in full-time equivalents), and in 1995 associations accounted for one third of all new jobs generated in the private sector⁷. In Iceland, it was estimated that associations accounted for 4 % of total employment in 1996⁸.

According to a French study⁹ the average number of associations per 1000 inhabitants in Europe is around 4, ranging from 21 in Finland, the so-called paradise of associations, to 0.3 in Luxembourg.

The importance of associations in a country can also be measured by the share of the population that is a member of at least one association. For example, in Sweden this share is 90 %, in Switzerland 65 %, in France 39 % and in Italy 23 %¹⁰.

The growing or renewed interest that policy makers and researchers have shown for associations and foundations for a few years now is mainly due to the important role that this sector plays in national economies. In particular, the fact that this sector provides an increasing share of jobs in many countries, and that employment in this sector has continued to grow whereas employment has decreased in other sectors, has increased the interest for the sector. The Johns Hopkins Comparative Non-profit sector Project (JHCNP) in particular has demonstrated the importance that the non-profit sector plays in terms of GDP and in employment in western developed countries¹¹ (see Table 7.1). In this chapter associations and foundations are among others defined along the criteria pursuing another objective than profit. Therefore the non-profit sector is a good indicator for their role in the economy. Although not strictly comparable to the 'European' definition, nor being identified in all countries as strictly equivalent to what is recognised nationally as the 'associations and foundations' movement, the JHCNP remains the main comparative source of data that can be compared between countries. The JHCNP defines entities belonging to the non-profit sector as being: 'organisations

⁵ In many countries or studies, and even at EC level, associations and foundations are also referred to under the wording of NGOs (Non-governmental organisations), NPOs (Non-profit organisations), CSOs (Civil society organisations), etc.

⁶ See also the European Commission, Promoting the role of voluntary organisations and foundations in Europe, COM (97) 241 final 6 June 1997, Brussels.

⁷ INSEE, UNEDIC and CNIS in DIES, 'Vie associative et associations. Etudes et données' (Associative life and associations. Studies and data), Paris, 1999.

⁸ National Economic Institute of Iceland.

⁹ French Ministry of Foreign Affairs, L'Europe: Paradis de la vie associative? (Europe: Eden for associations' life?), Paris, March 1999.

¹⁰ France: Fourel, C., and J.P. Loisel, Huit Français sur dix concernés par la vie associative (Eight French people out of ten are concerned by associations' life), CREDOC, Consommation et modes de vie, No. 133, Paris, February 20, 1999; Italy, Sweden and Switzerland: Profiling the civic sector, <http://www.civicus.org> (situation on 13 July 1999).

¹¹ Salamon, L.S., H.K. Anheier and Associates, The emerging sector revisited, The Johns Hopkins University, Institute for Policy Studies, Centre for Civil society studies, 1998, and Salamon, L.S., H.K. Anheier, S.W. Sokolowski and Associates, The emerging sector: a statistical supplement, The Johns Hopkins University, Institute for Policy Studies, 1996. See also the national studies carried out in the framework of the JHCNP.

(they have an institutional presence and structure), private (they are institutionally separate from the state), non-profit distributing (they do not return profits to their managers or to a set of 'owners'), self-governing (they are fundamentally in control of their own affairs) and voluntary (membership is not legally required and they attract some level of voluntary contribution of time or money)'. As compared to the social economy and third sector, the non-profit sector defined by JHCNP excludes most co-operatives and mutuals but also de facto associations, the latter being included in the approach that is chosen in this chapter because of the quite important role in many European countries, in particular in Italy and the UK. It must be stressed that when a research project aims at comparison between countries it always bears the risk that what is gained in comparability is lost in self-recognition at national levels.

In Chapter 1 of this report, data are provided on the number of and employment generated by co-operatives, mutuals and non-profit organisations. Data on non-profit organisations presented in this chapter are based on statistical *estimates* of the size and structure of all types of organisations in the non-profit sector. This contrasts with the data in Section 1.4, which are based on *registered* non-profit organisations.

In 1990, it was estimated that with 147,800 jobs, non-profit organisations accounted for 3.7 % of total employment in Switzerland¹². These data for Switzerland can be compared to the JHCNP as they rely on the same methodology.

Nevertheless, associations and voluntary organisations in Europe regularly claim that they are not really enterprises and stress that their primary objective is not to

Table 7.1 Employment of the non-profit sector in absolute numbers and the share in total employment (full time equivalents) in 11 European countries, Japan and the United States in 1990 and 1995

	1990 (1)		1995 (2)	
	Total non-profit employment	Share in total employment	Total non-profit employment	Share in total employment
Austria	n/a	n/a	143 637	4.5 %
Belgium	n/a	n/a	357 802	10.5 %
Finland	n/a	n/a	62 848	3.0 %
France	802 619	4.2 %	959 821	4.9 %
Germany	1 017 945	3.7 %	1 330 350	4.5 %
Ireland	n/a	n/a	118 664	11.5 %
Italy	418 128	1.8 %	n/a	n/a
Netherlands	n/a	n/a	642 323	12.4 %
Spain	n/a	n/a	475 179	4.5 %
Sweden	82 558	2.5 %	n/a	n/a
United Kingdom	945 883	4.0 %	1 415 743	6.2 %
EU-9 total	n/a	n/a	5 506 367	6.9 %
Japan	1 440 228	2.5 %	2 164 533	3.5 %
United States	7 130 823	6.9 %	8 554 900	7.8 %

Note: Percentages have been rounded.

Source: (1) Except Italy (1991) and Sweden (1992); Salamon, L.S., H.K. Anheier and S.W. Sokolowski and Associates, *The emerging sector: a statistical supplement*, The Johns Hopkins University, Institute for Policy Studies, 1996,

(2) Salamon, L.S., H.K. Anheier and Associates, *The emerging sector revisited*, The Johns Hopkins University, Institute for Policy Studies, Centre for Civil society studies, 1998.

¹² Wagner, A., *Profiling the civic sector: National report on Switzerland*, <http://www.civicus.org> (situation on 13 July 1999).

produce goods and services or to generate jobs directly but that their economic activities are devoted to the objective for which they have been established. The case study on the BASTA project in Sweden is a good illustration of this concept.

Case Study: The BASTA project in Sweden

BASTA started in 1992 as a project run by The National Association for Aid to Drug Abusers (RFHL) and four municipalities. The idea was to run a workers' co-operative where ex-drug addicts supported the rehabilitation of others. The ideology was built on the principals of work, solidarity, quality, ecology, independence and importance of good examples. BASTA is run totally by ex-drug addicts themselves without professionals in drug rehabilitation, as a workers' co-operative that combines rehabilitation in every-day-life and the manufacturing of products and services for the private market. The intention is, later on, to have these businesses generating profits so that the rehabilitation can be less dependent on public finance.

Source: Hansson, J.H., and P. Wijkstrom, BASTA! Beskrivning och analys av Basta Arbetskooperativ (BASTA! Description and analysis of Basta Workers' co-operative), Sköndalsinstitutet, 1997.

Indeed, associations and foundations want their full role in modern society to be recognised; in particular the role they play in the fields of active citizenship and the development of democracy, the defence of equal rights and chances, of promotion of and support to job generation and of social cohesion at large as well as their contribution to the achievement of a civic and social Europe¹³. The case study described here is a good example of their role in society.

Case Study: The ONCE Foundation in Spain

In the middle eighties, the National Organisation of Spanish Blind (Organización Nacional de Ciegos de España: ONCE) succeeded in the integration of more than 10 000 people, thanks to the incorporation of non-blind disabled in the Organisation as sellers of lottery tickets (lottery for the blind). The ONCE Foundation (Fundación ONCE – Fundosa -) was established in 1988. In this Foundation, the four main national Organisations for the disabled in Spain, apart from the ONCE, are represented.

The objective of the Foundation is to 'encourage the co-operation and the social integration of disabled people, by means of social integration programmes (carried out directly or arranged) and benefits for people with some kind of disablement'. ONCE is financed by 93 % of the gross proceeds obtained by selling lottery tickets.

Since 1988, ONCE has invested more than 540 million euro in actions and programmes to support the disabled. Recently, it has started its most important project in recent years: the '5 000 Plan' ('Plan 5 000'), which aims to employ five thousand disabled between 1997 and the year 2000. The '5 000 Plan' deals with five ways to generate jobs for the disabled: in the staff of both Fundosa and its participating enterprises, in the societies and employment centres of the disabled associations, the INSERTA Programme: ad hoc agreements with private enterprises, in the Public Administrations, either through vacancies in public positions, or indirectly through the jobs that all these can generate from their proper consumption of goods and services and via self-employment. According to the Foundation, it has succeeded in creating 1 500 jobs for people with some kind of disability during the first year of application of the Plan.

Source: IKEI.

¹³ See in particular documents of CEDAG (European Council for Voluntary Organisations) and of the Platform of European Social NGOs.

7.3 Support measures

In all 19 countries covered by this report, the freedom of association is recognised either by the Constitution or possibly by fundamental, possibly unwritten, laws. There exist however many differences regarding general policies towards the 'sector', mostly depending on the type of relationship governments have developed with associations and foundations, especially in the framework of education, health and social policies, ranging from the Scandinavian concept of the welfare society (the Third sector apart from being the expression of democracy is mostly seen to complement the public sector) to the subsidiarity principle applied in Belgium and Germany (where on the contrary the public sector's supply of services complements the non-profit sector, see also Section 7.4).

The main existing, national, policy instruments encouraging associations and foundations are related to:

- Special legal forms and regulations;
- A favourable tax system taking into account the non-profit character of these organisations;
- Financial support in the form of direct, grants and subsidies, and indirect incentives in favour of fund raising;
- Support to stimulate voluntary work;
- Support to stimulate job generation.

It should be noted that authorities also provide indirect support to associations and foundations by putting public infrastructure, e.g. premises, sports infrastructures, at their disposal. This kind of support is mostly provided by local authorities.

Organisation of the support

In most countries, the main regulating and funding Ministries¹⁴ are de facto the authorities in charge of the policy applying to this sector. Of course, in some countries where policy is highly decentralised, e.g. Germany, Spain, Switzerland, regional and local authorities play an important role in policy creation and relationships with associations and foundations. In fact, only France, the United Kingdom and Italy have appointed a specific authority in charge of co-ordinating, at least part of, the national policy concerning this sector.

- In France the DIES (Délégation Interministérielle à l'Economie Sociale/Inter Ministries Delegation for Social Economy), under the authority of the Prime Minister, is in charge of such a task, not only for associations but also for the entire social economy. DIES was established in 1982 and its missions were extended to cover the whole sector of associations in 1998.
- In the UK, the Active Community Unit (ACU) sited within the Home Office – a central government department - deals with issues related to the Voluntary Sector. The ACU acts as a co-ordinator for voluntary organisations and monitors government-funded agencies such as Refugee Agencies, Victim Support, the Child Poverty Action Group, the Low Pay Unit and the National Association for the Care and Rehabilitation of Offenders.

¹⁴ I.e. Ministries in charge of Justice, of Home Affairs, of Labour, of Health and Social Affairs, of Education, Culture, Sports, Youth Affairs, etc. ENSR partners and French Ministry of Foreign Affairs, *L'Europe: Paradis de la vie associative? (Europe: Paradise for associations' life?)*, Paris, March 1999.

- In Italy, Law 662/1996¹⁵ stipulated that 'before the 31 December 1997 an authority for the Third Sector should be established'¹⁶. But this authority has not been started nor has it been decided where the Authority will be located and who will be the members. A final decision has to be taken in 1999.

In a few countries, co-operation with the representatives of this sector to discuss the policy for the sector has been formalised. In France, a decree of 1983 set up a consultative committee, the CNVA (Conseil National de la Vie Associative/National Council of the Association Sector). Its 66 members are representatives of associations from all fields of activity. CNVA is responsible for compiling an annual assessment of the 'association sector', conducting studies that it considers useful for the development of associations and proposing any reform that might improve the conditions for the associations. In Ireland, associations active in the social sector participate in the development of the social policy.

7.3.1 Legal framework, regulations and tax systems

There are considerable differences in the legal framework - establishment legislation, possible legal forms, registration requirements, etc. - between countries, these differences are largely due to more general differences existing amongst western European countries regarding the source or foundation of the Law. On the one hand there are the countries that have a tradition of statute law (such as France) and on the other hand there are the countries that have a tradition of common law (such as the UK or Norway).

These differences have been studied in-depth in various comparative studies, and are, in particular, quite well-documented in the Communication of the European Commission¹⁷. This is also the case for taxation policies applying to associations and foundations. Below, only the changes that have occurred in both fields since the publication of this Communication are listed:

- In Spain, the final goal of Law/6 on Voluntary Movement, dated January 15, 1996, is to support and ease the participation of the Spanish citizens in any private or public non-profit voluntary organisation. For this purpose, the Law defines what is understood as a voluntary organisation, together with those activities that can be defined under the non-profit voluntary umbrella. The Law also explicitly defines the concept of volunteer, together with his/her rights and obligations. Finally, the Law establishes several incentives for the voluntary organisations and the volunteers themselves, such as reductions in general public transport charges or public sector-run facilities and provisions. It is also explicitly mentioned in the Law that the General Administration of the State should encourage the establishment of support mechanisms for the organisations, such as technical assistance, training programmes or information

¹⁵ By this law the budget of the government for the coming year is approved. The law included among others issues concerning regional development and the Third Sector.

¹⁶ This authority will be a monitoring body that will operate under the supervision of the Prime Minister and the Minister of Finance. It will ensure, through advice, recommendations for and deliberations on the uniform application of the law regarding subjective ONLUS (Organizzazione Non Lucrative di Utilità Sociale) requirements and the operational sphere relevant for these organisations. This institution will present an annual report on the activities of the social economy to the Parliament. It will also monitor the uses and abuses of organisations that carry out activities such as money raising and solicitation by advertisement.

¹⁷ European Commission, Promoting the role of voluntary organisations and foundations in Europe, COM (97) 241 final 6 June 1997, Brussels, and Ministry of Foreign Affairs, L'Europe: Paradis de la vie associative? (Europe: Eden for associations' life?), Paris, March 1999.

services and media distribution. This Law has given way to a National Plan for Supporting Voluntary Activities for the time period 1997-2000, whose main aim is to set up a general framework for establishing the main public support guidelines and co-ordination mechanisms for the Spanish voluntary sector¹⁸.

- In Belgium a new legal form has been created in 1996. Associations¹⁹ which have to carry out a lot of commercial activities in the social economy can switch to a commercial legal form while keeping their non-profit goal: the 'Société Commerciale à Finalité Sociale/Vennootschap met Sociaal Oogmerk' (SFS/VSO). In Wallonia, the SFS legal form is already commonly used. With the implementation of this legal form that recognises the unique nature of enterprises in the social economy, Belgium can be considered as a pioneer and it must be noted that those French associations which have important economic activities, are also asking for the creation of a legal entity of this kind (the enterprise with a social aim, 'l'entreprise à but social')²⁰.
- In Italy²¹, a new legal entity, ONLUS (Organizzazioni Non Lucrative di Utilità Sociale) has been created by the legislative decree 460/1997. The objective is to have a clearer conceptual framework for implementing tax facilities. The organisations that can be considered to belong to ONLUS are associations, foundations and co-operatives that operate in the fields of social and health assistance, charity, education and training, amateur sport, promotion and preservation of artistic and historical heritage, civil rights and scientific research²². An association that pursues certain social aims, some of the activities that were previously considered commercial, e.g. selling services related to the main aim of the association, are no longer considered to be so. Profits originating from activities directly correlated to the social aim are not taxable (non-commercial activities)²³.
- In France²⁴, a new tax law will come into force from January 2000 in order to clarify the tax system that applies to associations, and in particular to their economic activities. The text re-affirms clearly that the exemption of associations from commercial taxes is the rule whereas the liability is the exception. It must be noted that this instruction has been issued in order to protect small associations and should respond to the needs expressed by their

¹⁸ IKEI.

¹⁹ Normally associations are not allowed to do commercial or production activities unless it is occasional and not their main goal. This means that most of the associations in the social economy, which have as their goal to reactivate and/or train the unemployed by giving them regular (commercial) work experience, or who offer for a fee their knowledge about the reactivation of difficult to employ people to other enterprises, are operating in a grey legal zone.

²⁰ For more information on SFS see <http://www.econosoc.org>. It should be noted that the SFS/VSO is a commercial legal form. Associations who thus switch cease to exist as an association and lose a lot of their tax advantages since they then fall under the regular enterprise tax system. Which is why the association sector is still demanding a more appropriate legal form, which allows them to stay as an association but also allows them to trade and produce.

²¹ Centro Studi Cicogna, Bocconi University.

²² Voluntary organisations and social co-operatives automatically belong to ONLUS.

²³ Another novelty is the simplification of the administrative process for accepting legacies and the elimination of succession taxes. There has been a lot of criticism of this decree because its definition and all the related issues are too complicated. At the moment, because the decree is very new and has not been implemented yet, it is not yet really possible to assess the methodological problems that could arise. It is, however, necessary to stress that this decree testifies to the will of the Government to improve regulation for the third sector.

²⁴ Prime Minister, Circulaire relative au développement de la vie associative (Note related to the development of associations' life), Paris, 16 September 1998, and Speech pronounced on 21 February 1999 by the Prime Minister to conclude the 'Assises Nationales de la Vie Associative' (National Conference of Associations' life), Paris, 1999.

representatives. Nevertheless, associations are not completely satisfied with it and it has also appeared to be quite difficult to understand and put in practice. Therefore, the date of implementation has been postponed from 1999 to 2000 and a proposal will be submitted to Parliament requesting, in the framework of the Finance Act for 2000, that the numerous associations, which together with a main non-commercial activity have a secondary small commercial activity, i.e. a turnover below 38125 euro, will be exempt from any commercial tax.

7.3.2 Specific support in the field of finance

In addition to the common means of financial support to associations and voluntary organisations, i.e. remuneration of services, favourable VAT rates or other tax exemptions and the distribution of grants, national or local authorities use specific instruments to generate and/or secure revenues for associations and voluntary organisations. Roughly speaking, it can be said that countries in the north of Europe encourage private giving through public lotteries whereas countries of the south prefer a mix of specific funds and encouragement of private donations through tax exemptions. The United Kingdom being in an intermediary situation with the development of all possible instruments whereas Greece has almost no tools in this field.

In almost all countries of Europe-19, revenues from the national or local public lotteries and gambling are used to finance charities, associations, voluntary organisations or good causes. In some cases it appears that lotteries and gambling account for a meaningful source of finance (considered as public) for the third sector. This is particularly the case in Finland where two systems exist. First, the returns of the National Lottery (Oy Veikkaus Ab) are transferred to the Ministry of Education to be distributed (333 million euro for 1998, i.e. 7.5 % of the total budget of the Ministry for 1999) to organisations active in the fields of arts (51 % of the funds), sports (23 %), research (20 %) and youth work (6 %)²⁵.

Second, in 1938²⁶, the Finnish state, together with eight charitable organisations, established RAY (the Slot Machine Association) that has a legal monopoly to function as a gaming operator and the basic function which is to raise funds to support voluntary health- and welfare organisations. The Slot Machine Decree specifies that RAY's revenue can be distributed to incorporated non-profit organisations and foundations whose purpose is: to promote public health, support child welfare, care for persons with sensory disabilities, support care for the elderly, support care for the disabled, develop youth work, protect human lives and support rescue activities in disasters, acquire or maintain holiday facilities open to all or to promote similar holiday opportunities, promote temporary work or care for substance abusers. In 1998, RAY's profit amounted to 302 million euro (i.e. 65 % of RAY's turnover), out of which 76 % was used to finance projects by 1,009 health and welfare organisations and 24 % to cover the costs of operating nursing homes and providing rehabilitation for war veterans²⁷.

²⁵ Small Business Institute, Turku School of Economics and Business Administration and The Finnish Ministry of Education. <http://www.minedu.fi/ministry/finance> (situation on 21 July 1999).

²⁶ The first slot machines in fact appeared in the 1920s in Finland and were first operated by private businesses. Since complaints were heard that private businesses were making profits by exploiting people's urge to play, the state, as early as 1933, issued a decree giving charity organisations the exclusive right to operate slot machines. The new decree issued in 1937 that led to the establishment of RAY was the consequence of the competition between the existing charity organisations. RAY, <http://www.ray.fi/englishE/presse/press.htm> (situation on 21 July 1999).

²⁷ Small Business Institute, Turku School of Economics and Business Administration and RAY, <http://www.ray.fi/englishE/presse/press.htm> (situation on 21 July 1999).

In Belgium²⁸, the entire profit from the National Lottery is given primarily to the 'beneficiaries directly designed by Law' (such as co-operation for development support programmes, the King Baudouin Foundation and the 'Caisse Nationale des Calamités') and second, to public utility causes²⁹.

In the latter case, non-profit organisations can benefit from grants if they are active in the following fields: the social or professional integration of disabled, schools for disabled pupils, housing and services for elderly, fight against poverty and support to homeless, youth support and youth protection, mother and child protection (protection maternelle et infantile), sports, tourism and youth activities, development of arts, cinema, literature and culture in general, preservation of monuments and of historical heritage, nature and environment preservation, scientific research, animal defence, social and humanitarian activities, social integration of immigrants and of political refugees. 45.6 % of the profits for 1998 (i.e. 81 309.1 million euro) of the national lottery were spent on such causes.

In the United Kingdom³⁰, the National Lottery was established by Parliament in 1994 specifically to raise money for worthwhile causes. Six good causes were defined: arts, sports, charities, heritage, celebrating the millennium and the new health, education and environment cause³¹. 28 % of the receipt from the National Lottery goes to the six good causes. This amount is distributed according to the following rule: Arts, sports, charities and heritage each receive 16.67 %, the Millennium Commission 20 % and the New Opportunities Fund 13.3 %³². In 1997/98, 519.38 million euro was distributed to charities.

In Norway, the profits from the Norwegian National Lottery that are distributed to associations amount to around 230 million euro³³.

In Switzerland, the Law authorises only lotteries of which the profits are, in their entirety, distributed to organisations for public benefit. There are four umbrella organisations for lotteries: the 'Interkantonale Landeslotterie (ILL)' and the 'Seva Lotteriegenossenschaft Bern' for the German-speaking part, the 'Lotterie Suisse Romande' for the French-speaking part and the 'Swisslotto' which covers all of Switzerland. All the profits are distributed either directly or indirectly through the cantons to associations that have a public activity in social services, arts, culture, environment or research. In 1998 the total benefits distributed amounted to 220.26 million euro: 49.97 million euro for the lotterie Suisse Romande, 16 million euro for the Seva, 20.35 million euro for ILL and 133.94 million euro for the Swisslotto.

France, Italy, Spain and the United Kingdom have developed specific funds for voluntary organisations.

²⁸ The national lottery of Belgium, <http://www.loterie.national.be> (situation on 23 September 1999).

²⁹ See the Law on the National Lottery dated 22 July 1991, and amended by the law dated 21 December 1994.

³⁰ De Montfort University, The UK National Lottery, <http://www.national-lottery.co.uk/causes/index.html> (situation on 13 July 1999), and the National Lottery Charities Board, Annual Report 1997/98.

³¹ There are twelve distributing bodies responsible for giving grants to these good causes (the Arts Councils of England, Scotland, Wales and Northern Ireland, the Sports Councils of England, Scotland, Wales and Northern Ireland, the National Charities Board, the Heritage Lottery Fund, the Millennium Commission and the New Opportunities Fund).

³² The Millennium Commission will cease to exist on December 31st. Its share of funds will then be allocated to the New Opportunities Fund.

³³ French Ministry of Foreign Affairs, *L'Europe: Paradis de la vie associative? (Europe: Eden for associations' life?)*, Paris, March 1999.

In France, in 1982, the government introduced the 'Fonds National de Développement de la Vie Associative' (FNDVA, National Fund for the Development of the Associations Sector), which mainly finances training activities for associations' leaders and volunteers. FNDVA is funded via a levy on the resources of the horse-race betting system (PMU). Both French associations and the Government are of the opinion that the amount of the FNDVA is too low (an annual budget of about 3.66 million euro since 1997) and that it is not efficiently managed. Therefore, the Prime Minister announced firstly, on September 16, 1998, a reform of the management system of the FNDVA and secondly, in February 1999, an increase in its amount (up to 6.1 million euro)³⁴.

Again in France, the FONJEP (Fonds de Coopération de la Jeunesse et de l'Éducation Populaire/Co-operation Fund for Youth and Popular Education) was established in 1964. This fund, co-managed by ministries and associations, finances part of the cost of permanent employees who have positions in the fields of co-ordination or management and are employed by youth movements and associations active in the fields of popular education and social action. For 1999, the Ministry for Youth and Sports finances 3 215 jobs through the FONJEP for a total amount of 22.056 million euro.

In Spain, since 1979, a small proportion, 0.52 %, of the funds collected via income tax is assigned to benefit church and associations active in the social field. This money is used to finance training programmes and promote volunteering. It is estimated that, in 1996, resources raised in this manner amounted to 195 million euro, out of which almost 58 % went to associations³⁵.

It can be seen that in nearly all countries, apart from Iceland and to a certain extent Sweden and Norway (where tax exemptions are very limited), tax incentives exist to encourage private donations to associations, voluntary organisations and foundations. It must also be noted that in some countries (e.g. France) tax incentives are redefined regularly by Finance Act, in some others (e.g. Portugal³⁶) they have been reformed recently. For this reason, although already stated in detail in the Communication from the Commission³⁷, it has been decided to present a summarised overview in the Appendix to this chapter. As the table in the Appendix to this chapter shows, systems, regulations and theoretical levels of incentives vary a lot among countries.

Furthermore, the theoretical effectiveness of the tax incentive is also influenced by other factors than its definition alone.

First, the general system of income tax rate plays a role. In France, due to the facts that roughly only 50 % of the households pay income tax and that the deduction is calculated on the amount of the tax, the tax incentive plays a significant role for the higher incomes only. In Ireland, due to the fact that many enterprises have a corporate tax rate of 10 % only, it is generally argued that enterprises are not encouraged to give.

Secondly, the differences that citizens of different countries face when they wish to apply for a tax exemption should be taken into account. This point is quite well-

³⁴ Report from the Senate on the Finance Act Proposal for 1999, Prime Minister, Circulaire relative au développement de la vie associative (Note related to the development of associations' life), September 16, 1998, & Speech pronounced on February 21, 1999, by the Prime Minister to conclude the 'Assises Nationales de la Vie Associative' (National Conference of Associations' Life).

³⁵ IKEI, and French Ministry of Foreign Affairs, L'Europe: Paradis de la vie associative? (Europe: Eden for associations' life?), Paris, March 1999.

³⁶ Charity donation Law of 1997 (IAPMEI).

³⁷ European Commission, Promoting the role of voluntary organisations and foundations in Europe, COM (97) 241 final 6 June 1997, Brussels.

illustrated by the contradicting examples of Greece on the one hand and of the UK and Denmark on the other.

In Greece, Act 2459/97 'Abolition of tax exemptions' seems to complicate donations by private persons. It has imposed a 20 % tax-retention constrain on gifts in money to NPOs and the exemption on the donor's income tax rate is valid only when the donation exceeds the annual amount of 306 euro.³⁸

In the UK³⁹ however, a citizen has several possibilities to give money to charities and to benefit from tax exemptions: the deed of covenant scheme, the gift aid scheme and payroll giving. The deed of covenant involves the donor entering into a legally enforceable commitment - a deed - to make regular, fixed donations to a charity for a period exceeding three years with no minimum nor maximum limit on the amount that can be given. Gift aid is for one-off donations to charity with a minimum limit of 390 euro that must be paid in one single payment⁴⁰. Employees can use payroll giving. They authorise their employer to deduct charitable donations from their pay with a maximum limit of 1 872 euro per year. The employer passes on employees' donations to an agency charity approved by the Inland Revenue, which in turn distributes them to the charities chosen by the employees⁴¹.

In Denmark also, both individuals and enterprises can enter into long-term donation contracts in favour of associations, i.e. they commit themselves to pay an annual amount (usually for ten years) to an association. In this case, the tax exemption is more favourable (ceiling of 15 % of the taxable income or profit before tax with a limit of 2 018 euro)⁴².

7.3.3 Policies in the field of voluntary work⁴³

Volunteers and benevolent workers constitute a key factor in the development of voluntary organisations. Table 7.2 gives the share of the population that is involved in voluntary organisations.

³⁸ In this case, for example, a pensioner liable to 9 174 euro income taxation who donates 460 euro to a NPO is obliged to pay 90 euro tax and has to wait for several months before the tax rebate of 70 euro is returned to him/her. Source: University of Piraeus.

³⁹ Her Majesty's Treasury, Review of charity taxation consultation document, London, March 1999.

⁴⁰ 1998 Budget also introduced a special form of Gift Aid, the Millennium Gift Aid, for donations to charities working on education and anti-poverty projects in the world's poorest countries. The minimum limit for donations is 156 euro, which can be paid in instalments but donors must make their donations by the end of December 2000.

⁴¹ Deeds of covenant and gift aid work in a similar way, i.e. the amount paid by the donor is treated as a 'net' amount after deduction of basic rate income tax, which the charity can claim back from the Inland Revenue (e.g. a £ 1 000 donation is worth £ 1 000 plus basic income tax rate at 23 % = £ 1 299 to the charity). If the donors pay tax at the higher rate (40 %) they can claim higher rate tax relief in their self-assessment tax return (e.g. in this case £ 220.83, i.e. 17 % of £ 1 299). Donors who pay tax lower than the basic rate or no tax at all have to account to the Inland Revenue for tax in respect of their donations so that, overall, the amount of tax relief given is correct. Finally, donors who pay tax at the basic rate have nothing to worry about. In the case of Payroll giving, because donations are deducted before Pay As You Earn tax is calculated, the employees receive all the tax relief at their top rate and there is no risk for the donor having to account for tax to the Inland Revenue in respect of the donation.

⁴² European Commission, Promoting the role of voluntary organisations and foundations in Europe, COM (97) 241 final 6 June 1997, Brussels, and French Ministry of Foreign Affairs, L'Europe: Paradis de la vie associative? (Europe: Paradise for associations' life?), Paris, March 1999.

⁴³ In addition to information provided by ENSR partners, this section is mainly based on: EUR-volunteer information Pool, <http://www.euro-volunteer.org/issues> (situation on 5 July 1999); A new civic Europe? A study of the extent and role of volunteering, Volunteer Centre, UK, 1995; Profiling the civic sector, <http://www.civicus.org> (situation on 13 July 1999); Halba, B., and M. Le Net, Bénévolat et volontariat dans la vie économique, sociale et politique (Benevolent work and volunteering in economic, social and political life), La Documentation Française, Paris, 1997.

Table 7.2 The share of the population involved in voluntary activities in 13 European countries in the mid-nineties

<i>Country</i>	<i>Share of the population involved in volunteer activities</i>
Austria	13 %
Belgium	32 %
Denmark	28 %
France	23 %
Germany	30 %
Ireland	25 %
Italy	13 %
Luxembourg	17 %
Netherlands	25 %
Spain	13 %
Sweden	36 %
United Kingdom	48 %
Switzerland	Female: 41 %, Male: 25 %

No data are available for Greece, Finland, Portugal, Liechtenstein, Norway and Iceland.

Source: Austria and Switzerland: Profiling the civic sector, <http://www.civicus.org> (situation on 13 July 1999); Belgium, Denmark, Ireland and Sweden: Gaskin, K., and J.D. Smith, *A new civic Europe? A study of the extent and role of volunteering*, Volunteer Centre, UK, 1995; France: Archambault, T. E., and J. Boumendil J., *Les dons et le bénévolat en France (Private giving and benevolence in France)*, Fondation de France, Paris, 1997; Germany: Survey by IPSOS Mannheim (November 1997), quoted in ETW, *New solidarity in Europe*; Italy: IREF, *Rapporto sull'associazionismo sociale 1995 (Report on social associationism 1995)*, 1995; Luxembourg: CEPS/INSTEAD, 1997; the Netherlands: NOV, the Dutch Volunteer Centre, Utrecht; 1998; UK: Institute for Volunteer Research, 1997 national survey of volunteering in the UK, 1998.

Policies aimed at acknowledging, facilitating and improving voluntary and benevolent work can be of a crucial importance for the voluntary sector. Especially in those countries, mainly in the south of Europe (including France), where the volunteer is not yet totally culturally nor professionally appreciated (in contradiction to the UK and Nordic and Scandinavian countries). Several types of policy tools can exist in this field.

Voluntary work can be assisted by the granting of paid days off to employees (as in France) or by giving a tax exemption for reimbursed expenses to volunteers to carry out their mission (as in Germany, in the sport sector only, and in the Netherlands). Provisions have been made that allow the unemployed to do voluntary work providing that it does not prevent them from looking for a job (e.g. in France and Germany).

In many countries, authorities support the promotion of voluntary or benevolent work. In Denmark, for example, 50 bureaux have been established to communicate and present possibilities for voluntary work. These bureaux are supported by the state with approximately 1.1 million euro per year. Moreover, there is a social-sector programme spread across municipalities and counties, which is supported with 13.5 million euro for the same purpose⁴⁴. In various countries, e.g. France, the Netherlands, Portugal and UK, there are national centres for volunteers.

Some countries⁴⁵ also have schemes that provide a 'source' of volunteers for the voluntary sector. There is the example of the 'conscientious objectors' (i.e. young

⁴⁴ DTI: Interview with a head department of the Ministry of Social Affairs.

⁴⁵ The European Commission has also implemented a European volunteer service for young people from 18 to 25 years old.

men who refuse to do their military service out of principle) in Finland, France and Italy. In both France and Italy for a long time it was difficult to be an objector. In Italy⁴⁶, since the reform of military service (law 230/1998), an adolescent now has only to state and sign a statement of his principles and he will automatically be employed in a social organisation instead of the army. This has dramatically increased the number of volunteers that the third sector can rely on. In France, where compulsory military service will be abolished in 2002, young men and also women will have the possibility to be involved in a non-compulsory public service either in France in an association active in the field of 'social cohesion and solidarity' or for a French organisation active in the field of international co-operation or humanitarian aid⁴⁷. In the UK, the 'New Deal' policy aims to assist young people who have been unemployed for 6 months or longer, to find subsidised employment. An advisor who identifies possible job opportunities is allocated to each claimant. If the claimant rejects such employment opportunities he/she is obliged to assist in environmental projects or undertake recognised voluntary work in the community.

7.3.4 Support in the field of job generation

In those European countries that have a high unemployment rate and/or where policy makers pay great attention to the job generation potential of the third sector or the social economy as well as to their role in the field of social integration, some specific measures to create employment have been developed that apply only to non-profit organisations. But it must be stressed that, in most cases, the final objective of these schemes is not to provide support to NPOs but indeed to provide employment and training opportunities to specific categories of unemployed persons. In several cases, such as Belgium and France, these measures are also aimed at developing new services and/or satisfying needs, which are not adequately satisfied by the private commercial market⁴⁸.

In Finland⁴⁹, during the period 1994/1998, the Ministry of Labour introduced three new schemes especially targeted at associations and foundations, which aim to improve their employment capabilities. Combination support (yhdistelmätuki) is given only to organisations employing a long-term unemployed person in order to develop and strengthen their qualifications. The support of about 841 euro per month is granted for at the most a period of 12 months. Project support (projektituki) can be granted to projects working to create employment and to counteract social exclusion by providing activities for the unemployed. With this financial support, associations and foundations may be able to cover the wage and travel costs of the leaders and persons in charge of the project, other administration costs and experts' fees. The subsidy accounts for a maximum of 75 % of all the accepted total costs of the project. Registered associations and other non-registered associations and foundations promoting work based on the initiatives of unemployed or supporting other activities creating employment, have an opportunity to apply for the independent initiative support (omatoimisuusavustus). The purpose of this support is to help to set up the operations of the associations and foundations. It is not intended

⁴⁶ Centro Studi Cicogna, Bocconi University.

⁴⁷ However this raises many questions amongst the associations; in particular because the indemnity that has to be paid to these volunteers should be financed by the organisations themselves. Also, because it is questionable whether associations will be able to rely on many volunteers. Halba, B., and M. Le Net, *Bénévolat et volontariat dans la vie économique, sociale et politique (Benevolent work and volunteering in economic, social and political life)*, La Documentation Française, Paris, 1997.

⁴⁸ See also Chapter 10 of this report on New Services.

⁴⁹ Small Business Institute, Turku School of Economics and Business Administration.

to pay the costs directly connected to business. Independent initiative support may be used, for example, to pay the cost of renting premises, education costs for organising training sessions and wage costs of the leader. The subsidy accounts for 80 % maximum of the agreed total costs. However, all the wage costs of the manager of an association founded by unemployed may be covered.

In France⁵⁰, various measures aimed at employment creation are reserved for employers of the 'non-market' sector, i.e. mostly non-profit associations, foundations, public establishments and local authorities. The Solidarity Job Contract (Contrat Emploi Solidarité/CES) aims at promoting the professional integration of people who experience specific difficulties in finding jobs due to lack of qualifications, by the means of know-how acquisition, but also at developing activities that fulfil unsatisfied collective needs.

CES is a fixed-term part-time job contract. The employee is paid the minimum wage (SMIC), the State accepts, partly or totally, the responsibility for the wage depending on the category to which the beneficiary belongs. Furthermore, the employer is exempt from the payment of the employer's part of social taxes (except the tax for unemployment insurance). The State can also accept for its account the costs of training followed by the employee outside working hours. Once the CES has terminated, those beneficiaries who experience the most serious difficulties and have no alternative job or training solution can be hired within the framework of a Consolidated Job Contract (Contrat Emploi Consolidé/CEC). The CEC is for an unfixed-term or fixed-term contract of at least 12 months. It can be a full-time or a part-time job. The State's support consists of a subsidy of part of the wage and exemption of the employer's part of social taxes. Both CES and CEC are co-financed by the European Social Fund. On average, associations account for 37 % and 44 % of the employers of the total number of people with a CES or a CEC, respectively. During the period 1993/97, employees with CES and CEC accounted for 7 % of the total number of paid employees of associations⁵¹.

More recently, the so-called 'emplois jeunes' (youth employment schemes) have been created by Law 97-940 for 'the development of activities for the employment of young people'. The objectives of the Law are to satisfy emerging or unsatisfied needs by launching social-utility activities or activities in the fields of culture, sports, environment and proximity (services)' and to generate 350 000 jobs for young people. The programme involves young unemployed under 26 years and, in certain cases, under 30 years of age and is in principle reserved for young people with a relatively low level of education. Eligible employers are local authorities, public establishments, the National Police (Ministry of the Interior), the National Public System of Education (pre-primary, primary and secondary schools) and private non-profit organisations. The contract can be for an indefinite period or a fixed term of five years. The salary must be at least equal to the minimum wage (SMIC). State support takes the form of a fixed subsidy to cover part of the gross wage. On December 31, 1998, associations accounted for 60 % of the employers and the programme benefited small-sized local associations in particular⁵².

⁵⁰ French Ministry for Employment and Solidarity.

⁵¹ Ministry for Employment and Solidarity, Bilan de la politique de l'emploi en 1997 (Assessment of the Employment Policy in 1997), Les Dossiers de la DARES, No. 1-2, Ed. La Documentation Française, Paris, December 1998.

⁵² Ministry for Employment and Solidarity, Rapport au Parlement sur la mise en œuvre de la Loi No. 97-940 du 16 octobre 1997 relative au développement d'activités pour l'emploi des jeunes (Report to the Parliament on the implementation of the Law No. 97-940 dated October 16, 1997, related to the development of activities in favour of youth employment), February 1999.

In Belgium⁵³, there are several forms of support open to non-profit associations (ASBL/VZW) provided they employ risky job seekers (i.e. low-skilled unemployed, long-term unemployed, young unemployed, older unemployed) to develop non-profit activities of social, public or cultural importance, to satisfy needs which would not otherwise be satisfied. The support consists of wage subsidies by federal and/or regional government and/or federal labour tax exemptions.

In Germany, within the 'Arbeitsbeschaffungsmaßnahmen (ABM)' (job-providing measures) the Federal Labour Agency (Bundesanstalt für Arbeit) promotes the creation of additional temporary jobs in the second (non-profit) labour market. The tasks carried out have to be of public service, e.g. measures in the fields of environment protection or social services, and must not interfere with jobs in the first (competitive) labour market. In order to provide long-term unemployed ABM-participants with an incentive to return to the primary labour market, they regularly receive at most 80 % of the wages for comparable, non-supported activities, whereby three quarters of the labour costs are financed by the Federal Labour Agency and the rest by the employing organisation. Arbeitsbeschaffungsmaßnahmen were of particular, yet decreasing, importance in the new East German Länder: in 1998, 210 800 persons were employed in ABM (of whom 151 800 were in East Germany), 66.2 % being employed by NPOs (69.3 % in East Germany).

In Ireland, the Department of Enterprise, Trade and Employment organises Community Employment schemes (CE schemes), the primary purpose of which is to provide training and employment opportunities for the unemployed. Workers from the CE schemes can be used to provide staff for projects run by voluntary and community organisations.

7.4 Access to finance

Remuneration for activities and services, membership fees, (local, regional, national or international) subsidies and grants and private gifts constitute the main sources of funds for associations. As defined in this chapter, foundations, of course, rely mainly on their own funds and their return on investments. But they can also benefit from private gifts and subsidies. It must be stressed that quantitative information in this field is scarce. There is however for four countries information available on the share of the population giving money to charity for good causes: Ireland (85 %), the United Kingdom (50 %), France (45 %) and Germany (43 %)⁵⁴.

7.4.1 The respective roles of public and private finance

Traditionally, when one studies the financing of the non-profit sector, one has to deal with assessing the relative importance of public and private finance. The Johns Hopkins Comparative Non-profit sector Project (JHCNP) provides an interesting comparative view for some of the European countries (see Table 7.3).

⁵³ The schemes are DAC (Third work circuit), PBW (programme to increase employment), IBF (Interdepartmental budget fund hospital), Gesco, BKO-gesco (after-school care), WEP & WEP-gesco-plus, Sociale Maribel-logistieke assistent, Sociale werkplaatsen, Tewerkstelling art. 60.7 and PWA.

⁵⁴ France and Germany: Archambault, E., and J. Boumendil, *Les dons et le bénévolat en France* (Private giving and benevolence in France), Fondation de France, Paris, 1997; Ireland: Profiling the civic sector, <http://www.civicus.org> (situation on 13 July 1999); UK: NCVO, 1997.

Table 7.3 Sources of income of the private non-profit sector in 11 European countries and Japan and the United States in 1990 and 1995

	1990 (1)			1995 (2)		
	Public sector	Fees & charges	Private donations	Public sector	Fees & charges	Private donations
Austria	n/a	n/a	n/a	50 %	44 %	6 %
Belgium	n/a	n/a	n/a	77 %	18 %	5 %
Finland	n/a	n/a	n/a	36 %	58 %	6 %
France	60 %	34 %	7 %	58 %	35 %	8 %
Germany	68 %	28 %	4 %	64 %	32 %	3 %
Ireland	n/a	n/a	n/a	78 %	15 %	7 %
Italy	40 %	55 %	5 %	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	60 %	38 %	2 %
Spain	n/a	n/a	n/a	32 %	49 %	19 %
Sweden	27 %	64 %	9 %	n/a	n/a	n/a
United Kingdom	40 %	48 %	12 %	47 %	45 %	9 %
EU-9 average	n/a	n/a	n/a	56 %	37 %	7 %
Japan	38 %	60 %	1 %	34 %	62 %	3 %
United States	30 %	52 %	19 %	30 %	57 %	13 %

Note: Percentages have been rounded.

Source: (1) Except Italy (1991) and Sweden (1992); Salamon, L.S., H.K. Anheier and S.W. Sokolowski and Associates, *The emerging sector: a statistical supplement*, The Johns Hopkins University, Institute for Policy Studies, 1996, (2) Salamon, L.S., H.K. Anheier and Associates, *The emerging sector revisited*, The Johns Hopkins University, Institute for Policy Studies, Centre for Civil society studies, 1998.

It should be noted that public finance does not mean subsidies only. It also includes the remuneration for activities that organisations carry out within the framework of the subsidiarity principle or in the framework of a contract with the State.

Further to Table 7.3, it can be added that, in Norway, it is estimated that subsidies account for 40 % of the resources of associations, and membership fees also for 40 %. The remaining 20 % originate from sales and fund-raising activities such as private lotteries⁵⁵.

The available figures show that the importance of public finance varies a lot amongst countries. Two main reasons, which are in fact inter-related, can be given, i.e. the distribution of associations and foundations by sectors of activity and the differences in the general organisation of some policies. Due to the subsidiarity principle, it is not surprising that, in Belgium and Germany⁵⁶ for example, organisations in the field of health, welfare and education which dominate the sector rely quite a lot on public sources, in the form of a remuneration for services they perform.

Indeed, the main sources of finance vary a lot depending on the field in which the organisation is active. Sports associations, for example, will mostly rely on

⁵⁵ French Ministry of Foreign Affairs, 'L'Europe: Paradis de la vie associative?' (Europe: Eden for associations' life?), Paris, March 1999.

⁵⁶ Originating from the Catholic social doctrine, after World War II the principle of subsidiarity was used as 'leitmotiv' for the development of the (West-)German welfare state: Goods and services in the social sector shall not be predominantly provided by state institutions but in a complementary way with selected so-called free welfare associations (Träger der freien Wohlfahrtspflege) which receive considerable public financial support for carrying out tasks that benefit the general public. Additionally, public authorities shall not set up their own agencies in those fields with an already sufficient presence of voluntary welfare agencies.

membership fees (private source), whereas, in most cases, associations in the field of culture will be highly dependent on public subsidies. Table 7.4 provides another illustration of differences among countries, but also of differences within a country (although differences in methodology and sources of information put a limit to comparisons between 'columns' and with Table 7.3). The table shows that good causes in the Netherlands are in fact mainly financed by private sources, as is the case for development NGOs in France. In this case, it can also be noted that a large part of subsidies are international and indeed mostly from the EC, in particular in the framework of the ECHO programme.

Table 7.4 Sources of income of the voluntary sector in 4 European countries in %

	France (1996): Development NGOs	NL (1997): Good causes	UK (1997): General charities	UK (1996/97): Top 500 charities	CH (1992): 67 welfare organisations
Public resources	44	39	41	48	36
<i>Including: national subsidies</i>	19	64	61	12.5	n/a
<i>Regional & local subsidies</i>	4			17	n/a
<i>International subsidies</i>	68			9.5	n/a
<i>Fees & Contracts</i>	9		37	57	n/a
<i>(National) Lotteries</i>	n/a	36	2	4	n/a
Private resources	56	61	59	52	64
<i>In which: individual giving</i>	66	90	34	63	94
<i>Other private giving</i>	8		7		
<i>Fees &/or sales</i>	15		25	30	
Others	11	10	34	6.5	6

Source: Elaborated by Aprodi, based on data from: France: Commission Coopération Développement, Argent et organisations de solidarité internationale (Money and International solidarity organisations), Paris, November 1998; the Netherlands: Consumentenbond, de Consumentengids (the Consumers guide), The Hague, December 1998; the United Kingdom: NCVO, The UK voluntary sector almanac 1998-99, and Pharoah, C., Dimensions of the voluntary sector 1998, Charities Aid Foundation, June 1998; Switzerland: survey quoted in Wagner, A., Profiling the civic sector: National report on Switzerland (situation on 13 July 1999).

The sources of finance also vary depending on other factors such as size of organisations as shown in the case of British charities.

Although based on a rather limited sample, the results of the ENSR Enterprise Survey 1999⁵⁷ provide interesting and comparable information regarding the major sources that associations and foundations have used to finance their establishment. Table 7.5 shows that public funding in particular is the major source for associations in 19 % of the cases 'only', local or regional governments playing the major part. It is worth noting that private (non-profit) finance programmes are an important source of finance in the case of foundations.

In most countries, the reduction of the public budget, new rules of allocation of public funds, such as the system of co-financing and sometimes also the will to preserve their autonomy, push voluntary organisations to search for more private sources of finance. In particular, more and more organisations target fund-raising activities at individuals. Besides traditional tools such as street collections and mailings, some new tools are developed because these tools are assumed to work more efficiently and with lower costs.

⁵⁷ See Annex I to this report: The set-up and analyses of the ENSR Enterprise Survey 1999. The sample includes 74 associations and 75 foundations.

Table 7.5 Major sources used to finance the establishment of the organisation, Europe-19

<i>Major source of funds used</i>	<i>Associations</i>	<i>Foundations</i>	<i>Total respondent</i>
Own funds	60 %	46 %	71 %
Bank loans	10 %	1 %	21 %
Funding from relatives and friends	1 %	1 %	3 %
Funding from private finance programmes	5 %	39 %	1 %
Funding from local or regional governments	11 %	4 %	1 %
Funding from national governments	7 %	8 %	0 %
Funding from European programmes	1 %	0 %	0 %
Total (including no answer)	100 %	100 %	100 %

Source: ENSR Enterprise Survey 1999.

- Large UK charities try to develop payroll giving as well as giving through Internet.
- In France, there is an increasing use of the 'produits partage': Associations and foundations conclude agreements with well-known consumer brands in the framework of which part of the price of the products bought is donated to the association. More generally, as large sums can be obtained at once and to finance relatively long-term projects, more and more organisations try to obtain finance from enterprises.
- In Belgium, France, Italy, Spain and the UK, 'ethic finance' is also developing. The most widespread are 'ethic current accounts' and ethic funds. In the first case the owner of an account renounces part of the interest rate for the benefit of a voluntary organisation. The second tool consists of common funds that give the possibility to renounce part of the interest (a percentage of the total gained) in order to give it to organisations sponsored by the bank or financial institution.

7.4.2 Main problems encountered in the field of finance

The survey among voluntary organisations and foundations conducted for the European Commission in the framework of its Communication⁵⁸ revealed that nearly 80 % of the associations and foundations of the sample estimated a need for more finance.

The results of the 1999 ENSR Enterprise Survey (see Table 7.6) suggest that access to finance has been the major constraint in the recent past for 13 % and 5 % of the associations and foundations, respectively. This in fact does not mean that the remaining associations do not face problems in the field of finance.

According to various national documents and experts⁵⁹, it is clear that difficulties in gaining access to finance vary a lot between countries: compared with the

⁵⁸ European Commission, Promoting the role of voluntary organisations and foundations in Europe, COM (97) 241 final 6 June 1997, Brussels.

⁵⁹ Besides other information provided by ENSR partners, this section is mainly based on: The Department of Social Welfare, Supporting Voluntary Activity: A Green Paper on the Community and Voluntary Sector and its Relationship with the State, Stationery Office, Dublin, 1997, and Donoghue, F., Researching Voluntary Action in Ireland, in: Voluntary Action in Ireland, North and South. Report of Research Symposium, Trinity College Dublin, 16 May 1997, Centre for Voluntary Action Studies, University of Ulster, 1998; Lunaria, New employment opportunities in the third sector, 1999; Zimmer, A., Vereine - Basiselement der Demokratie, 1996; Meyer, D., Das System der Freien Wohlfahrtspflege aus ordnungspolitischer Sicht; in: ORDO; Vol. 49, 1998.

Table 7.6 Major constraints on performance experienced during 1998/99, Europe-19

<i>Major constraint experienced</i>	<i>Associations</i>	<i>Foundations</i>	<i>Total respondent</i>
Access to finance	13 %	5 %	14 %
Lack of skilled labour	8 %	1 %	9 %
Administrative regulations	33 %	10 %	11 %
Implementing new technology	0 %	0 %	4 %
Infrastructure	0 %	2 %	3 %
Quality assurance	0 %	1 %	2 %
Changing organisation of production	0 %	0 %	1 %
Introduction of euro	0 %	0 %	1 %
Other constraint*	20 %	2 %	30 %
No constraint at all	26 %	79 %	23 %
Total (including no answer)	100 %	100 %	100 %

* The survey does not give any disaggregated data on what constraints this group includes.

Source: ENSR Enterprise Survey 1999.

situation of Greek associations for example, it is quite clear that for British voluntary organisations conditions represent a paradise. Second, the situation is also quite different, as has already been stressed, between large widely known associations (such as the Red Cross, Caritas, or large UK Charities) that have almost no financial problems and small local associations whose activities can be endangered in the short term by a delay in receiving expected funding.

The main difficulties encountered by associations in the field of public finance can be summarised as follows:

- First, smaller associations especially have difficulty gaining access to information about available finance.
- Many organisations face difficulties in the field of programme planning and management of projects that are funded on a year-to-year basis. Financial support provided on the basis of 'project promotion', as opposed to 'institutional promotion', results in uncertainties with regard to the future flow of public money and therefore hampers carrying out continuous, long-term financial planning.
- Complex and time-consuming application procedures are often mentioned and the payment of grants and grant instalments is not always timely.
- Also mentioned in several cases were: the lack of clear criteria, from Government Departments and Agencies, for eligibility for statutory funding, which leads to lack of transparency, as well as the differences between funding agencies as regards accountability requirements.
- In Ireland, in some cases, it is unclear which Government Department has the brief for some voluntary and community activities. Where activities cross departmental boundaries or do not have a clear client relationship with a department, it can be difficult to access funding.
- In Ireland and in the UK, there is some criticism as regards the distribution of the National Lottery funds.

As regards private finance, as mentioned before, the main problems also principally affect small associations. The main problem is that there is increasing competition between organisations to attract private gifts. Only relatively large organisations have the human and financial resources necessary to bear the costs

of such activities. Indeed, success in obtaining significant private-sector funding is very often dependent on labour-intensive and detailed negotiations and contact with the private individuals/companies.

It seems that in a few countries only (e.g. France, Greece) the access by small organisations to bank loans is facilitated by the existence of specific banks and financial institutions, which, because they are part of the social economy, provide relatively easy finance to associations to allow them to develop their projects.

The European Commission also supports associations and foundations. In the previous Commission, apart from DG XXIII that had the responsibility for the social economy, many DGs developed programmes and/or supplied access to non-profit organisations to their funds: DG V for social NGOs, DG I and DG VIII (in the framework of the LIEN, TACIS, PHARE and MEDA programmes and for development NGOs in particular in the framework of ECHO (412.1 million euro decided for 1998), DG XI for environment organisations (approx. 2.65 million euro for 1999), DG X in the field of sports and culture, DG XXII for youth associations and in the field of training programmes (e.g. Leonardo) and DG XXIV for consumer associations (7.14 million euro of approved grant requests for 1999). Nevertheless, information⁶⁰ on and access to most European programmes remains especially difficult for small associations. They, in particular, complain about the high level of bureaucracy as well as the complexity of application procedures, the European jargon, the delays of payment and the control requirements that are not always adapted to the specific nature of their own accounting and reporting requirements.

7.5 Cross-border co-operation⁶¹

The development of co-operation and cross-border activities between European associations and foundations is an important topic in the perspective of the enlargement of the European Union, the reduction of unemployment and the prevention of social exclusion. Such a development should contribute to the possibilities for organisations in the social economy to develop their role on a larger scale, to exchange best practices and to increase convergence and solidarity between Member States. It should also contribute to the development of a Europe of citizens.

Unfortunately, information concerning such activities is scarce and unstructured. To the best of our knowledge, neither systematic surveys nor studies have been undertaken in this field. The results of the survey conducted for the EC in the framework of its Communication on 'Promoting the role of voluntary organisations and foundations'⁶² nevertheless showed that 50 % of the respondents had developed activities with European partners and that 46 % were thinking about continuing or starting to develop such partnerships in the future. The results of the ENSR Enterprise Survey 1999 show that 32 % of the associations of the sample (but only 7 % of the foundations) have indeed developed their international contacts during the last five years⁶³.

⁶⁰ In this field, it is worth mentioning the tremendous work done by ECAS, which supplies a very clear and complete guide, *Guide to European Union funding for NGOs. Your way through the Labyrinth*, Brussels, 5th Edition, 1999.

⁶¹ This section mainly relies on information collected by ENSR partners at representatives of voluntary organisations.

⁶² European Commission, *Promoting the role of voluntary organisations and foundations in Europe*, COM (97) 241 final 6 June 1997, Brussels.

⁶³ For the total sample the percentage is 24 %.

In fact, it is difficult to determine quantitative figures on the importance of cross-border co-operation but some facts can be noted:

- Many associations and foundations are quite large. Some can be said to be international, e.g. the Red Cross, Caritas, and many others have developed subsidiaries in other European countries, e.g. Doctors without Borders, Handicap International. Also, many associations are by nature involved in European or international activities.
- In border regions, associations have often been co-operating for a long time. This is especially the case in the field of culture and sports but also in some way in the social sector.
- In addition to the official networks that have been founded in the framework of the EC - the Consultative Committee for CMAFs, the European Platform of Social NGOs, the European Platform of Development NGOs - there are an impressive number of European networks of associations and foundations, some being members also of the official networks. It would be impossible to name them all but some examples can be given: CEDAG (European Council for Voluntary organisations) which is to be trans-sector, ECAS (EUR-Citizen Action Service), EAPN (European Anti-Poverty Network), ESAN (European Social Action Network), etc. It has sometimes been said that - long before 'ordinary' enterprises - the association world did indeed develop European partnerships and networks. These networks are very active as regards 'lobbying', exchange and supply of information, joint research projects, exchanges of best practices, etc.
- On the other hand, many associations and small foundations have a very local activity, so that they feel neither the need nor the interest to be involved in activities at European level.

It should be stressed that the EC seems to be the only authority that supplies direct or indirect support to the development of co-operation between associations and foundations. As it is the case for SMEs⁶⁴, there are very few initiatives at national level, other than those developed by umbrella organisations. The case study described here gives an illustration of the activities of an umbrella organisation.

As far as barriers to developing such co-operation are concerned, it must be said that most of those revealed by the results of the survey conducted for the EC in the framework of its Communication on 'Promoting the role of voluntary organisations and foundations'⁶⁵ seem to remain valid:

- Difficulties in finding an adequate partner. As for ordinary enterprises, it is easier to develop a common project with a partner already known.
- The differences in legal, administrative and tax regulations amongst countries.
- Cultural differences and communication problems. As in many SMEs, a poor knowledge of foreign languages is often the rule in small associations, especially in some countries such as France, Italy, Portugal and Spain.
- Lack of harmonisation of social concepts and policies. For example, the definition of disabled is not the same in all countries, this can hamper co-operation between associations active in this field.

⁶⁴ See Chapter 3, Transnational Co-operation between SMEs, in the Fifth Annual Report of The European Observatory for SMEs.

⁶⁵ European Commission, Promoting the role of voluntary organisations and foundations in Europe, COM (97) 241 final 6 June 1997, Brussels.

Case Study: The support of the Finnish Federation for Social Welfare and Health to the development of cross-border co-operation

The Finnish Federation for Social Welfare and Health has organised an initiative called European Project for Social and Health Associations in the years 1990-1996. The aim of the project was: to develop the operation and skills in social and health associations so that they are able to cope with the European integration and to help associations to develop their cross-border activities.

During the project the Finnish Federation for Social Welfare and Health provided education, consultancy and helped associations to establish partnerships. The project succeeded quite well. The Finnish Federation for Social Welfare and Health helped many social and health associations to start for example joint projects, information networks and exchanges with European social and health associations. The sources of finance of the project were RAY (80 %) and incomes from own activities (20 %). In 1996 when the project ended the Finnish Federation for Social Welfare and Health continued to support cross-border activities of its member associations and nowadays this is one of its basic activities.

Source: Small Business Institute, Turku School of Economics and Business Administration.

- Poor support for the development of such activities in many countries.
- A lack of access to information on the European support available in addition to the previously mentioned difficulties involving European bureaucracy and application procedures as well as the lack of resources of smaller associations to pre-finance or finance parts of the cost of the projects.

7.6 Policy issues

Associations and foundations are, without doubt, important economic, social and political actors. Nevertheless, although their economic role is increasingly acknowledged at both national level and EC level, the social and political importance is not yet fully appreciated.

Associations and foundations can play a major role in the achievement of a truly political and social Europe, which is, after all, the principle of a united Europe. If Europe has to become more than only a Single Market, associations and foundations should certainly be involved, like political representatives, trade unions and employers' organisations, in the European policy debate.

They are also important representatives of the ordinary citizens. Their experience in fighting against poverty, racism, and social exclusion and in developing democracy and active citizenship should be better exploited. This is of particular importance in the perspective of the enlargement of the European Union to include central and eastern countries and certainly if the EU believes that it should play a role in international development.

Access to finance and public funds seems to be a problem in many countries and should be facilitated, mainly by defining clear policies and schemes taking into account the unique nature of the sector. In particular, the fact that associations and foundations develop social innovation should be recognised. This means that

they cannot operate with the same efficiency criteria as ordinary enterprises. As in the case of innovative SMEs, their risk and right of failure should be taken into account because they need time to develop their projects. This means, among other things, that finance should be developed on a multi-annual basis.

Some contradictions in the approach to associations and foundations must be solved. It is not logical to require that they, for example, simultaneously develop non-profitable new services satisfying real needs and contribute to solving unemployment, without being supplied with the relevant financial means. Neither can they be asked to improve the quality of their services and the level of 'profitability' and to supply jobs for the most 'risky' groups of unemployed at the same time.

More generally, the promotion of voluntary work and in particular the development of systems to recognise the professional competencies acquired should be encouraged. It should be stressed that active participation in associations may also constitute a good way of developing entrepreneurship competencies.

At national level and EC level, the various authorities and departments should adopt a coherent policy and unique criteria when dealing with associations and foundations.

Associations and foundations could also participate more actively towards achieving one united Europe if they had the means to develop more cross-border projects and activities. Indeed, not only the financial issue, but also most other problems related to legal aspects would be easily solved by the adoption of the so-long awaited statute of the European Association.

Appendix Overview of tax incentives

Table 1 Tax incentives in the field of private giving to associations and foundations in 16 European countries*

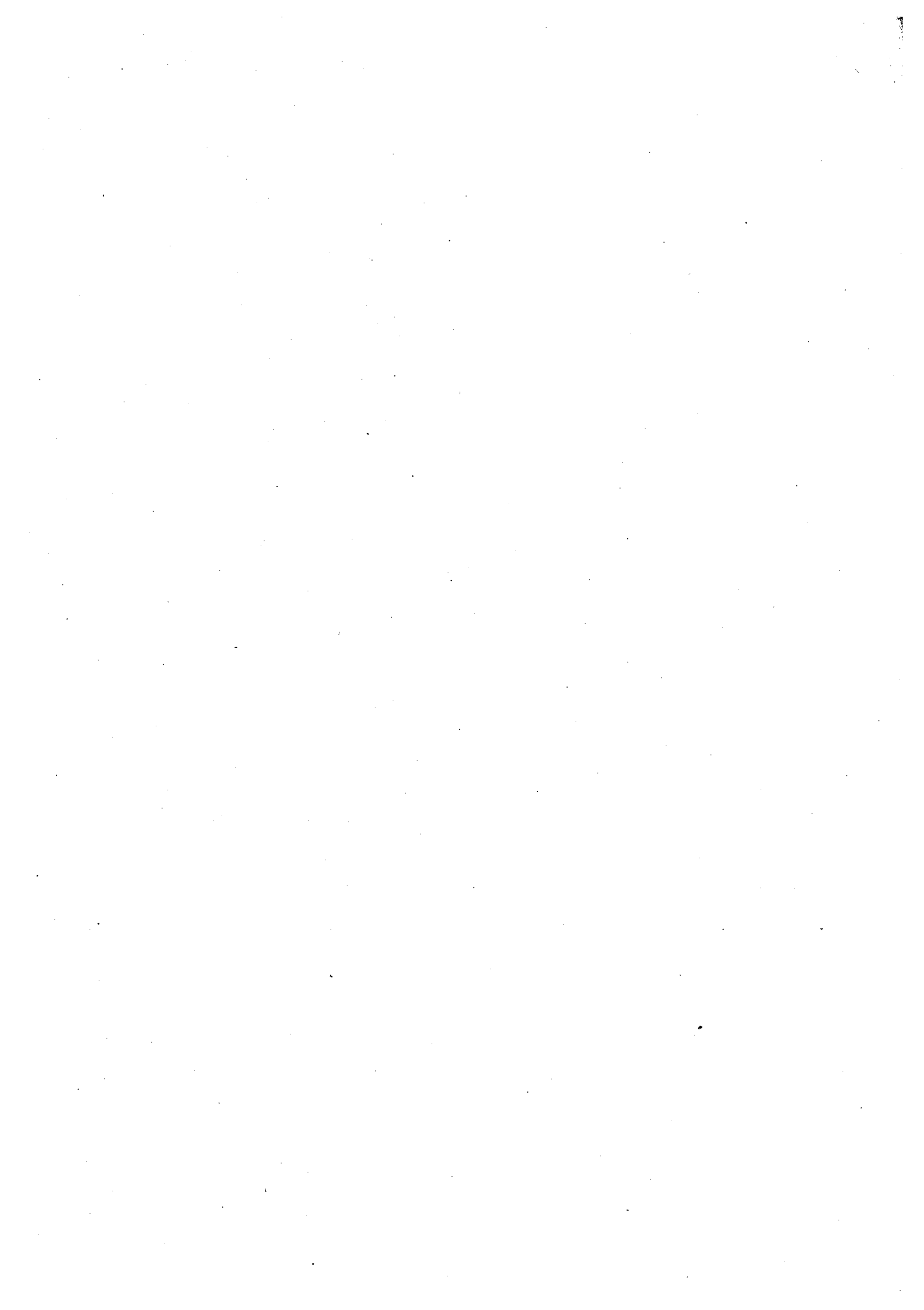
Country	Beneficiaries	Kind of organisations eligible	Rules that apply for individuals	Rules that apply for enterprises
A	Individuals	List of organisations of general interest & with a scientific character published annually by the Ministry of Finance	Minimum amount: ATS 1 000 (eur 72.67) Deduction applies to the taxable income within a limit of 10 %	
B	Individuals & enterprises	Registered or designated by Law	Minimum amount: BEF 1 000 (eur 24.79); Gifts can be deducted from the taxable income up to 10 % and within a limit of BEF million 10 (eur 255 530.5)	Gifts can be deducted up to 5 % of the net profit within a limit of BEF million 20 (eur 451 061.01)
DK	Individuals & enterprises	List of organisations designated by the tax office	Min/max amount: DKK 500/5 000 (eur 67/670) Deduction applies to the income tax	Min/max amount: Dkr 500/5 000 (eur 67/670). Deduction applies to profit before tax
D	Individuals & enterprises	Public service recognised by the Tax Administration	Deduction applies to the taxable income. Ceilings vary between 5 % & 10 % depending on the nature of the beneficiary of the gift	Gifts can be deducted up to 0.2 % of the total turnover + salaries & wages paid
EL	Individuals	Religious & charitable, registered sport or humanitarian associations, educational associations that distribute grants	Minimum annual amount per organisation: GDR 100 000 (eur 306). Deduction applies to the taxable income	
E	Individuals & enterprises	Recognised public service	Deduction applies to the income tax within a limit of 20 % of the taxable base	Deduction applies to the corporate tax within a limit of 10 % or 30 % of the taxable base

Country	Beneficiaries	Kind of organisations eligible	Rules that apply for individuals	Rules that apply for enterprises
F	Individuals & enterprises	Recognised public utility, religious & charitable (1), general interest & organisations that provide financial support for new entrepreneurs (2), providing meals, health care, shelters for the poor & homeless (3)	Deduction applies to the income tax; (1): 50 % on the gifts within a limit of 6 % of the taxable income; (2): 50 % on the gifts within a limit of 1.75 % of the taxable income; (3): 60 % of the gifts within a limit of FF 2 000 (eur 304.90)	Deduction applies to the corporate tax within a limit of 0.225 % of the turnover for (2) and of 0.325 % of the turnover for (1)
FIN	Enterprises	List of public service associations with a scientific or culture character recognised by the tax office		Deduction applies to corporate tax within a limit of FIM 5 000 to 15 000 (eur 840.94 to 2 522.82)
IRL	Individuals & enterprises	List compiled by the Revenue Commissioner (Finance Act for 1998). Arts & education only for individuals	Deduction applies to the taxable income. Min/max amount: IEP 100/10 000 (eur 126.97/12,697.38)	Deduction applies to the taxable profit. Min/max amount: IEP 100 / 10 000 (eur 126.97/12 697.38) for Arts & education & IEP 250 / 10 000 (eur 317.43/12 697.38) for others
I	Individuals & enterprises	Individuals: ONLUS (1); Legally recognised non-profit associations & foundations having an activity in the preservation of historical patrimony & authorised by the Ministry of Culture (2); Legally recognised non-profit associations & foundations having an activity related to entertainment (3); Enterprises: (1); (3); Development NGOs (4); education, leisure, culture, social assistance, scientific research (5)	Deduction applies to the income tax maximum deduction: 19 % for (1) & (2) with a maximum amount ITL million 4 (eur 2 065.83) for (1) and 2 % for (3)	Deduction applies to the taxable profit Maximum deduction: 2 % For ONLUS: maximum amount ITL million 4 (eur 2 065.83) or 2 % of the profit

<i>Country</i>	<i>Beneficiaries</i>	<i>Kind of organisations eligible</i>	<i>Rules that apply for individuals</i>	<i>Rules that apply for enterprises</i>
L	Individuals & enterprises	Recognised public service	Minimum amount: LUF 5 000 (eur 123.95); limit: 10 % of the total net income and of LUF 10 000 000 (eur 255 530.5)	Same rules
NL	Individuals & enterprises	General interest	Minimum amount: 1 % of income before taxation with a minimum of NLG 120 (eur 54.45). Maximum amount is 10 % of income before taxation Tax deduction is also possible if gifts are given by the way of annuities: laid down in notarial act, at least 5 years, one per year, annuities should have the same size	Minimum amount NLG 500 (eur 226.89). The deduction applies to the taxable profit within a limit of 6 %
P	<i>Individuals & enterprises</i>	<i>Organisations specified: in Art. 5 of the Maecenas statute for individuals & in Art. 2 & 3 for enterprises</i>	<i>Deduction of 25 % within a limit of 15 % of the net taxable income</i>	<i>Gifts considered as costs up to 0.8 % (Art. 2) and 0.5 % (Art. 3) of the turnover. If the gifts are considered extremely relevant for its purposes, the limits of 0.8 % and 0.5 % do not exist</i>
UK	<i>Individuals & enterprises</i>	<i>Charities</i>	<i>Deduction applies on the income tax for deeds of covenant and gifts of more than GBP 250 (see also main text)</i>	<i>Same rules</i>
LI	<i>Individuals & enterprises</i>	<i>For individuals: charity associations only For enterprises: all types of associations</i>	<i>Deduction applies to the taxable income from CHF 100 to 10 000 (eur 62 to 6 200)</i>	<i>Gifts to associations are deductible as costs if they are not 'over-proportional'</i>
CH	<i>Individuals & enterprises</i>	<i>Public service</i>	<i>Deduction applies to the taxable income</i>	<i>Deduction applies in total or within a limit that varies amongst 'cantons'</i>

* Sweden, Norway and Iceland are not included since in these countries there are no tax incentives.

Source: Elaborated by Aprodi based on: Communication from the Commission on 'Promoting the role of voluntary organisations and foundations in Europe', COM (97) 241 final 6 June 1997; French Ministry of Foreign Affairs, 'L'Europe: Paradis de la vie associative? (Europe: Paradise for associations?)', March 1999, and information provided by ENSR partners. The information that differs from and/or that is additional to the one published in the Appendix to the Communication from the Commission is indicated in Italics.



**PART III ENTERPRISE
POLICIES**



8 New developments in SME policy

Co-ordinated by Istituto Guglielmo Tagliacarne

MAIN POINTS

- New policy developments for SMEs are correlated with what is widely acknowledged as that group of enterprises' ability to create growth and employment. Even more than in the past there seems to be widespread attention to SME problems with specific policies in administrative simplification, finance, internationalisation, promotion of technological innovation, and dissemination of enterprise culture.
- Administrative modernisation in most countries is one of the key elements for promoting SME development. Measures have been taken to reduce administrative overheads for fiscal, social security, and statistical requirements and to simplify the bureaucratic structure for creating and expanding businesses. This process also comprises measures to decentralise and rationalise administrative apparatus and to develop One-stop Shops for service to businesses.
- The difficulty SMEs have in access to financial markets entails the adoption of policies for promoting the start-up of new businesses and increasing the capital of existing ones through recourse to financial tools (venture capital, seed capital, etc.) and tax incentives.
- The internationalisation of SMEs has been accompanied by specific measures to provide information services and market research assistance as well as subsidies and support services (often provided by specialist agencies) to promote products and businesses, the search for foreign partners, and outward investment.
- The new scenario of competition arising from globalisation has affected action in support of R&D and the dissemination of innovation among SMEs, although very often the programmes in this sector are not specifically keyed to small businesses. There are instruments to foster the creation of innovative SMEs (financial tools and incubators) as well as direct incentives (subsidies) and indirect ones (programmes for co-operation and technology transfer, giving new energy to national systems of innovation), and the acquisition of innovative technology. Also there is much effort to enhance the quality of human capital alongside legislative changes concerning the use and cost of the labour factor.
- To foster the competitiveness of small companies and to reduce unemployment by favouring the self-employed, many countries have been promoting enterprise knowledge and culture in the school system by introducing specific courses as well as fostering new business in areas of society that are particularly subject to exclusion (young people, women, and the jobless).

8.1 Introduction

The efforts aimed at meeting the Maastricht criteria have substantially narrowed the room EU countries' governments used to have for manoeuvres in the field of

SME policy. This has not reduced the necessity to adopt new stimulating measures especially for SMEs and, in some cases, has led governments to widen the scope of their enterprise policy. At the same time, the need to increase the efficiency of countries' actions in the improvement of the business environment and in the stimulation of business support measures has focused the attention of the Commission on sharing experiences and examining the results of different practices.

This chapter offers an overview of new developments¹ in national SME policy by country, starting from the analysis of actual and planned measures undertaken in the five fields of the Multi-Annual Programme for SMEs in the European Union (1997-2000)² (Business environment; Financial environment; Internationalisation and information services; Innovation and R&D, labour and training; Fostering entrepreneurship and encouraging enterprise culture). Using the methodology followed in the Fifth Report, an attempt has also been made to find best practices of measures in these five policy fields, on the basis of expert interviews, literature studies and evaluations.

8.2 Recent policy developments in SME-specific fields

One of the features of the Integrated Programme for SMEs and the Craft Sector³ is the 'Concerted Actions' (the term used to describe the process whereby the Member States consult with each other and with the Commission), which promote the exchange of best practices between EU countries. The Concerted Actions aim to increase the efficiency of Member States' action in the improvement of the business environment and in the stimulation of business support measures through sharing experiences and examining the results of different practices.

It is therefore very important for the Commission to identify and disseminate good practices and achieve the ultimate objective of improving the competitiveness of the SME sector and stimulate growth and job creation.

Exchange of best practices between countries has also been viewed as a priority by the Business Environment Simplification Task Force (BEST), whose report⁴ also calls for '*a strengthening of the process by which other examples of best practice are identified and exchanged ...*'.

The approach adopted under Concerted Actions is highly appropriate in the context of the concern to avoid unnecessary regulation and to respect the principle of subsidiarity. Progress under Concerted Actions is achieved by transparency and example rather than by enforced uniformity, so giving scope for flexibility.

Granted these needs, a study was conducted of measures and programmes developed for each country highlighting common features (and at the same time

¹ In this Observatory report, only information on measures and programmes which took place after May 1997 are considered. Earlier periods are covered in previous reports. The report also deals with planned measures, intended as those measures which should become operational by the end of 1999.

² Council Decision 97/15/EC of 9 December 1996; OJ L 006 of 10.01.1997, pp. 25-31.

³ COM (96) 329.

⁴ Report of the Business Environment Simplification Task Force (1998), volume I and II.

the dissimilarities) on a broad geographical scale (i.e., at EU level). Given the complexity and diversity of regional policies for SMEs, the new developments described in the present chapter refer solely to measures adopted at the national and federal level.

There is a slight difference from the Fourth and Fifth Reports in the approach to policies for SMEs in the individual countries. This is not only because socio-economic conditions have become more homogeneous, but probably because there has been greater receptivity to recommendations and guidelines of the Commission at EU level.

As described in Table 8.1, almost all the countries have introduced new measures, amended existing ones or have plans to do so.

Table 8.1 Implemented and planned national actions by fields and countries, May 1997 - end 1999

Country	Business environment		Financial environment		Internationalisation & Information		Labour, training & innovation		Fostering entrepreneurship
	Administrative burdens	Late payment	Finance	Internationalisation	Information	Labour training	R&D innovation		
A	X		X	X	X	X	X	X	X
B	X		X	X	X	X	X	X	
DK	X		X	X	X	X	X	X	X
D	X	X	X	X	X	X	X	X	X
EL	X		X	X	X	X	X	X	X
E	X		X	X	X	X	X	X	X
F	X		X	X	X	X	X	X	X
FIN	X		X	X	X	X	X	X	X
IRL	X	X	X	X	X	X	X	X	X
I	X	X	X	X	X	X	X	X	X
L	X		X	X	X	X	X	X	
NL	X		X	X	X		X	X	X
P	X		X	X	X	X	X	X	X
S	X		X	X	X	X	X	X	X
UK	X	X	X	X	X	X	X	X	X
IS	X	X	X	X		X	X	X	X
LI	Only general economic policies; no direct support measures for SMEs								
NO	X	X	X	X	X	X	X	X	
CH	X		X	X	X	X	X	X	X

Source: ENSR, 1999. Note: X indicates implemented or planned action.

Measures aimed to simplifying administrative procedures are common to almost all the countries. The efforts of each country have shown particular attention to aspects concerning the financial environment and the enhancement, through technology, of the competitiveness of their industrial systems.

There is also a slightly higher drive for the countries to give further impetus to internationalisation, which may be a result of the integration of intra-EU foreign trade and, at the same time, of the need to reach new markets outside Europe.

8.3 National policies directed at SMEs and Craft

This section of the chapter focuses on new developments in the five fields of the Multi-Annual Programme only in national/federal policies; new SME policy is reported country by country and, when relevant, a description of best practices is inserted.

Austria

Policies aimed at improving the economic environment are focused on modernising regulation. An amendment to the industrial code ('Gewerbeordnungsnovelle') came into force on 1 July 1997. The changes focus on improving access to several trades in terms of qualification requirements, particularly by implementation of the concept of 'verbundene Gewerbe' (joint or compound trades) and the concept of 'Teilgewerbe' (partial trades). The former concept allows an entrepreneur, qualified for a certain trade, to carry out tasks that are characteristic of another, related, trade. Moreover, the mentioned amendment also reduces administrative constraints concerning permits for industrial plant start-up.

In addition to this and with reference to fostering the creation of new SMEs, several actions have been introduced recently or will be introduced in the near future. In August 1998 an amendment to the 'Gewerbliches Sozialversicherungsgesetz' lowered the minimum taxable base for contributions of entrepreneurs to social insurance for the very first three years of activity. In May 1999 the 'Neugründungsförderungsgesetz' (start-up promotion law) came into effect. By this law young entrepreneurs are exempt from public fees related to starting the business and will benefit from reductions in non-wage labour costs in the first year of activity. Finally, in order to facilitate the free transfer of an enterprise, for such events an allowable deduction on inheritance tax up to a taxable base of 363 364 euro net asset value will be introduced from January 2000.

Another measure in the field of business environment is the modification of the regulation obliging SMEs to provide statistical information. Since January 1998 an ordinance has been operative concerning the 'Bundesstatistikgesetz', which exempts businesses with fewer than 10 employees from filing monthly statistics and reducing such requirements for enterprises up to 19 employees.

The improvement of an efficient financial environment is seen as one of the key elements in policies to foster SMEs. Austria has a very well developed system of debt financing whereas with reference to equity financing the need for further improvements is widely recognised. The latter method is considered to be especially appropriate for financing fast-growing enterprises and high-tech start-ups. Moreover, direct financial support is deemed less efficient because of the high volume of funds required and considerable associated effects.

Therefore, action envisages mostly indirect aid. In particular, provisions include:

- The enlargement, in December 1998, of guarantee lines managed by the 'Bürges'-Bank and the 'ÖHT' for SMEs (amendment to the 'KMU Förderungsgesetz');
- The introduction, in July 1997, of a guarantee on equity capital ('Eigenkapitalgarantie') as an attempt to increase the volume of investment in SMEs;
- The launching, in June 1999, of the 'Gewinnwertpapier', which represents a profit share issued by SMEs. The buyers' investment is guaranteed by the 'Bürges'-Bank up to 18 895 euro and therefore reduces the risk on the side of the investor.
- The initiation of a programme called 'I²-Ideen X Investment' which is designed to make the experience of older entrepreneurs available to young entrepreneurs

and to fund new businesses. The programme is handled by the Innovation Agency and began in December 1996.

Within the frame of internationalisation policy, the 'Exportoffensive' measure, launched in July 1997, aims at fostering Austrian exports. It is designed to improve the financial and institutional framework conditions for enterprises and is directed towards three target groups: co-operations, already exporting enterprises and non-exporting enterprises showing a potential to export. SME-specific measures are, for example: (1) strategic consultancy in opening-up particular export markets and (2) technical assistance in forming SME-clusters to overcome size-related disadvantages in international activities.

Several steps are envisaged to improve Austria's R&D system and give impetus to programmes fostering the development and application of new technology, such as the 'Technologieoffensive' (a programme not aimed specifically at SMEs; operative from 1997 to 2005). The 'Technologieoffensive' includes, for example, the promotion of the establishment of so-called 'Kompetenzzentren' (competence centres) where, amongst others, co-operation between research institutions and the economy will be intensified. Another example is the initiative 'Technology Marketing Austria – TecMA' which aims at the marketing of Austrian know-how and patents. Moreover, part of these measures will help intensify support to non-university research organisations, increase incentives for technology transfer, and increase the number of new high-tech businesses.

In the course of the 'Lehrlingsoffensive' (apprenticeship drive) the Austrian government improved the framework for training apprentices by several amendments to different laws. For instance, it is now easier to become an apprentice instructor. In addition, an allowable deduction on taxes and some reductions in non-wage labour costs have been introduced.

Measures for boosting business include the implementation of action to promote the image of entrepreneurship in general and to encourage the start-up of new SMEs ('Gründungsoffensive'). One measure, the 'Gründerservice' (start-up service), established at the Ministry of Economic Affairs in November 1997, provides access to support-services and offers assistance in administrative affairs for new enterprises starting up. Another important element of these measures is to put institutions of learning in touch with the economy.

Belgium⁵

Several kinds of action have been taken to strengthen the financial structure of SMEs and encourage equity financing of investment:

- To encourage SMEs to finance their investments with own capital and to improve their ability to borrow, a tax credit was introduced in 1997 for SMEs and self-employed in the professions when they increase their capital⁶.

⁵ It should be noted that in Belgium policies in the fields of training and education, unemployment (except for unemployment benefit and reductions in social contributions), innovation and research stimulation have become regional responsibilities, with the federal level not being allowed to act in these matters. They have not been included in this section because, as specified in the introduction, it deals only with national and federal policy measures.

⁶ The law of 20 December 1995 contains several financial provisions. One, effective on revenues of 1996 (tax year 1997) is a tax credit for small and medium-sized companies of 7.5 % on a capital increase (in money) with respect to the level of the past three years (with a ceiling of 19 831.48 euro) or a tax credit for natural persons-entrepreneurs and self-employed in the professions of 10 % of the increase in net assets with respect to level of the past three years (with a ceiling of 3 718.40 euro).

- A new market in non-quoted shares has been created for professional investors in 1997⁷ in order to help SMEs in attracting venture capital. To induce SMEs to go into the stock market a reduction from 25 % to 15 % of dividend taxes as well as an exemption from payment of registration fees was introduced for SMEs who increase their capital while going onto the stock market⁸.
- Since the beginning in 1999, family businesses no longer need recourse to evasive tax behaviour to transfer the business assets to the younger generation. They can now use a donation tax of 3 %, which is much lower than the usual inheritance and donation taxes, so long as the business continues for another 5 years after the transfer⁹.
- From January 1999, the risk for loans for starting businesses which want to invest in fixed assets, will be shared by the financial institutions and the public Participation Fund. The latter will give a partial guarantee on such loans, and it is hoped that this will encourage the bank sector to provide more loans to starters¹⁰.

The simplification of administrative procedures means a substantial cut in hidden costs for SMEs. An agency was set up for administrative simplification with the aim of calculating the cost of administrative requirements and proposing ways of reducing them¹¹.

To aid the SMEs in the introduction of the euro and to help them adjust to the new accounting system a multimedia interactive system 'Eurochallenger' was developed and distributed¹².

Given the ability SMEs have shown in job creation, some specific steps have been taken to foster employment growth in SMEs:

- The reduction of employer's social security contributions for the first hired (previously unemployed) worker is, since January 1997, extended to the second and third hired employee¹³. These reductions are, since April 1999, also applicable, without additional conditions, if the unemployed had taken a temporary job with the employer in the 3 previous months¹⁴.
- In order to minimise the cost to the SMEs, the expanding right of employees to take a career break is applied more flexibly in SMEs or some reduction is given

⁷ Law of 4 December 1990 for financial transactions and markets, Law of 6 April 1995, for secondary markets, the investment companies and intermediaries, 'Arrêté royal' of 18 April 1997, for institutions that invest in companies with non-quoted shares and growth companies. Law of 10 February 1998 to foster independent enterprises, art. 33 and 34.

⁸ Law of 10 February 1998 to foster independent enterprises, arts. 33 to 36. 'Arrêté royal' of 28 May 1999, which sets the starting date of the application of art. 35 and 36 of the Law of 10 February 1998 to foster independent enterprises.

⁹ Law of 22 December 1998 about fiscal and other decisions.

¹⁰ The law of 10 February 1998, for the promotion of independent enterprises, art. 28; 'Arrêté royal' of 1 December 1998, which implements art. 74, par 1,6° of the Law of 28 July 1992 governing tax and funding provisions and 'Arrêté royal' of 9 December 1998 which sets the overall ceiling of the Participation Fund meant in art. 74, par 1,6°.

¹¹ The law of 10 February 1998, for the promotion of independent enterprises, art. 40 to 44, and 'Arrêté royal' of 23 December 1998 about the Agency of Administrative Simplification.

¹² Ministère des Classes Moyennes et de l'Agriculture.

¹³ 'Arrêté royal' of 14 March 1997, concerns specific measures to foster employment in SMEs as per Art. 7 of the Law of 26 July 1996, for fostering employment and safeguarding competition; the Law of 13 February 1998 concerns provisions to foster employment.

¹⁴ Belgian action plan for employment 1998 and diverse dispositions (approved in the Council of Ministers 9 December 1998) and Law of 26 March 1999 relative to the Belgian action plan for employment 1998 and diverse dispositions, art. 74 and 75.

in the employer's social security contribution¹⁵. For the same reason, the system of 'educational holiday' has been adjusted to SMEs¹⁶.

- To foster job creation for the low-skilled generally and for manual workers in sectors most subject to general competition, reductions in the employer's social security contributions were strengthened and extended to more (SME-intensive) sectors from July 1997¹⁷. Since April 1999, the reductions in employer's contributions were again changed and now vary according to type of worker, level of wage and volume of work and no longer according to sector¹⁸.
- New tax relief on profit is accorded for extra hiring of the low skilled by SMEs of less than 11 employees since April 1998¹⁹ and for extra hiring of an export or integral-quality manager since 1998²⁰.

To increase the amount of successful business start-ups, a whole set of measures has been taken. One set of measures tries to improve the attractiveness of self-employment, since owner-entrepreneurs and directors of businesses have this social security status (e.g. bringing the social benefits more in line with those of employees²¹, continuation of rights to some social benefits in case of bankruptcy²², or to unemployment benefit for the unemployed who started a self-employed activity²³). A second set of measures aims at improving the success rate of starters by increasing the skill requirement for starters²⁴, adding a new 'stagiaire independent' statute²⁵ and decreasing the social security contribution in the crucial fourth year of

¹⁵ a) SMEs of less than 10 employees do not have to replace the person who takes a career break (Belgian action plan for employment 1998, approved in the Council of Ministers, 9 December 1998); applicable since 1 January 1999.

b) In SMEs of less than 50 employees only full-time career breaks can normally be taken. If an employee wants to take a part-time career break, he needs the agreement of the employer who can then get a reduction of the employer's social contribution on the wage of the replacement if this is an unemployed person. Applicable since 1 January 1999.

¹⁶ Law of 10 February 1998, to promote independent business, article 26 and 'Arrêté royal' of 20 July 1998 laying down the special rules for the educational holiday of employees of SMEs. In the case of SMEs, employer and employee have to agree to the vocational course of maximal 100 hours, outside the normal hours of work. The employee gets a fee and not extra holidays (max. 1 660 euro). Half of this fee and its social contributions are repaid by the Ministry of Labour and employment, which has to pay within 4 quarters after filing the demand.

¹⁷ 'Arrêté royal', 24 December 1993, Law of 22 December 1995, and 'Arrêté royal' of 8 August 1997.

¹⁸ Law of 26 March 1999 relative to the Belgian action plan for employment 1998 and diverse provisions.

¹⁹ Law of 10 February 1998, to promote independent business, article 29 and 'Arrêté royal' of 19 March 1998.

²⁰ Law of 27 October 1997, about fiscal stimulation of export and research.

²¹ The system of pension saving has been extended for periods of low income and for wives of the self-employed: Law of 25 January 1999 about social dispositions (applicable from April 1999).

²² In case of bankruptcy since 1 July 1997 there is a social insurance so that the right to family allowances and health insurance continues for 4 quarters and for two months there is a living expense payment. These rights were extended to the self-employed professionals by the Law of 14 January 1999 (applicable from 1 January 1999).

²³ 'Arrêté royal' of 12 March 1999, which allows unemployed who started a self-employed activity to retain their rights to unemployment benefit for 9 years in case of ending this activity.

²⁴ Law of 10 February 1998, to promote independent business, articles 3 to 18, and 'Arrêté royal' of 21 October 1998 (from 1 January 1999 all starters must prove knowledge of management).

²⁵ Law of 10 February 1998, for fostering independent business, from art. 19 to art. 22; 'Arrêté royal' of 10 August 1998; 'Arrêté royal' of 30 October 1998 sets the minimum compensation for the *stagiaire*.

business²⁶. Clarity and modernisation of job regulations has improved for some professions (ethics of some professions, internships, entry into the profession, position of professional organisations) and for the distribution sector (status of night shops²⁷, stand holders at public markets²⁸, occasional 'garage sale' markets²⁹).

Denmark

Incisive steps have recently been taken to create the best conditions for economic expansion and to foster the growth of SMEs. These initiatives involve such general features as improving the economic environment and administrative simplification, together with more specific measures aimed at enhancing know-how and productivity, such as R&D, innovation in finance, and collaboration between businesses and research and development institutions.

Simplification steps were made possible thanks to the Test Panel, established in autumn 1997 after a pilot period in 1996/97. It consists of a sampling of 500 enterprises that, carrying out ex-ante survey of preliminary laws, help identify the administrative constraints and their consequences for SMEs. The EU has in 1998 started a similar Test Panel at the request of Denmark. The Danish Test Panel is practically managed by the Danish Agency for Trade and Industry within the Danish Ministry of Business and Industry.

In 1998 a pilot project (Industry Service Concept) was launched to provide incentives to 200 SMEs from the sampling to increase the outsourcing of services. A bill was launched concerning an official approval of industry service operators and it is expected to be implemented by the end of 1999. In 1998 a Regulation Check List was introduced in order to improve norms and reduce administrative constraints.

Efforts to improve the economic environment in which SMEs operate were concentrated on reducing the weight of administrative costs. In this regard the government prepared an annual report highlighting ways in which these costs could be reduced.

During the 1990s financial measures have changed from direct enterprise subsidies and loans towards promoting innovation through selective venture capital in order to improve SME performance. There is particular focus on establishing a venture market for capital; Business Development Finance issues risk loans for SMEs development projects in relation to R&D, internationalisation and skills development. Furthermore, Business Development Finance administers a number of State Guaranteed

²⁶ 'Arrêté royal' of 28 September 1998, about the contributions of the self-employed, which changes the 'Arrêté royal' of 19 December 1967, which sets the regulations of the social statute of the self-employed: in the 4th year of business, when regularisation payments about the previous years are due, the contribution is reduced by 15 % for four quarters, with a ceiling of 123.9 euro.

It should also be mentioned that before 1997, only starters under 35 years of age were not penalised if their tax payments on (anticipated) business income in the first 3 years of their business were insufficient in relation to the real business income. Since 1997 this has been extended to all starters (Law of 6 July 1997).

²⁷ Law of 17 December 1998, that changes the law of 24 July 1993, that sets the evening closing times in trade, crafts and services. 'Arrêté royal' of 11 July 1999 which executes the law of 17 December 1998.

²⁸ 'Arrêté royal' of 29 April 1996 which changes the 'Arrêté royal' of 3 April 1995 for the execution of the Law of 25 June 1993 about street trading and public markets (applicable since 19 May 1996).

²⁹ 'Arrêté royal' of 30 April 1999 which changes the 'Arrêté royal' of 3 April 1995 for the execution of the Law of 25 June 1993 about street trading and public markets.

Development Companies which invest in and advise growth-oriented, innovative SMEs. The state has a guarantee for these companies. The government also supports the development of a market for Subordinated Loan Capital, and has, through analysis, supported the establishment of several Authorised Marketplaces for unquoted shares (i.e. an alternative to the stock market) and finally, the government has initiated a market analysis for a Business Angels network in Denmark.

Internationalisation policy envisages 35 different undertakings to increase exports and to promote foreign investment by Danish businesses (Export Development Programme, 1997). The most crucial ones are the Export Guarantee Fund (covering exporters' political and business risks), the Export-Development Programme (aimed to provide inexperienced businesses with the necessary export-fostering know-how) and the Private Sector Programme (fostering firm collaboration) in connection to the Danish development aid programme.

The development and dissemination of knowledge and skills are principal elements of Danish business policy in the field of innovation (although not specifically established for SMEs). The two most important elements are the Technological Service Institutes (GTS, see box) and Centre Contracts (collaborative development schemes between R&D-institutions, GTS-institutes and firms in various industries).

Best practice in Denmark: The GTS network

The GTS network is a network of 14 approved technological service institutes (GTS), which supply Danish enterprises with updated knowledge and technological advice. The institutes within the GTS network play a crucial role in the innovation policy by bridging the flow of knowledge between research institutes and enterprises.

Related to the GTS network, an initiative aiming at increasing SMEs' use of technical advice was launched in 1997, where SMEs may have an introductory discount for using the GTS network for the first time.

Even if this initiative is not SME-specific, the GTS-network is of particular importance to SMEs. A market survey carried out in 1998 illustrated that 25 % of all SMEs are aware of the existence of the GTS network, while 20 % of the SMEs have used the network at least once.

The GTS network is co-ordinated by the Danish Agency for Trade and Industry, Ministry of Business and Industry.

Programmes are also in place for making business organisation more flexible. In particular, help has been provided for consultation and services to improve quality, vocational skills, managerial skills and organisation in SMEs. (Increasing the Use of Technical Advice in SMEs, 1997; LOK, 1998.)

In the field of entrepreneurship, six new innovation incubators were set up in the spring of 1998 to provide the prerequisites for increasing the number of businesses in high-tech and high-productivity industries. The innovation incubators serve as a bridge between R&D institutions, innovative entrepreneurs and finance. In addition, the government has launched a programme in order to foster entrepreneurship and support the emergence of an entrepreneurial culture in Danish schools at all levels and within a broad spectrum of educational institutions.

Finland

Until 1999 SME policy in Finland has been based on the SME Policy Programme (1996) entrusted to the Ministry of Trade and Industry (MTI). The general objectives were divided into the following categories (MTI 1996, KTM 1999):

- Improving the operating environment for SMEs;
- Developing the workplace at SMEs;
- Improving the growth and competitiveness of SMEs.

The new government's policies aim to improve the methods of evaluating action on behalf of business and at the same time updating investment policy to support small business. The entrepreneurship project mentioned in the government programme is likely to include Finnish SME policy statements and recommendations in the future, as no separate Finnish SME policy paper will be written. However, Finnish SME policy is likely to continue and extend the existing SME policy framework.

Policies launched in 1996 to improve the economic environment include: integration and simplification of taxes; simplification of social security contributions; and reduction of indirect labour costs. An example is the SME Service Centre ('Pientyönantajien palvelukeskus Kymen työvoimapiirissä'), which started up in 1995 as a pilot project to provide consulting services on employment and assessment matters for business, especially micro enterprises.

In the spring of 1999 the National Board of Patents and Registration and Taxation Authorities began unifying procedures governing registration and financial documents submitted by businesses, which should be completed by the year 2000.

In the autumn of 1997 the regional offices of the three ministries of Trade and Industry, Labour, and Agriculture were amalgamated, and this fostered decentralisation of SME policy at regional level with the creation of 15 Employment and Economic Development Centres ('Työvoima ja elinkeinokeskukset'), which function as One-stop Shops to provide services for training, consulting, etc. and facilitate access to public funding.

'Kotitalouden tuki' (Subsidy for households) is a programme running through all of 1999, offering tax relief for families seeking domestic services and, in the eastern and western regions, making public contribution to domestic and personal service businesses.

Venture capital growth comes through public funds as Finnish Industry Investment ('Suomen Teollisuussijoitus Oy') and Sitra (Finnish National Fund for Research and Development). The first is a 'fund of funds' that channels resources to regional venture capital funds, and the latter funds start-ups and commercialisation of technological innovation. In May 1998 a committee proposed several venture capital market development measures, including the aim that part of pension funds would be invested into venture capital funds directed to SMEs.

Improvement in guarantees came from the amalgamation of two main bodies in the area - Kera Ltd. and the Finnish Guarantee Board - in Finnvera Plc. The 'Finnvera takaus' (Finnvera Guarantee) and 'Pienyritystakaus' (Small Firm Guarantee) programmes offer guarantees on borrowings contracted by SMEs, while the 1996 'Pääomatakuu' (Capital Guarantee for Investors) programme was aimed at stimulating technological innovation in SMEs.

Best practice in Finland: the 'Pienlaina' micro loan programme

The 'Pienlaina' micro loan programme was launched in 1996 under the management of Finnvera Plc. It is a facilitated rate loan scheme for existing SMEs and start-ups that have difficulty accessing normal funding channels, and it is aimed specifically at businesses with less than 5 employees in the industry and service sectors. Expenditure for each new job has been 3 350-5 050 euro, with an employment impact of 1.2 new employees per micro loan project.³⁰

Internationalisation policies envisage action to improve SME competitiveness. With the help of public-sector bodies (Finpro - Former Finnish Foreign Trade Association -, the Ministry of Trade and Industry, Tekes - the Technology Development Centre -, Finnvera Plc, Fintra - the Finnish Institute for International Trade -, the Finnish Export Credit, and the Ministry of the Interior) subsidies have been provided, and services have been developed for SMEs to support internationalisation strategies together with some financial instruments.

In 1997 the Employment and Economic Development Centres established Internet web pages for promotional purposes.

Best practice in Finland: The 'TE-keskusten palvelupiste'

The 'TE-keskusten palvelupiste' programme was launched in 1999 under the direction of the Employment and Economic Developments Centres to provide SMEs with made-to-order information about internationalisation, access to EU funding and training. The centres have access to Internet to consult the archives of National Boards of Patents and Registration.

SME investments in product and process R&D projects are supported by way of loans (the 'Tuotekehityslaina' programme launched in 1996 under the direction of Tekes, the Technology Development Centre, an organ of the Ministry of Trade and Industry).

Revision of the law on work agreements ('Työsopimuslaki') should be operative by the end of 1999³¹ and envisages labour flexibility applied to all businesses, while another programme ('Työpaikkakoulustuki') will lower the recruitment thresholds by providing better possibilities for training and learning of the recruited SME employees.

Additional efforts are being made on behalf of SMEs concerning promotion and intensification of enterprise culture with the creation of a favourable climate for the birth of new small businesses (Decade of Entrepreneurship, 1995-2005 Programme).

³⁰ Source: Stenholm, P., Evaluation of Micro loan and Micro loan for women entrepreneurs (unpublished research report), Small Business Institute - Turku School of Economics and Business Administration, Turku, 1999.

³¹ Among the changes already approved, it should be mentioned that since 1 February 1999 unorganised enterprises (i.e. enterprises which do not belong to an employer's organisation, mainly SMEs) can apply regulations on salary during sick leave, procedures of resignation as well as some regulations on annual vacation and respective salary and study leave stated in collective agreements.

France

French industrial policy envisages action on behalf of SMEs and craft. Action involves all the fields of the Multi-Annual Programme. One aim of French policy is to simplify administrative procedures and reduce constraints in order to improve relations between public and private sectors ('Faciliter la vie des Petites et Moyennes Entreprises', Facilitating the Life of SMEs, launched in 1997 under the auspices of the Secretary of State for SMEs, Trade and Craft). The main objective is to simplify procedures for SMEs and thereby stimulate economic growth and employment. The measures can be summarised as: streamlining the registration of new enterprises, simplifying administrative, accounting, and tax procedures, enhancing the use of Minitel, EDI and Internet in transmitting administrative papers and tax assessments.

Another programme facilitates the transition from one generation to the next in small businesses ('Faciliter la transmission d'entreprise', launched in 1998 under the auspices of the Secretary of State for SMEs, Trade and Craft).

To augment investment in new innovative enterprises, measures are envisaged to help employees to buy shares in their companies, to find Business Angels³², and to enhance venture capital (the respective programmes being 'Bons de souscription de parts de createurs d'entreprise/ BSCPE', 'Report d'imposition pour l'investissement dans le jeunes entreprises', and 'Le fonds public pour le capital risque', under the management of the Ministry of Economic Affairs, Finance and Industry). To foster the development of new high-tech businesses, resources are provided for new incubators and interest-free seed capital funds within the framework of the Law on Innovation were launched in 1999 ('Appel à propositions pour la mise en place d'incubateurs et de fonds d'amorçage au profit d'entreprises technologiques'). To facilitate access to credit for craft enterprises, the loan system was revised and the guarantee system was simplified ('Faciliter l'accès au financement', presented in 1998 as part of the Initiative for Craft Enterprises managed by the Secretary of State for SMEs, Trade and Craft).

To foster investment abroad, guarantees have been provided for capital, and for bank loans to businesses that intend to expand in select countries ('FASEP-Garantie', announced in 1999 and run by 'Agence Française de développement' and COFACE & SOFARIS).

Support to SMEs to develop partnerships in internationalisation and access to new markets is also being provided ('Appel à projets/Partenaires pour gagner', managed by the Secretary of State for Industry).

A two-year programme, beginning in July 1998, provides support to companies, especially SMEs, interested in the tools provided by information technology, such as Internet, to increase international business ('Exportateurs sur la toile', managed by the Secretary of State for External Trade).

Beginning 23 October 1998, support has been given to increase export by craft enterprises ('Aider les entreprises artisanales à s'ouvrir au commerce extérieur', presented in 1998 as part of the National Programme for Craft Enterprises).

The 1999 Budget reintroduced tax credit for research expenditure for a five-year period.

³² Suppliers of credits to enterprises in start-up or growth phase.

Efforts got under way in May 1998 to support innovation³³ fostered by manufacturing SMEs that use Internet technology to improve their competitive position and to develop new markets. The programme is restricted to projects presented by SME groups or professional organisations, by research bodies, and by chambers of commerce on behalf of SMEs. Individual projects are not accepted.

In January 1999 the Ministry of National Education, Research and Technology presented a programme to support co-operation between private businesses and public research institutions ('Développer les collaborations entre la recherche publique et les entreprises').

In March 1999 the French government boosted technological development and interface to support and expand electronic trade among SMEs ('Espoirs du commerce Electronique').

In October 1998 a programme was presented to support innovation and increase competitiveness in craft enterprises ('Soutenir le développement des entreprises artisanales en matière d'innovation').

The 1999 Budget provides for the elimination of professional salary tax, and its gradual elimination will help SMEs ('Loi de Finances pour 1999').

In the area of vocational training, help is offered to craft enterprises that intend to foster apprenticeship ('Aider les entreprises artisanales à mieux recruter en valorisant l'apprentissage').

Beginning in 1999 the regional offices of the Labour Ministry have been encouraging certain categories of workers (jobless under 26 and long-term unemployed) to set up their own business. Interest-free loans repayable after five years are being offered (EDEN). Another programme for creating new businesses concerns researchers in the public sector ('Faciliter la création de entreprise par les chercheurs').

In March 1999 a programme started up to encourage new high-tech enterprises in biotechnology, information technology and environmental technology. Outright grants will be awarded to winners of regional competitions ('Concours création d'entreprises de technologies innovantes').

Germany

The German Länder (Federal States) have a fundamental influence on SME policy, although there is a strong link between federal and Länder support programmes. In the period studied, policies on behalf of SMEs had three main features: federal and Länder government action to increase transparency and better co-ordinate measures on behalf of small business, abolition of inefficient measures, modification of existing measures, and introduction of new measures and the marketing of policies benefiting SMEs.

To improve the business environment, action was taken in deregulation and in simplifying administrative procedures as set forth in the 'Handwerksordnung' as well as improving the tax situation of SMEs. As of 1 January 1998, local taxes on capital stock were abolished.

³³ 'Utilisation collective d'internet par les PME-UCIP'.

On 28 October 1997, the Federal government, in close co-operation with the Länder, had fulfilled an agreement of the coalition contract between the at that time ruling parties CDU/CSU and FDP concerning the increase of transparency and the fine-tuning ('Konsistenz und Transparenz') of SME support. As one of the results, a databank on SME support was built up and published on the Internet³⁴.

To make German businesses more competitive, tax reductions were introduced, as of 1 January 1999, on business-related income and company profits, with the promise of further cuts after the year 2000.

Decentralisation imposes greater transparency and better co-ordination of policy on behalf of SMEs with the intention of fostering joint measures by federal and Länder governments. One example is the May 1998 joint programme of the federal government, the Nordrhein-Westfalen Land, the Deutsche Ausgleichsbank (DtA) and the Investitionsbank NRW for starting up new enterprises (NRW Start-Up and Growth Programme).

Health and safety in the workplace represent a high administrative cost for German businesses. State authorities (chiefly at Länder or regional level) and industry-specific business associations are entitled to inspect businesses. A recent regulation ('Arbeitsschutzgesetz', August 1996) provides that businesses should be informed about health and safety measures and exempts businesses with fewer than 10 employees from preparing documentation³⁵ on health and safety risks. In support of businesses with 10-200 employees, State trade surveillance offices ('Staatliche Gewerbeaufsichtsämter') in the Nordrhein-Westfalen Land hold one-day information classes free of charge for business owners, thereby enabling them to comply with the new legislation (in the sense of aid for self-aid).

In April 1999 the federal government introduced an ecological tax, the fixed point being a tax on energy consumption. Proceeds from this tax have been used to cover the cut in additional overheads on labour cost. The result has been a reduction in social security contributions.

Increased insolvency among German companies led the Federal Ministry of Justice in January 1999 to a reform of the insolvency legislation ('Insolvenzordnung'). The legislator now explicitly recognises that in many cases the protection of creditors' interests is achieved more effectively by preserving the business instead of liquidating it.

Action will be taken regarding delayed payments, funding the start-up of new enterprises, and financial assistance. A first lecture of the new legislation governing delayed payment has been held at the end of September 1999.

Financial support, offered by federal as well as Länder institutions, for those wishing to start up a business, is one of the strong points of policy on behalf of SMEs (e.g. the federal EKH Programme).

Several Länder have developed assistance programmes for SMEs offering the services of retired managers to share their experience. A national service has been

³⁴ <http://www.bmwi.de> (situation on 27 October 1999). This databank is continuously updated and contains all information about Federal-, Länder- and EU-related measures and programmes.

³⁵ There is a duty to perform a risk assessment but not a duty to document it.

set up on the Internet to facilitate relations between Business Angels and new enterprises. In December 1996 the Nordrhein-Westfalen Land launched its 'Modellprojekt Gründercoaching' programme, that grants new enterprises financial support to cover the costs of consulting services provided by formerly unemployed, skilled managers.

In January 1999 the Federal Ministry for International Economic Co-operation started up an internationalisation support programme known as 'Public-Private Partnership: Co-operation With German Enterprises'.

The single Länder have also supported internationalisation through export promotion schemes. Support also includes consulting on marketing, management, etc. The Länder also foster foreign investment by offering loans and contributions for companies with investment projects in developing countries. The Federal Office of Foreign Trade Information backs transnational co-operation on behalf of SMEs.

In 1997 the Ministry of Economics and Technology backed the marketing activities of businesses in the new Länder. Small businesses in the Länder of the East, which are predominantly privately owned (at least 75 %), were given access to special consulting services to establish branches abroad. To foster wider use of the Internet, businesses in the new Länder can obtain funding for their web pages.

The public support bank Kreditanstalt für Wiederaufbau (KfW) also promotes contact with foreign businesses and investment abroad ('KfW-Mittelstandsprogramm Ausland'). Since March 1999, the government supports start-up projects by foreign specialists - having been trained in Germany - in their respective home countries in Africa, Asia, South America as well as in eastern and central Europe (the programmes are run by DEG, a public sector finance and consulting institution active in the field of economic co-operation). The Federal Office for Foreign Trade Information has launched an aid programme for foreign companies that have trade relations with German companies.

In addition, German business is being promoted through a virtual market that can be accessed through the Internet.

German policy is also very attentive to innovation and R&D and involves various measures, including technological support, start-up, information and vocational training programmes.

With the idea of key projects ('Leitprojekte'), the Federal Ministry of Education and Research (BMBF) developed an innovative approach with regard to the promotion of co-operation in the field of R&D. In February 1997 the BMBF opened a contest for ideas in four technology fields considered of strategic importance, with the specific aim of developing co-operation-networks made up of enterprises, universities and research centres. In the spring of 1998 in total 21 consortia were chosen and accessed a public financial support for a total of approx. 305 million euro over a five-year time span. SMEs have been given the chance to jump on the bandwagon of consortia made up of larger enterprises and research institutions, so at the end 25.8 % of the 365 partners, participating in 21 selected projects, were classified as SMEs. In addition to these 21 another 15 projects are currently being selected in another three technology fields.

Protection of intellectual property and the acquisition of industrial property are part of a project to spread innovation among SMEs. The Länder have taken action to

facilitate the access of SMEs to industrial patents. The support programme 'INSTI' is subdivided into six different lines: state-of-the-art check-up, cost/technology opportunity analysis, consulting, exploration assistance, legal consulting and consulting on technology transfer.

A vocational training programme started in Germany in 1998 to reduce unemployment among people under 25 years old. The programme was jointly financed by the Federal Government, the Federal Labour Agency and the European Commission.

In addition, programmes ('Exist', 'Junior', 'GO!', etc.) have been launched to enhance enterprise culture and provide the basic knowledge needed to become an entrepreneur. These programmes include business start-up undertakings in universities, student guidance in the area of communication sciences and communication technology, and support.

Greece

The 'SMEs in Declining Areas' programme provides for decentralising policies on behalf of SMEs so as to put the administration in closer touch with companies in the country's economically depressed areas. This programme envisages aid to manufacturing SMEs in those areas in the form of a subsidy on the basis of the business plan they submit.

Finance Ministry Measure 1246/98 provides for defaulted debt incurred with the state's financial services. There is a 15 % ceiling to the increase in discounted default debt. If the debtor is deemed to be reliable, he is entitled to additional relief.

Funding for SMEs may come through innovative institutions such as societies of mutual guarantee, venture capital funds and credit co-operatives. The mutual guarantee companies (SMG) issue guarantees on credits, while the Counter-Guarantee Fund covers part of the risk taken on by the SMG under the surveillance of the Bank of Greece.

Venture capital funds are earmarked for the agriculture, industry, mining and trade sectors. Venture capital action is aimed at enhancing these funds by financing capital stock in new venture capital companies as well as in existing companies covered by the provisions of Law 2367/95.

In urban areas credit co-operatives offer their members credit, real guarantees, some kinds of insurance and other financial services. Subsidy to credit co-operatives is meant to strengthen them by turning them into genuine co-operative banks.

Chambers of Small and Medium-sized Enterprises are very actively promoting SMEs and their products abroad. These bodies intend, among other things, to develop the business opportunities of Greek SMEs on the markets of eastern Europe and the Balkans by organising seminars, bilateral meetings, market studies and operational proposals. The Thessaloniki Chamber of Small and Medium-sized Enterprises is a founding member of the Europe CIRCLE network, which coordinates co-operative efforts between businesses in the different countries. Greek SMEs are expanding chiefly in markets in Romania, Albania, Bulgaria and the former Yugoslavia.

In order to streamline and foster SME exports, free exchange areas have been established as well as an Export Promoting Organisation that back manufacturing SMEs abroad.

'SME networks-clusters' action is developing networks between businesses to solve some of their problems of management, production, marketing and logistics, produce and process technological innovation. 28 networks have been approved for 315 member enterprises. Public subsidies have been granted partly for managerial training in the SMEs concerned.

Best practice in Greece: The SOLARNET network

The SOLARNET network includes enterprises that produce cisterns for hot water connected with solar panel heating systems. The project is keyed to economic, trade and product development in the sector. The eight businesses involved will be fine-tuning a programme to acquire needed know-how, plan new products, and hire and train personnel.

'Reinforcement of Co-operatives and Entrepreneurial Co-operation' concerns problems of SMEs of access credit and technical adaptation.

Legislation in August 1998 provided for labour force flexibility in terms of working hours and part-time employment, partly on behalf of SMEs. Measures also contemplated individual employer-employee contracts with regard to working hours, subsidies for hiring personnel in high unemployment areas, and the establishment of private job placement offices.

The Regional Business Programme managed by the Ministry of Development aims at modernising the organisation of local production units. Businesses receive public subsidies for two kinds of investment project: acquisition of machinery to modernise production processes and to improve safety in the workplace as well as support for rational use of machinery. SMEs in the manufacturing sector that have been in business for at least 3 years are eligible.

New Businessmen measures ('Neol Epixeirimaties') provide personnel training as well as information and help for the creation of new SMEs. So far 620 proposals have been accepted.

Iceland

New business legislation came into effect on 1 January 1999, with the abolition of licences and the liberalisation of shop opening hours ('Log um verslunarfrelsi').

As of 1999, company requirements have been simplified for the filing of returns by single companies, and larger businesses can transmit their statements electronically. As of the year 2000, customs forms will be electronic.

In 1997 collective salary bargaining was decentralised and for purposes of simplification, social security percentages will be unified in the period 1997-2000 which benefits SMEs in the services sector.

From 1 January 1998, a merchant bank ('Fjárfestingarbanki atvinnulífsins', Icelandic Investment Bank) and a venture capital fund ('Nýsköpunarsjóður atvinnulífsins') went

into operation to strengthen the economy and foster growth and internationalisation of Iceland's economy. The fund operates by acquiring shares, providing loans and guarantees, supporting R&D and sharing in pre-investment projects.

An Information Technology Fund was set up for investment in new enterprises in rural areas and in information technology and high-tech sectors. A fund was also set up to provide help in the development of marketing projects and products.

There are special bureaux for loan guarantees, damage claims, services, and investment and equipment for the export of products and services. Guarantees on investments are also offered. A pilot-project fund was established in 1997 to guarantee loans to women entrepreneurs ('Lánatryggingarsjóour kvenna').

In March 1999 IMPRA was established as a One-stop Shop within the Technology Institute of Iceland to provide information and consulting services about possible support measures for innovating SMEs. It publishes guides for new business and offers assistance about financial and technological feasibility for small business. It also helps entrepreneurs raise venture capital for innovative projects, promotes women as entrepreneurs, encourages innovation, runs special programmes for women and fosters the start-up of new businesses.

The University of Iceland encourages the elaboration and spin-off of academic-origin research. Stress was laid on co-operation between low R&D-oriented companies and high-tech researchers. One example is the science park in which the government promotes new high-tech businesses.

The government set up a commission in January 1999 with the primary aim of increasing funds for craft activities and creating a technical and marketing centre for the sector.

Since April 1999 there has been a light metals centre at the Technology Institute funded by aluminium companies and by the Ministry of Industry and Trade in order to provide technological consulting and to establish a co-operative centre for the industry.

Ireland

SME policy in Ireland is carried out in the general context of the Department of Enterprise, Trade and Employment, where a specific Small Business Services Division exists.

The ways in which administrative constraints have been simplified are mostly due to the recommendations from the 1994 Task Force on Small Business. Measures taken since 1997 include the implementation of a new parliamentary committee for small business (the Joint Oireachtas Committee), simplification of the tax burden on small business, the unification of tax and social security communication to businesses, reduction of statistical responsibilities on businesses and the elimination of statutory audit obligations for businesses with a turnover of less than 127 000 euro. In June 1999 the Irish government approved a programme of regulatory reform measures designed in particular to ease the administrative burden on small business.

Another major decision was the reduction of company profit taxes, down from 36 % to 28 %. At the same time the former 28 % tax on the first 63 500 euro of profit was reduced to 25 % on the first 127 000 euro of profit.

'Enterprise Ireland', a new agency born of the amalgamation of three agencies, provides businesses with assistance in investment, employment, R&D, business development, marketing and training.

In 1997 legislation was enacted for delayed payment in the public sector (the Prompt Payment of Accounts Act).

The Operational Programme for Industrial Development, 1994-1999, included a measure on behalf of seed capital and venture capital.

In 1997 it was deemed that new businesses with a financial gap had greater need of financial services, and hence a specific start-up fund was established, the Enterprise 2000 Fund.

In internationalisation, 'Enterprise Ireland' provides financial and other assistance for export, co-operation, networking and information services. In 1997 a programme of seminars and information services was started for assistance to exports (New Exporter Programme, managed by 'An Bord Trachtala', one of the agencies absorbed by 'Enterprise Ireland' in 1998).

The Small Business Operational Programme published in 1995 envisaged, among other things, measures, initiated in 1997, to facilitate the access of small businesses (fewer than 50 employees) to public sector markets. Two 'How to' guides were published. The first of these was called 'Starting Your Own Business' and the second was called 'Finance Your Business'.

As to innovation and R&D, SMEs are offered financial and support possibilities including help on projects, assistance for technology acquisition, subsidies for technological audits and subsidies for company placement of technicians.

A financial assistance programme (managed by 'Enterprise Ireland') was started in 1997 to provide financial support for businesses engaged in R&D activities (RTI).

In May 1997 the government published a White Paper on developing human resources. It pointed out that SMEs had been investing little in training and noted a need to offer tools for encouraging and supporting training in areas of major interest to SMEs.

The Small Firms Company Development 'Cluster' programme now aims to assist small businesses to develop their competitive advantage by improving management capability. A new pilot Training Networks programme assists companies in identifying and addressing their common training needs. This programme advocates identification of common problems and exchange of best practice between large and small companies.

Programmes have been pursued for some time at national and local level alike to foster a spirit of entrepreneurship, especially among the young (e.g., the Young Entrepreneurs programme, managed by 'Enterprise Ireland'). The National Enterprise Awards scheme was introduced in 1997 to provide recognition to successful entrepreneurs and to promote awareness of small business.

Italy

With Law 266/97 the Italian government developed a project to reorganise all the means aimed at fostering the creation and development of SMEs and make

procedures consistent and efficient in granting aid, setting goals, and establishing types of recipients. The law also made provision for the Ministry of Industry to make an annual evaluation in the form of a report on the system of incentives, which was published in June 1998 and June 1999.

Several measures were taken to simplify the legislative system and reduce administrative costs for business, starting with Law 59/97, which had the following general aims: to reduce the number of ministries and structural costs of central administrative offices, decentralisation from state to regions of such tasks as the management of several SME incentive provisions, the establishment throughout Italy of One-stop Shops to help businesses in the administrative procedures for new installations, and to drastically reduce the time required to obtain authorisations.

Best practice in Italy: Laws 341/95 and 266/97 (art. 8)

Laws 341/95 and 266/97 are tax relief measures, that make provision for a tax credit on investment projects for new plant as well as on modernisation, restructuring, reconversion, reactivation and transfer of existing plants. Law 341/95 is not intended specifically for SMEs, but most firms involved are SMEs. This Law offers tax credits only for enterprises operating in objective 1, 2, 5b or 92.3.c) areas of the country. Law 266/97, art. 8, is very similar to Law 341/95, but it is designed exclusively for SMEs and its tax credits are allowed nation-wide. These measures have been operational since 1997.

The mechanism of these measures closely meets SME needs. The administrative procedure for application is automatic and very simple, and no business plan is required for the investment project. Response is fairly prompt. Tax relief is one of the main demands for economic policy coming from SMEs, since overall fiscal pressure is 43.6 % of value added.

In recent years financial grants and automatic incentives to support business investment and capitalisation are provided, with higher aid ceilings for small businesses. Law 488/92, which started in 1996 and was given new funds in the years following, makes provision for capital grants for investment projects in mining, manufacturing, and some service sectors (in particular, tourism after 1999). Incentives are available for new installation projects and investment in existing plants in depressed areas, but first the investment project must be approved by a banking authority. Projects that meet this test are ranked by merit based on objective indicators calculated on balance sheet figures and the investment plan of the company, and they are funded in order of rank until available funds are exhausted. This provision is particularly advantageous for SMEs, because they can obtain a larger share of support than larger companies. In addition, smaller investment projects can submit simplified business plans, grants are awarded quickly, and selection procedures are transparent.

There have been efforts on the fiscal front (Legislative Decree 466/97 on Dual Income Tax) to stimulate business capitalisation by assessing lighter taxes on reinvested capital. A recent measure (Law 133/99) provides additional tax benefits for reinvestment of profit in the years 1999 and 2000.

There is a central guarantee fund to provide incentives for SMEs in manufacturing and services under the provisions of Law 662/96.

Action has been taken in recent years to boost exports. The promotional work of ICE³⁶ has been intensified with more financial resources for extending its foreign network. Provision has also been made to enhance the activities of SACE³⁷ in new kinds of export risk and in ways that foster easier access for SMEs and for extending the work of SIMEST³⁸ to new kinds of foreign investment support. Law 1326/65³⁹ is expected to be extended to foreign buyers, as is the securitisation of export credits, the expansion of international leasing, and the use of grants to craft enterprises for purposes of internationalisation.⁴⁰

Best practice in Italy: The D.I.T. Programme (Dissemination of Technological Innovation)

The Programme is co-ordinated and managed by the Istituto G. Tagliacarne and fostered by the Unioncamere and the Ministry of University and Scientific and Technology Research. Through the network of the chambers of commerce in southern Italy, the Institute conducts an organic complex of action in training, information and technical assistance to develop innovative behaviour of SMEs (especially in the agro-food sector) and to enhance qualified organisations in the area (universities and centres of innovation transfer). In the two phases conducted since 1990 and the third phase now in progress, more than 2 000 SMEs have been helped to implement initiatives to develop technological and market innovation; and 3 000 enterprises have taken part in seminars and training courses on innovation in the production process and product quality. The programme's total budget is 23.2 million euro.

Innovation has been fostered by such new tools as Law 140/97, administered by the Ministry of Industry, which provides tax credit for SMEs and large industrial businesses throughout Italy for investment in innovative product, process and organisation projects. SMEs can register an interest to be involved in developing innovative processes that will be reviewed for subsequent grants as government funds become available. Law 196/97 provides grants for SMEs that hire university graduates and those with advanced degrees for research projects using limited time contracts, as well as the possibility of obtaining temporary researchers on assignment from public research bodies.

The apprenticeship contract is the main tool with which SMEs can hire young people to enter firm-specific vocational training programmes alongside their actual work, and thus obtain substantial relief on social security payments.⁴¹

Law 608/96 was designed to foster alternative forms of labour and makes provision for incentives ('Honour loan') and technical backing for young people to go into business for themselves.

³⁶ Institute for Foreign Trade.

³⁷ A public company that insures companies against export risks.

³⁸ A public company that gives support to business internationalisation.

³⁹ Law providing incentives to businesses that buy new productive machinery.

⁴⁰ The granting body is Artigiancassa.

⁴¹ Apprenticeships have officially existed since 1955, but the system was radically reformed and made operative with Law 196/97.

Best practice in Italy: Support for the development of entrepreneurship

Laws 95/95 and 215/92 are meant, respectively, to foster the creation of new businesses run by young people and the creation of businesses run primarily by women.

Law 95/95 has been operative since 1996 and is administered by I.G. SpA, a company that belongs to the Ministry of Treasury, Budget and Economic Planning (a company that has recently been amalgamated in 'Sviluppo Italia', a new agency for territorial and business development). Provision is made for capital grants, technical assistance in implementing the idea of enterprise, operational grants for the first years of business, and information services for young people who want to go into business for themselves. In the past two years, 150 applications have been approved for 24 350 new jobs.

Law 215/92 provides for capital grants (or tax credits) and facilitated loans for establishing new small businesses run primarily by women and for the acquisition of real-time services for business training, technical and managerial consulting, etc. In the last two years, 487 applications have been approved for 10 609 prospective new jobs.

Liechtenstein

Liechtenstein has no direct support measures for SMEs, and the government does not conduct an active SME policy. There is no difference in the economic policy treatment of small and large enterprises, and all businesses are treated in the same way.

A decision by a Liechtenstein Court (VBI)⁴² came into force in 1999 and is likely to be significant in terms of relieving the business environment. The court decided that, as a result of the EEA agreement, it is no longer necessary that an EEA company manager has to have his residence in Liechtenstein. This will probably lead to the establishment of several new businesses in the country.

Luxembourg

A concerted national initiative was started primarily to abolish a series of administrative impediments in order to foster SME growth and co-operation among businesses. The government and the national representatives of employers and employees have also provided for more flexibility in the field of working schemes and labour organisation in order to encourage new entrepreneurial initiatives. Administrative provisions have been improved and simplified in an attempt to reduce constraints on SMEs. Some legislation has been or is about to be changed (a new bankruptcy law, new accounting rules, and a centre for company balance sheets), and some sectors of the economy have been liberalised (with fewer constraints on access to certain professions).

In addition, the 'Comité de coordination tripartite' has developed a strategy for increasing employment through specific incentives for employers and investments ('Plan d'action national en faveur de l'emploi').

The National Plan in favour of SMEs is being implemented. It contains 10 points, including the encouragement of new businesses and the take-over of existing

⁴² GWK-Magazin, Gewerbe- und Wirtschaftskammer, April 1998.

enterprises, enhancing competitiveness, and streamlining administrative procedures. As part of this plan the Impact Scheme on SMEs was launched in 1998 obliging all administrative bodies to make an advance evaluation of the impact of proposed laws and regulations on SMEs.

The implementation of two One-stop Shops ('Centres de formalités PME') was launched in March 1999 to help businesses in the start-up phase deal with administrative requirements and is co-ordinated by the Chambre des Métiers and the Chambre de Commerce in close co-operation with the Ministère des Classes Moyennes together with a network of public administrative bodies involved in those procedures.

In May 1996 tax relief measures were put in place to attract investment, and additional actions were taken in 1997. In particular, municipal tax on capital operations was abolished, tax on profits was reduced, and allowances were granted on reinvested profits, etc. ('Loi portant modifications de certaines dispositions en matière d'impôts directs et indirects').

In June 1998 the 'Société luxembourgeoise de capital-développement pour les PME' (CD-PME) was established to help businesses with innovative projects and to create new jobs by issuing loans without direct interference in business management. This undertaking is specifically designed towards SMEs.

Since February 1999 the 'Guichet Unique PME' project launched through LEADER II has been further developed to foster business growth by direct consulting to new enterprises, to carry out economic studies in objective 5b regions, to provide financial and technical help in developing new projects, foster know-how exchange, provide assistance in developing strategies in rural areas, and information about European programmes.

The reinforcement of Common Entrepreneurial Initiatives Promoting SMEs abroad programme was also developed in 1999 under the auspices of the Ministry of Middle Class to promote national business and products in foreign markets.

A new R&D agency has been set up, 'Luxinnovation GIE', to create new synergies to facilitate business in innovative projects, revise vocational training programmes in the innovation field and improve organisation within SMEs.

The Netherlands

In the period 1996-1999, policy on behalf of SMEs has been based on the policy paper Jobs Through Enterprise ('Werk door ondernemen'). This paper reflected a trend from a specific SME policy approach towards more focus on entrepreneurship, especially new firm creation and growth of enterprises. The reason for this new approach was that the SME-dimension and related scale effects had already been integrated in the major policy fields such as taxation, labour market, technology and innovation policies and regulatory reform.

In September 1999 the Ministry of Economic Affairs sent a new policy document called The Entrepreneurial Society ('De ondernemende samenleving') for parliamentary approval. The policy in the coming years will focus on enhancing competition and access to markets, reducing regulatory and administrative burdens on businesses, improving the quality of public services and fostering a

productive economic climate, especially in technology and innovation, finance, vocational training, the labour market, local and regional development and export.

Several steps have been taken in the past five years to reduce the administrative obligations of SMEs. A project fostered by the Bureau of Statistics got under way in 1998 to eliminate overlapping investigation of businesses. That same year a commission ('Commissie Slechte') was set up to identify bottlenecks in administrative regulations and to reduce requirements. Another important step was the large 'Marktwerking, Deregulering en Wetgevingskwaliteit (MDW) project' (Functioning of the Market, Deregulations and Quality of legislation). In the frame of that project the effects on competition of all existing and new regulations and legislation were assessed. Results are included in a new competition law providing a/o.: liberalisation of business licensing and an increase of the opening hours of shops.

Existing fiscal relief predates the period in question. An evaluation in 1998 of tax incentives resulted in several recommendations for improving efficiency and reducing administrative constraints. These recommendations were taken into account in the development of the new Dutch tax system, which will come into force by 2001.

The most important recent development in finance is the increased allocation of funds for the SME guarantee scheme (BMKB).

Two sorts of action are carried out in the field of internationalisation. The 'Subsidieregeling exportmedewerkers MKB' programme, launched in 1998 and managed by chambers of commerce, grants public subsidies for company training of personnel involved in export processes. Export promotion is entrusted to the Starters Buitenland Programme, launched in 1999, which grants subsidies for export consulting, market study, and participation in market fairs. Two existing information organisations, the Institutes for Small and Medium-sized Enterprises (IMK) and the Innovations Centres (ICs) were amalgamated into a single agency, Syntens, with regional offices to assist SMEs in matters of technology and growth, especially when starting up new business.

Various measures have been developed to provide R&D information and support in the various phases of innovation: R&D, production, dissemination and application of technological know-how. In particular the 'Twinning' Programme, launched in 1998, fosters the creation of new SMEs in information technology, by providing consulting services, and equipped setting-up spaces, loans, and investment in share capital.

The 'Voorlichting en doorlichting schoner produceren' Programme (Information and Assessment of Cleaner Products), launched in 1998, provides subsidies to consulting and support organisations in eco-compatible production on the part of SMEs.

The 'Energy Efficiency Programme' launched in 1998 directly subsidises SMEs for consulting on the eco-compatible use of energy sources and reducing environmental impact.

Norway

New support measures for SMEs are mostly within the Government Action Plan for small businesses. A Committee for SMEs has been established, including 8 SME

managers and entrepreneurs and 5 members representing the labour and industry organisations, with the aim of following the Action Plan and coming up with ideas regarding new areas/priorities.

Action by the Norwegian government includes efforts to improve the economic environment. The 'Regnskapsloven' (Law of Accounting) reduces administrative costs weighing on small businesses. It was promulgated in January 1999 under the auspices of the Ministry of Finance and Customs, but the single provisions are waiting for approval.

Specific measures have been developed in the field of finance in order to support co-operation between Norway, north-west Russia and central and eastern Europe. These measures concern the financing of projects involving both the creation of new enterprises and/or the development of already existing ones.

The 'Bedin' project, implemented in May 1998, is managed by the Technology Institute for Industry in northern Norway (VINN); as conceived by the Ministry of Trade and Industry it provides for a telematic site on the Internet with information of interest to businesses.

'BIT-programmet' (Sector-oriented Information Technology) prepares software packages for sector use and thus involves the SMEs in the various sectors. It was launched in 1994 and is run by the Norwegian Research Council.

'SMB-programmet' (the SME programme), which is run by the Norwegian Trade Council, provides export assistance to SMEs in the form of consulting services by the Norwegian Trade Council in 40 nations. In addition, support is expected from the 'Norges Eksportskole' (Export School of the Norwegian Trade Council).

Best practice in Norway: The FRAM Programme

The FRAM Programme (Focused, Realistic, Accepted, Measurable) originally set up for the period 1993-1997 is Norway's best practice in the combined area of vocational training and assistance to SMEs. 1 508 businesses participated in that period, and the programme has been extended to the year 2001, still under the auspices of the Norwegian Industrial and Regional Fund. The programme aims at increasing company profitability through a combination of paid seminars and consulting services on specific company problems. It is aimed at companies with up to 100 employees.

The TEFT programme launched in 1994 under the auspices of the Norwegian Research Council fosters interaction between SMEs and R&D institutions by providing a 'technical attaché' service and grants for technological projects shared by businesses and research institutions.

Portugal

In line with the development plan for 1999, administrative procedures have been simplified and modernised to encourage relations between the private and the public sector. The aim is to reduce the general and administrative expenses sustained by businesses, especially SMEs.

The main thrust is to remove administrative obstacles that slow down the formation of new enterprises. Two steps have been taken, one to simplify procedures and the other to provide information and services for setting up businesses. This was implemented by creating a One-stop Shop ('Centros de Formalidades das Empresas', CFE) where an entrepreneur can find all the services that provide the legal procedures required and information needed for starting a business.

In April 1999 action was started to help SMEs with the introduction of the euro.⁴³

Fiscal reform in 1997 aimed at making the tax system fairer and less evasion-prone. Forms for some consumer taxes have been simplified and an ombudsman was named for the tax system in 1997. Since 1998 a measure allows for VAT reimbursement on unpaid transactions.

Efforts to improve the financial environment have led to the implementation of measures on behalf of SMEs. This has generally taken the form of guarantees on venture capital investment and tax incentives for equity financing and capitalisation. At the same time links between savings and investment have been promoted to bring SMEs and the financial institutions closer together ('PME Excelência', as seen in Chapter 4).

Best practice in Portugal: Electronic payment and certification

Two provisions were introduced in 1998 to improve relations between businesses and administration. One was a new system of electronic payment for court, registry and notary fees and penalties subsequent to the abolition of the monopoly of the 'Caixa Geral de Depósitos' (State Bank). The other makes it possible for businesses to e-mail the certificates and documents required by administrative authorities in the matter of international trade.

SME support organisations were used to survey the financial performance and strategic abilities of businesses. As a result businesses have obtained important benefits in finance terms and conditions providing access to financial services and consultants.

To promote rationalisation and modernisation, provision has been made to finance growth and recovery of competitiveness through mergers and acquisitions (SIRME, Corporate Revitalisation and Modernisation Incentive Scheme).

Since 1999 the new internationalisation policy includes awareness measures for SMEs and for the increased possibilities offered by new markets ('Incentivo à Internacionalização das Empresas Portuguesas').

Several steps have been taken to support SMEs through information services aimed at facilitating contact between businesses ('Programa de Dinamização do Acesso à Informação' - SinMPE).

⁴³ *Novo Regime de Apoio à Adaptação das PME ao Euro e ao Ano 2000*, draft law of 30 April 1999.

Best practice in Portugal: The Contacto@ICEP programme

The Contacto@ICEP programme was launched in 1997 and renewed in 1998 and 1999 under the auspices of ICEP ('Investimentos, Comércio e Turismo de Portugal'). It is an apprenticeship programme aimed at young people and includes training outside the country with the young person then being hired by an enterprise to use the skills he/she has acquired outside Portugal.

NETFIN is the name of the website that provides SME managers with news and information about the world of finance and provides the possibility of exchanging experiences and access to on-line help.

Industrial policy is focused to increase the technological capabilities of business and to enhance eco-sustainable growth by reducing energy consumption. Incentives are given to co-operative relations between businesses and research centres to increase product-technological content ('Apoio à Inovação Tecnológica das PME'). A consortium of businesses and scientific institutions has been established to involve more businesses in R&D projects. Moreover, the 'PME 2000 - Preparação das empresas portuguesas para o século XXI' will be fostering collaborative efforts between businesses and public sector R&D bodies.

Vocational training is a strategic sector for local businesses, and Portugal has drawn up a national and regional plan for employment, vocational training and job creation. Target areas are bringing young people into the world of labour, promoting socio-professional integration, reducing long-term unemployment and exclusion, and using on-going vocational training to combat unemployment ('Medida Rotação Emprego-Formação'). 'Incentivo Fiscal à Criação de Emprego para Jovens', which was launched in 1999, provides tax relief for businesses that hire people under the age of 30.

Enterprise culture and incentive policy has been delegated to a public institution set up to provide assistance to SMEs (IAPMEI). The aim is to foster spin-offs, promote new business and support business incubators. Technical assistance and consulting are designed to provide young people with the knowledge and skills needed to become entrepreneurs.

Spain

Spain recently (1996) established a general directorate for SME policy under the auspices of the Ministry of Economics and Finance with two main tasks: to develop horizontal policy and to support the economic growth of smaller businesses⁴⁴.

Several changes in the tax system have reduced fiscal obligations and tax burdens on SMEs. Also a number of measures have been introduced in order to foster employment and enterprise creation. These measures have been directed especially to micro and small businesses without legal status (New Configuration of the Objective Estimation by Signs, Indexes or Modules in the PIT).

Tax simplification measures include the elimination of estimated profit coefficients and a reduction in the base rate for income tax (PIT) and property tax enjoyed by

⁴⁴ Direcció General de Política de la Pyme (DGPYME).

SMEs. They also allow SMEs to take advance depreciation on intangibles and to deduct double taxation on foreign business (Ministerial Order, issued by the Ministry of Economy and Finance in February 1998, and Law 67/97). Law 67/97 provides for simplified tax documents for SMEs. RD 37/98 provides for VAT deduction on certain SME purchases.

In the domain of entrepreneurial environment simplification, it is especially important to mention the Plan of Administrative Simplification for SMEs' Competitiveness (1999). Under this Plan, a number of Single *Guichets* for Enterprises have been opened, permitting all enterprise creation procedures to be completed in a single place. It is also worthwhile to point out the improvement of SME administrative procedures for social security provisions through electronic transmission of documents (RED project, 1997).

On the other hand, DGPYME created in 1997 an 'SME Centre Information Area' for personalised attention to entrepreneurs and managers, which has become a reference source of specialised information. The Centre offers face-to-face, fax, postal, e-mail and phone services, providing customised information, help and counselling to SMEs.

The Spanish administration is aware of the challenge of transition to the euro and also of the Year 2000 effect and is implementing nation-wide information and sensitisation campaigns (Programme for Sensitising SMEs about the introduction of the euro, 1997, and Programme to Sensitise SMEs to Y2K information system problems, 1998-1999).

Best practice in Spain: Law 1/1999

Law 1/1999 outlines the judicial reference framework for bodies that share in venture capital and establishes the administrative procedures for authorisation, control and sanctions. This, together with the explicit ban on these companies taking shares in finance companies, will make venture capital business more successful for SMEs as well.

Financial instruments and measures will facilitate access of SMEs to long-term credit. These include low-interest loans to fund investment projects (ICO⁴⁵-SME lines, 1998-1999), participatory loans and shares in venture capital (programme run by ENISA⁴⁶ 'Participatory Loans', and Law 1/1999) and granting of guarantees on SME credits (Mutual Guarantee Support programme run by Cersa⁴⁷).

The GIEX and FIEX programmes provided for by Law 67/97 offer guarantee funds for company investment abroad. And the similar FONPYME programme is specifically aimed at SMEs.

Assistance is envisaged in the form of credits for technological research in business (CDTI credits managed by the Ministry of Industry and Energy) and for developing innovative design to increase the competitiveness of SMEs (Development of Design and Innovation programme, 1997-1998).

⁴⁵ Instituto de Crédito Oficial.

⁴⁶ Empresa Nacional de Innovación.

⁴⁷ Compañía Española de Refianzamiento SA.

Best practice in Spain: The PIPE 2000 programme

The programme aims at putting Spanish SMEs on the international market by fostering foreign investment, supporting exports, and promoting Spanish products abroad in the period 1998-2000. Directed by ICEX (Spanish Institute for External Commerce), the Superior Council of Chambers of Commerce, Autonomous Communities and Chambers of Commerce, the programme provides consulting, economic subsidies, information, training and promotion services.

The main training programme aims at creating a national system of vocational training, stimulating collaborative efforts between companies and universities, bringing the training system in line with European standards, and providing training in areas that have particular problems with access to the labour market (National Programme for Vocational Training, 1998-2001 period, run by the Ministry of Labour and Social Affairs).

Best practice in Spain: The ATYCA programme

The programme is the Ministry of Industry and Energy's instrument for supporting businesses in R&D. It consists of three sub-programmes covering the promotion of technological innovation in industry, quality and safety, and energy R&D. Among others grants and loans to support such activities as technological infrastructure for joint use, innovative networks, technology dissemination, and vocational training in SMEs (implemented between 1997 and 1999) are provided.

Many incentives are envisaged to foster jobs for the young, for people over 45, for women, and for the disadvantaged generally. Regulations are in place governing temporary jobs in terms of offering incentives for making them permanent (Incentives to Labour Recruitment, Law 63/97). Also the regulations governing part-time jobs have been changed.

Best practice in Spain: The SME Initiative

The SME Initiative is a multi-sector programme for SMEs implemented in 1997-1999 under the auspices of the General Directorate for SME policy in collaboration with the autonomous communities. Its aims are to foster association and co-operation networks among SMEs, to develop electronic/telematic communication networks, to promote innovative design, and to foster access to credit by way of such financial instruments as guarantee funds and participatory loans, and to create a network of intermediate bodies for service to innovation.

Spanish plans envisage several measures to foster entrepreneurship and favour the creation of new small businesses (Employment Plan, 1998, Ministry of Labour and Social Affairs). Action provides for reducing administrative and tax costs, disseminating best practices, providing specific services for technological and trade co-operation and for strengthening business projects. There are also specific sensitising measures in the form of monetary prizes for the dissemination of best

practices in enterprise management (Prince Felipe Awards to Enterprise Excellence, 1998; Young Entrepreneurs Awards, created by the Ministry of Economics and Finance, the Ministry of Industry and Energy and the Ministry of Labour and Social Affairs), and training/services support (REDEPYME, 1997), and business co-operation (Latin-American Enterprise Cooperation, 1998).

Sweden

In January 1999 a regulation⁴⁸ was introduced for an evaluation system of the impact on businesses of proposed administrative regulation. The government launched an annual survey of SMEs to study relations between public and private sectors and develop proposals to simplify administrative procedures.

In February 1999 the government set up a specific unit within the Ministry of Industry, Employment and Communication to co-ordinate administrative simplification.

Other measures were taken on behalf of the labour environment. For example, in June 1998 the government launched a project to introduce a single registration form and a single contact point for registering a company. That same month the government also began reviewing authorisation procedures in order to simplify them.

In addition, there was a study on the possibility of simplifying the present tax system by considering simplified statements for small service enterprises managed by a single owner.⁴⁹ Income tax statements were incorporated in a single VAT form. All taxes are paid with one settlement document.

The National Council for Vocational Safety and Health, which is the central authority for practices covering the workplace and working hours, is reviewing all its rules in order to reduce and/or simplify them by the year 2000.

The Right of Priority Committee, established in 1996, fosters company restructuring to avoid bankruptcy.

The Seed Capital Fund programme ('Såddfinansiering') existed before 1997 and supports the preliminary stages of technology-based development projects by involvement in venture capital investment in start-up projects. The responsible authority is the Swedish National Board for Industrial and Technical Development (NUTEK).

The CapTech programme helps small and new companies to find venture capital and submits ideas and proposals to Business Angels, venture capitalists and corporate financiers.

The Swedish Trade Council ('Exportrådet') and the Chambers of Commerce ('Handelskammaren') have developed a package of services for small companies that want to enter the export business by offering them information and resources to make up for the lack of experience of SMEs.

There are special centres to link company and university research; for example, a user-directed centre for technical design is the multi-disciplinary centre at the KTH, the Royal Institute of Technology.

⁴⁸ SFS 1998: 1828.

⁴⁹ The study was conducted by the Committee on Simplification of Taxation Rules for Small Enterprises.

As to labour mobility there has been a major change in legislation that provided, in the event of company crisis, that the last person hired is the first person to be fired. Parliament changed the decree in late April 1999, and small companies with fewer than 10 employees are allowed to exempt two employees from this principle. The objective is to safeguard the employment of younger people. This amendment will go into effect in the first half of the year 2000.

There will be more assistance for the long-term jobless as of 1 October 1999. Employers who hire people who have been on the unemployment rolls or participating in labour market programmes for at least three years will receive a public subsidy.

As of spring 1999 the government launched information campaigns to spread general knowledge about co-operative enterprises, especially those of women, immigrants, and the young.

Since 1998 there has been substantial dissemination of enterprise culture among the young. A project is underway at NUTEK about entrepreneurship in schools, with the overall aim of creating long-term institutional relations between the school system and industry. Several universities offer courses in entrepreneurship.

Switzerland

Planned measures for simplifying administrative procedures aim at the acceleration of procedures, improved co-ordination among authorities, increased transparency of legislation, less regulations and customer focus. They will be operative by the year 2000.

In order to evaluate the compatibility of planned laws and regulations with administrative efficiency a 'Forum SME' (national expert commission) with owner/managers of SMEs as members was established in 1998. This Forum comments on planned laws and regulations and maintains contact to national authorities formulating recommendations.

In 1998, the State Secretariat for Economic Affairs set up the 'SME Task Force', with the aim of informing the public about national SME policy, of co-ordinating the various national policy areas and of creating a centre of expertise in areas of particular importance to SMEs. The main projects have been so far general financing of SMEs (including venture capital) and use of the Internet by SMEs.

The corporate tax reform instituted proportional tax rates. Favourable impacts for SMEs are tax on profits, abolition of capital tax and reduced stamp duty⁵⁰. Besides, there is an increased tax exemption limit or VAT.

The Credit guarantee 2000 came into force at the beginning of 1999. It is a restructured network with a central office and a number of independent regional co-operatives closely linked by means of co-operation agreements. The regional credit guarantee co-operatives are entitled to stand surety of up to 93 780 euro against the deposit of collateral; they can also request their central office to consent to a possible assumption of losses of up to an additional 218 820 euro. The money must be repaid within a maximum of ten years.

A federal decree on tax relief for venture capital companies has been approved by the Parliament. It should provide easier access to venture capital for new

⁵⁰ Federal Law on company tax reform, implemented on 1 January 1998.

enterprises with innovative, internationally oriented projects in the field of products and services.⁵¹

The Swiss Office for Trade Promotion (OSEC) offers services to assist SMEs in foreign markets. The organisation-wise integrated 'Euro-Info-Centre' provides information about markets in the European Union.

Since 1998 the Swiss Development Finance Corporation (SDFC) has been encouraging private investments in developing and transition countries via holdings in joint ventures.

The CTI (Commission for Technology and Innovation) is the key instrument of the Confederation's technology policy aimed at SMEs. It fosters co-operation between businesses, research and universities or polytechnics. It takes financially part in innovative projects, collaborates in the preparation of feasibility studies, and carries out training programmes.

With the new opportunity of virtual co-operation, entrepreneurs are able to maintain their independence and invest capital in their strategic sectors. There are several established and pilot projects in this area.⁵²

On the basis of Federal Traineeship Decision (LBS II), the Confederation will provide about 62.5 million euro for the period of 2000-2003 to solve quantitative and structural problems of the traineeship market. The Decision concentrates on the creation of training opportunities in the more demanding trades and on making it easier for less highly qualified young people to enter the labour market. The Decision is not specifically designed for SMEs. As a matter of fact, however, 75 % of the firms offering traineeships are SMEs.

In order to foster enterprise culture at university level, initiatives such as the Zurich Federal Institute of Technology programme 'Would you like to start your own firm?' have been developed in order to help fostering the development of an entrepreneurial spirit.

United Kingdom

In 1999 the British government indicated SMEs as a priority target in its plan for reforming and deregulating company legislation and announced the setting up of the Small Business Services (SBS) with three aims: a) to give SMEs a strong voice at the heart of government, b) improving coherence and quality of business support and c) helping small business with regulation. A task force (Better Regulation Task Force) was established in 1997 to enhance the visibility of SMEs in the deregulation process, which has resulted, among other things, in the removal of constraints on Sunday trade and the publication of principles of correct behaviour in matters of public regulation.

In November 1997 the Direct Access Government programme was launched under the auspices of the Better Regulation Unit at the Cabinet Office, and an Internet site was set up with a data bank to provide businessmen with information

⁵¹ Federal Decree on Venture Capital Companies.

⁵² They include 'Virtual Enterprise' of the Basle Region, the 'Euregio Bodensee' virtual factory and the 'Virtual Building Maintenance Enterprise' pilot project (which has helped small businesses in building maintenance to remain independent during a period when take-overs and mergers are prevalent in that sector).

and technical assistance in meeting bureaucratic requirements. The establishment of local partnerships as an occasion for local administration and business to come together has been encouraged, while the government continues to support Business Link, the nationwide network of information centres. Another undertaking led to the unification of fiscal and social security administrations beginning in 1999.

In the 1998 and 1999 Budgets the government announced tax allowances for SMEs on the percentage of tax on profits, rescheduling payment of some taxes, and tax credits for investment in R&D.

The government also improved the payments situation via a 1998 law for delayed payment of business debt. Businesses with fewer than 50 employees can rely on a statute that protects them from big businesses and the public sector in regard to late payment.

One proposal of the 1998 White Paper on Competition concerned the establishment of an enterprise fund with a national and a regional part to provide support to the existing SME Loan Guarantee Scheme (LGS) and new initiatives.

In 1998 the unification of the Enterprise Investment Scheme and capital gain tax was announced with the objective of stimulating the offer to business of capital for smaller and high-risk businesses.

To facilitate contact between Business Angels and businesses the National Business Angels Network (NBAN) was established in February 1999, and in the framework of the Business Connect project created in 1996 for Wales and managed by the Welsh Development Agency, a project called 'Xenos' got under way to locate Business Angels.

In addition, the SMART plan was launched again in 1997 to provide financial incentives for select innovative projects. The programme is managed by the Department of Trade and Industry.

The University Challenge Fund programme, started in 1998 and run by the Department of Trade and Industry, offers financial prizes on a competitive basis to universities in order to set up their own seed fund for commercialising innovative ideas.

The intention was announced in 1999 to unify all trade promotion activities of the DTI and FCO under a new joint operation entitled British Trade International. Some measures were taken to foster exports to western markets of small inexperienced businesses (Export Explorer programme); to foster the opening of the US market to innovative producers (Export USA); to foster Internet use in the pursuit of new opportunities and new outlet markets (Internet Based Leads Service); to support missions promoting trade; and to establish a sector/outlet market matrix so that SMEs can develop efficacious strategies for taking advantage of opportunities abroad.

Initiatives have been taken to facilitate access to information and improve performance on foreign markets. In 1997 an information and consultation site was set up on the Internet with information for SMEs on funding and new technology as well as on exports.

The Information Society Initiative (ISI) programme, begun in February 1996 in partnership between industry and government, aims at disseminating knowledge

and use of informational technology via support to projects of research and service to businesses. A key element is the local support centres, a network for small businesses that offer a package of services (consulting, training, etc.). The ISI Interforum and Commerce Awards are given for the best practice in the use of electronic trade on the part of small businesses via an incentive mechanism.

Noteworthy in the area of innovation and training is the National Endowment for Science Technology and the Arts (NESTA) aimed at helping those who need funding to achieve business ideas; Women Into Science and Technology (WISE) to encourage equal opportunity; and the establishment of funding projects to foster the training and hiring of young people, such as the Investors in People programme; the establishment of funding to provide incentives for on-going training in new technology; the creation of a prize to encourage exchange between universities and businesses; and funding for SMEs that invest in vocational training. Also noteworthy is the co-ordination and enhancement of business incubators, a programme launched in 1998 as a public-private sector partnership (UK Business Incubation Centre), and a programme for developing possible scenarios for the future in order to guide the strategic choices of SMEs (Foresight Programme).

The University for Industry project is scheduled for the year 2000 in order to facilitate access to courses and training programmes (including telematics) to help operators and businesses to identify their own training needs and how to meet them.

The Teaching Company Scheme offers access to new technology via highly trained personnel for a two-year period. Along the same lines a programme has been launched to foster exchange between colleges and businesses for technology transfer (College-Business Partnerships). An exchange programme (STEP, Shell Technology Enterprise Programme) aims at orienting students in technical disciplines toward work in SMEs by encouraging them to use the summer weeks for a preliminary approach to this segment of the working world.

Support is also being given to the establishment of new businesses by disseminating business knowledge to young people (Young Enterprise Programme).

8.4 Conclusions

Tables 8.2, 8.3 and 8.4 were prepared on the basis of the measures adopted by each country⁵³ and summarises the most widespread aims and policy tools on behalf of SMEs in different countries⁵⁴.

The solutions to comparable problems are often similar, albeit with specific national features, and run from information tools, streamlining the relationship between businesses and public administration, enhancing the technological and innovative capacity of smaller enterprises (in part, jointly with public research institutes), training and upgrading of human resources, and innovative financial tools for SME development.

⁵³ These tables only deal with national and federal policy measures; for this reason, all regional measures (for instance, those in the fields of training and education, unemployment, innovation and research stimulation in Belgium) are not included.

⁵⁴ For some of the countries, measures have already been implemented prior to mid-97 and thus will not appear here.

The importance in terms of production and job creation in small and medium-sized enterprises in the economies of the countries of Europe is such that many policies favouring SME growth entail substantial changes in the general architecture of the system: structural reform of public administration, national labour markets, and the education, training and research systems.

Table 8.2 Main aims of new developments in SME policies and major tools applied in the field of Business Environment

<i>Aims</i>	<i>Tools</i>	<i>Countries</i>
Simplification and reduction of administrative overheads borne by businesses, especially requirements for new installations and statements	Electronic declarations and unified forms and documents	A, CH, E, F, FIN, I, IS, P
	Simplification of statistical burdens or administrative declarations for firms	A, CH, D, DK, E, F, FIN, I, IRL, IS, L, NL, NO, P, S, UK
	One-stop Shops for handling administrative matters, especially for new settlements	E, F, I, L, P
Providing businesses with information, especially on administrative requirements	Informative One-stop Shops, even on Internet sites	A, CH, D, DK, E, F, FIN, IRL, L, NO, P, UK
Carrying out studies on administrative burdens in order to suggest simplification improvements to policy makers,	Public research about the impact on SMEs of regulations and proposals for improvements of the regulatory systems	B, CH, D, DK, E, FIN, IRL, L, NL, NO, P, S
Reduction and relief for taxes and social security on behalf of SMEs	Legislative reform simplifying tax and social security systems	E, F, FIN, I, IS, IRL, L, P, S
	Legislative reform relieving tax and social security burdens, especially for new firms	A, B, CH, D, E, FIN, I, P, UK
Simplification of the administrative structure	Reorganisation and amalgamation of ministries, public bodies and agencies	CH, F, FIN, I, IRL, NO, UK
Reducing the occupational impact of business failures	Reforms on failure legislation in order to allow the failed entrepreneur to create a new firm or to avoid failure	A, B, D, NL, P
Facilitating enterprise transfer	Legislative reforms, tax reliefs or incentives for enterprise transfer	A, B, F, I

Source: ENSR, 1999.

Table 8.3 Main aims of new developments in SME policies and major tools applied in the fields of Financial Environment, and Internationalisation and Information Services

<i>Aims</i>	<i>Tools</i>	<i>Countries</i>
<i>Financial environment</i>		
Development of innovative funding mechanisms for SME start-up and growth, especially in terms of innovation and capitalisation	Legislative production; establishment and incentives of venture capital, seed capital funds or business angels	A, CH, D, DK, E, EL, F, FIN, IRL, IS, P, NO, S, UK
	Establishment and incentives of mezzanine financing, participatory loans, participative credit	A, D, DK, E, F, FIN, I, L, NL, NO
Facilitation of SME access to credit and improvement of their financial structure	Schemes to guarantee debt contracted by SMEs, debt rescheduling and reduction programmes	A, B, CH, D, E, F, FIN, I, NL, UK
	Measures for delayed payments	EL, I, IRL, UK
National programmes of direct aid to SMEs	Financial incentives for SME investments	A, B, D, E, EL, I, IRL, P, UK
Institutional reforms	Creation of stock markets for non-quoted SMEs	A, B, DK
<i>Internationalisation and Information Services</i>		
Promotion of SME penetration of foreign markets	Incentive programmes for market research and participation in sector fairs	A, CH, D, DK, E, EL, I, IRL, L, NL, NO, UK
	Creation of national, private or public agencies to promote foreign trade	CH, EL, IRL, IS, NL, UK
Support of collaborative international efforts and the creation of wider networks for national SMEs	Financial incentives and technical support, often on the part of promotion agencies, in pursuit of foreign partners and establishment of agreements, joint ventures	A, CH, D, DK, EL, F, I, IRL, L, NL, NO, P, UK
	Financial incentive for direct investments abroad	A, D, DK, E, F, FIN, I, IS, NL
Dissemination of information of specific interest to SMEs (managerial, trade, financial, etc.)	Creation of specific information outlets and websites	A, B, CH, D, E, F, FIN, S, IRL, L, NO, P, UK
Upgrading the firm's organization capacity to penetrate foreign markets	Training programmes for managers or employees or entrepreneurs	A, B, D, DK, E, I, IRL, L, NL, NO, P

Source: ENSR, 1999.

Table 8.4 Main aims of new developments in SME policies and major tools applied in the fields of R&D, Labour and Training, Fostering Entrepreneurship and Enterprise Culture

<i>Aims</i>	<i>Tools</i>	<i>Countries</i>
Improved access to R&D; Labour and Training		
Creation of highly innovative new SMEs	Set-up of incubators	CH, DK, F, FIN, I, IS, NL, UK
	Financial tools for creating hi-tech and high-productivity industries (seed capital, venture capital)	CH, D, DK, F, FIN, IS, L, NL, S
Helping existing SMEs to conduct R&D or absorb innovation from outside	Collaborative programmes between SMEs and public research centres or amongst SMEs	A, CH, D, DK, E, EL, F, FIN, IS, L, NL, NO, P, S, UK
	Financial and tax incentives for innovative investments or implementation of quality certification systems	A, D, DK, E, EL, F, I, IRL, L, UK
	Public sector innovation programmes in particular areas (IT and Internet, electronic trade, biotechnology)	A, CH, F, I, NO, P
Improvement of the national research system in order to disseminate technological innovation to SMEs, among others	Incentive programmes for commercial application of public sector research	A, D, F, UK
	Creation of new research and technology transfer structures or fostering the competence of existing ones	A, E, FIN, I, IRL, IS, L
	Promotion activities and training or consultancy programmes for the diffusion of new technologies	A, CH, D, DK, FIN, I, IRL, IS, L, NL, P, UK
Improvement of the ratio between quality and human capital cost in SMEs	Vocational training programmes to meet company needs	B, CH, D, E, EL, F, FIN, I, IRL, IS, L, NO, UK
	Cost relief for hiring trainee personnel and new graduates	A, CH, D, E, F, I, NL, P, UK
	Cost relief for hiring scientific professionals or qualified managers	B, D, DK, I
Favouring access of the jobless to the labour market, especially in SMEs	Modification of plans for national labour markets towards greater flexibility	A, B, E, EL, F, FIN, I, ISL, L, P, S
	Incentives for hiring unemployed	B, D, E, F, FIN, L, P, S

<i>Aims</i>	<i>Tools</i>	<i>Countries</i>
<i>Fostering Entrepreneurship and Enterprise Culture</i>		
Developing the trend to self-employment, especially among the young and areas of society most at risk of exclusion from the labour market	Incentives to creation of new businesses by the young, women, and the jobless	B, D, DK, E, F, I, IS, L, NL
	Courses in self-employment	A, CH, D, E, EL, FIN, I, P, S, UK
Increasing knowledge of business methods and labour, partly for future hiring in companies	Courses in company subjects, internships and business game programmes for students	B, CH, DK, FIN, I

Source: ENSR, 1999

PART IV **IN-DEPTH**
THEMATIC
STUDIES

9 Vocational training and SMEs

Co-ordinated by IKEI, Instituto Vasco de Estudios e Investigación

MAIN POINTS

- Lifelong education and training is receiving special attention from policy makers, employers and employees. The new competitive challenges derived from a global economy, the dawning of the information society and the relentless march of science and technology are resulting in a higher dependence of the European economy's success on upgrading the quality of its labour force.
- Continuing Vocational Training (CVT) includes any type of post-initial training and lifelong learning received by people currently working, either at their own initiative or at the initiative of an enterprise. Provision of CVT is directly influenced by the enterprise size. Thus, the proportion of enterprises offering training to their employees becomes higher as the enterprises become larger. This enterprise-size effect, widely confirmed in a large number of national and pan-European studies, affects also the nature of the training itself, in the sense that the larger the enterprise, the more frequent the formal training plans.
- Notwithstanding this enterprise-size effect, training efforts measured as a percentage of total wage costs seem to be similar in all enterprise sizes, where the only exception to this is seen in enterprises without employees. In any case, the efficiency of any investment in CVT activities is not only subject to the amount of devoted resources, but also to other issues such as a well-defined and implemented general enterprise strategy or a coherent training policy.
- CVT activities in SMEs are very often of an informal nature, in the sense that they are in-house training activities provided by personnel of the enterprise itself. SMEs resort to the training market when they need to obtain specific skills and abilities that are not available in-house.
- SMEs are much more interested in custom-made courses that are exactly tailored to the enterprises' needs rather than open courses. Notwithstanding this, custom-made courses are relatively much more expensive, so they are not regarded as a first option by SMEs, especially by the smallest ones.
- The objectives pursued in training are very often different for employers (the enterprise's interest) and employees (professional mobility, higher wage). This difference results in an important bottleneck that may hamper the enterprise's financing of training activities.
- SMEs, especially the smallest ones, suffer from specific internal obstacles that make it difficult for them to develop training activities. These internal barriers include the heavy burdens caused by the absence of employees whilst undertaking training, 'mental barriers' from the SME managers, lack of professionalism and, finally, difficulties to identify and pinpoint their real training needs.
- These difficulties are linked to the fact that SMEs very often perceive training as a cost rather than as an investment, basically due to the fact that the links

between training and performance are difficult to measure and realise, especially in the short run. Training is an activity for which a long-term viewpoint and commitment to people is necessary.

- It is also possible to identify several other external barriers that hamper and make it difficult to carry out CVT activities amongst SMEs. These barriers include high costs (direct and indirect) of training, existing administrative procedures and lack of transparency for most of the existing European training markets.
- External financial aids for training are regarded as more determinant the smaller the enterprise is.
- Participation in external continuing training and education is positively related to the job holder's initial education attainment, irrespectively of enterprise size.
- Training for SME managers has to be adapted to their particular personalities to be fully attractive to them. Thus, SME managers only participate in training measures when they face real problems, provided that the knowledge gained and the results can be rapidly translated into daily working practice.
- SME entrepreneurs very often prefer other means than formal training to acquire knowledge and competence, such as resorting to external advice, networking, exchange of experiences with other managers or entrepreneurs' clubs.
- Most SME managers face delegation- and lack-of-time problems when attending a training activity, since they cannot be away from the enterprise too long. Additionally, most SME managers are subject to the uncertainty of how business will develop and the resulting undesirability of enrolling for training months in advance. These difficulties result in an obvious demand for short and flexible courses. Training costs seem to be a less relevant barrier for management training in comparison to other issues such as location, duration or contents of the course.
- New Information and Communication Technology (ICT) opens up significant prospects in the world of lifelong learning and education. Despite these possibilities, the limited empirical evidence suggests that SMEs currently make a very limited use of ICT for training purposes. Barriers to this include the general deficiencies in SMEs as far as their use of ICT is concerned, the low speed of communications, the high costs of ICT, the difficulties in differentiating the myriad of providers, the frequent changes in technology and, finally, the lack of skills for successfully using ICT to its full potential.
- European policy makers are devoting increasing attention to the topic of CVT amongst enterprises, basically through the development of a support framework to assist training for the employed. Notwithstanding this, it is possible to argue that this support framework does not take full account of the specific characteristics, which SMEs have as far as CVT is concerned, so these enterprises do not derive full benefit.

9.1 Introduction

Investment in human capital is currently recognised in Europe as one of the key means to successfully cope with the new competitive challenges derived from a global economy, the dawning of the information society and the relentless march of science and technology¹. On the one hand, the growth in general scientific

¹ European Commission, White Paper on Education and Training, Brussels, November 1995.

knowledge and its application to production methods is radically transforming the nature of work and the organisation of production. On the other hand, the bringing down of borders not only in commercial or financial trade but also between labour markets is putting major pressure on the 'European social model'.

All these changes are resulting in an increased role of the human factor and a higher dependence of the European economy's success on the quality of its labour force². The European strategy based on the production of high-quality/high value-added goods and services through product/process innovation, high labour productivity and high wages can only be maintained if a highly educated and skilled labour force is continuously developed. As the European Commission states, 'a high-wage economy is dependent upon the ability to reproduce and improve the quality of its labour force over time'³.

Interestingly also, from the employees' point of view, the improvement of the available skills is not only seen as a source of new work and career opportunities but also as an excellent guarantee against the risk of becoming unemployed. As some authors have argued, 'unemployment in Europe is mostly a problem for those individuals who do not have the necessary qualifications or knowledge demanded by the labour market and the new knowledge-based society'⁴.

In the past, education and training were regarded as fixed assets that did not need to be supplemented later in life. However, this view of training and education has changed, resulting in a re-conceptualisation of training as a lifelong process⁵. According to UNESCO, the rapid changes in production and organisation are leading to a rapid degradation of the acquired knowledge and to major upheavals in the labour market. UNESCO estimates that 80 % of the stock of knowledge of an individual currently becomes obsolete within a decade, where a young university graduate will be forced to change his/her job contents up to seven times during his/her lifetime⁶. Moreover, Chapter 3 of this report is showing that new jobs are more likely to arise in skill-intensive, knowledge-based occupations in services and manufacturing, demanding therefore an increase in higher-level qualifications and appropriate skills.

Bearing in mind these developments, it is not strange therefore that policy makers - at European, national and regional levels - are devoting increasing attention to the lifelong education and training issues. Thus, the aims of lifelong learning and education have been explicitly incorporated into the Amsterdam Treaty, expressing the determination of the Union to promote the highest level of knowledge for the European citizens through broad access to education and its permanent updating. Moreover, the 1998 Employment Guidelines have set up several recommendations related to the promotion and encouragement of adaptability in enterprises, proposing several routes for renewing skill levels within enterprises such as the removal of fiscal and other obstacles to the promotion of investment in human resources and in-house training⁷.

² Some authors have labelled this new model as the 'knowledge society', in which real wealth creation is linked to the production and dissemination of knowledge.

³ European Commission, DG III, Panorama of the EU Industry 95/96, Brussels, 1995.

⁴ Quoted in page 53 of Münk, D., and A. Lipsmeier, Objectives, Realisation and Organisation of Continuing Vocational Education and Training, in CEDEFOP, Vocational Education and Training -The European research Field, Background Report, Thessaloniki, 1998.

⁵ O'Connell, P.J., Adults in Training: an International Comparison of Continuing Education and Training, OECD, ref. CERI/WD(99)1, Paris, 1999.

⁶ UNEVOC, Vocational Education and Training in Europe on the Threshold of the 21st Century, UNESCO, Berlin, 1999.

⁷ This suggestion is very much in line with the conclusions of the White Paper on Education and Training, which recommends treating material investment and investment in training on an equal basis.

Investment in human capital usually takes three main forms in our modern societies. The main investment is through the formal education system, the main channel for obtaining a level of basic analytical and strategic capabilities both for life and for work⁸. The second channel is given by the training received after the formal education system, basically intended to be a tool for adapting the available abilities and knowledge to the changing requirements of the productive system. Finally, the third channel is the so-called 'on-the-job training', which is the professional experience acquired in the everyday working life.

Bearing in mind this conceptual framework, this chapter focuses mainly on the topic of continuing vocational training (CVT) in SMEs. This CVT concept includes any type of post-initial training and lifelong learning (whether organised or not, school-based or at the workplace) received by people currently working in enterprises⁹, either at his/her own personal initiative or at the enterprise's initiative¹⁰. This approach implies that other key issues in the vocational training field on the European policy agenda such as training for the long-term unemployed or youth employment, gender gaps, school-to-work transition, etc, will not be analysed in this chapter¹¹.

9.2 Continuing training activities amongst SME employees

This section studies and analyses the existing evidence on the CVT activities within the European SMEs and directed towards their employees, whatever their function may be within the enterprise. For this purpose, several topics will be studied, such as the level of development of CVT practices in SMEs (percentages of enterprises active in CVT, type of training offered, trained job categories, resources spent). These results will be complemented with an overview of the main characteristics of the training practices (formal/informal, custom-made/open courses, main providers, etc.) and a general outlook of the main incentives and barriers that foster/hinder CVT practices in the European SMEs. The information will be distinguished (when possible) by enterprise size.

9.2.1 Continuing vocational training practices in SMEs

The available empirical evidence suggests a clear size effect in the CVT area, in the sense that small enterprises do provide less training for their employees than large enterprises. This conclusion, confirmed by a large amount of literature both at national and at supra-national level, highlights the existence of specific size

⁸ In this sense, it is very interesting to look at the existing variations across countries in levels of human capital stock, whether measured by educational attainment or by direct tests of adult literacy. For a further discussion on this topic at European level see European Commission, *Employment in Europe 1998*, part 1, Section 5, Brussels, 1999, and for an international comparison OECD, *Human Capital Investment, an International Comparison*, Paris, 1998.

⁹ SMEs within the framework of this chapter.

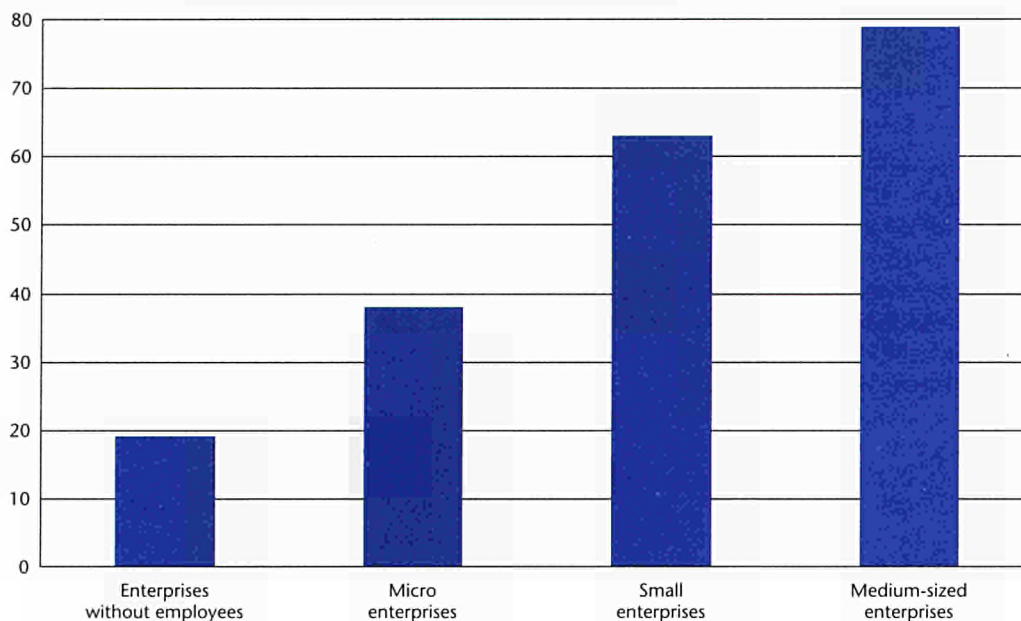
¹⁰ This definition is very much in line with the definition provided by the European Commission. For a further discussion see European Commission, *Report of the Commission on Access to Continuing Vocational Training in the Union* (Council Recommendation of 30th June 1993), COM (97) 180 final, Brussels, 1997.

¹¹ The topic of training and human capital has already been partially treated in Chapter 5 on 'Employment Creation and Human Capital' in the Second Annual Report of The European Observatory for SMEs. Additionally, some references to the CVT topic are also provided in Chapter 3 on Labour Market Issues in this Sixth Report.

difficulties (both internal and external to the enterprise) that result in this more limited level of training amongst SMEs. This chapter provides detailed information from the ENSR Enterprise Survey 1999¹², which provides the most up-to-date comparable information on this topic.

The ENSR Enterprise Survey 1999 shows that the larger the SME, the more likely it is to be engaged in CVT activities for their personnel (see Figure 9.1). Around 30 % of the European SMEs were involved in training activities for their personnel in 1998, where this percentage ranges from 19 % of the European enterprises without employees to 38 % of the micro enterprises, 63 % of the small enterprises and 79 % of the medium-sized enterprises.

Figure 9.1 Percentage of SMEs involved in vocational training for their personnel during 1998 by enterprise size, Europe-19



Source: ENSR Enterprise Survey 1999.

This enterprise size effect is also confirmed by other pan-European studies on the topic. The Eurostat's Survey¹³ suggests that the share of enterprises offering training to their employees continuously rises from 52.2 % in the case of the small enterprises to virtually all of the largest enterprises offering some training. Meanwhile, a Leonardo survey amongst SMEs on CVT¹⁴ shows that 56 % of the European SMEs carry out CVT for their employees, where this percentage goes up from 27 % in the case of micro enterprises to 56 % and 84 % in the case of small and medium-sized enterprises, respectively.

¹² See Annex I to this report: The set-up and analyses of the ENSR Enterprise Survey 1999.

¹³ Eurostat, Continuing Vocational Training Survey (CVTS), Luxembourg, 1994. This survey was carried out amongst a representative sample of enterprises with 10 or more employees.

¹⁴ IKEI and ENSR, Training Processes in SMEs: Practices, Problems and Requirements, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997. This survey was conducted amongst 840 SMEs in 11 European countries. Enterprises without employees are not included in the sample.

Both studies also suggest that the share of employees participating in CVT courses is directly related to enterprise size. Just to give some data, the Eurostat's CVT survey shows that whereas 13 % of the small enterprises' employees participate in CVT courses, this percentage gradually increases up to 43 % in enterprises with more than 1 000 employees.

These enterprise-size effects are also confirmed by a large number of empirical studies at national level (see Table 9.1).

Table 9.1 Development of Continuing Vocational Training practices in SMEs: summary of results from recent national surveys and analyses containing information by enterprise size

<i>Country and source</i>	<i>Main Findings</i>
<p>Austria IBW, National Survey on CVT, Wien, 1997.</p>	<p>There is a clear relationship between enterprise size and continuing training activities. Thus, 61.5 % of the enterprises with less than 6 employees carry out at least one training activity, while this percentage increases to nearly 98 % of the enterprises with 30 to 99 employees (more than 99 employees: 100 %).</p>
<p>Denmark Institut for Konjunktur-Analyse, 'Det danske kursusmarked. Kompetenceudvikling i dansk erhvervsliv 1999' (The Danish Market for Courses and Conferences. Competence Development in Danish Businesses 1999), Copenhagen, March 1999.</p>	<p>The percentage of payroll costs spent on continuing vocational training courses by enterprises increases with enterprise size. Small enterprises with up to 19 employees have primarily spent up to euro 6 700 on courses and CVT in 1998 while enterprises with 20-99 employees mainly spent up to euro 13 400. Enterprises with over 500 employees spent over euro 671 800. The various staff groups' participation in courses and CVT is generally increasing according to enterprise size, where white-collar workers are generally the group of employees who have participated most frequently in CVT in enterprises of all sizes.</p>
<p>Finland Blomqvist, I., H. Niemi and T. Ruuskanen, Adult education survey 1995. Participation in adult education and training in Finland. Education 1998/ 8. Statistics Finland. Helsinki: Edita oY, 1998.</p>	<p>The larger the enterprise, the larger share of the staff takes part in employer-sponsored continuing training. In enterprises with 500 or more employees, staff members attend training almost twice as often as people in enterprises with less than 50 people.</p>
<p>France AGEFOS-PME, 'Perspectives 99. L'emploi et la formation dans les PME' (Perspectives 1999. Employment and training in SMEs), Paris, 1998.</p>	<p>Training plans are more common the larger the enterprise is. Computing and technical matters are the most common training areas for the French SMEs.</p>
<p>France CEREQ, 'Les très petites entreprises. Pratiques et représentations de la formation continue' (Very small enterprises. Practices and models in the field of continuous vocational training), Cereq Bref, Marseille, September 1996.</p>	<p>The training effort and the access rate to continuing training increase with the size of the enterprises, irrespective of the employees' function. Enterprises with less than 50 employees are just above the legal obligation (see Section 9.5).</p>

continued

continued

<i>Country and source</i>	<i>Main Findings</i>
<p>Germany Düll, H., and L. Bellmann, Betriebliche Weiterbildungsaktivitäten in West- und Ostdeutschland, in: Mitteilungen aus dem Institut für Arbeitsmarkt und Berufsforschung 2/1998, Nürnberg, 1998. (Enterprises continuing training activities in East and West Germany, Institute for the Research of the Labour Market and Occupations).</p>	<p>The proportion of enterprises engaged in continuing vocational training is directly related to their size, ranging from 32 % and 67 % in the micro and small enterprises to 93 % for those enterprises with more than 500 employees (data for West Germany).</p>
<p>Iceland University of Iceland, The Situation of Vocational Training in Iceland, Social Science Research Institution, Reykjavik, April 1999.</p>	<p>Continuing training courses are more common in larger enterprises than smaller ones. Thus, 30.1 % of employees have received training related to the job within micro enterprises, in comparison to 41.8 % of the employees in small enterprises, 43.5 % of the employees in medium-sized enterprises and 55.6 % of the employees in large enterprises.</p>
<p>Ireland Fox, R., Company Training in Ireland 1993, Dublin FAS, 1995.</p>	<p>The study provides estimates on training provision in 7 600 enterprises with more than 10 employees employing 496 000 people. The main result related to enterprise size is that externally managed training courses are more frequent amongst the smaller enterprises, where it is the opposite for the larger enterprises.</p>
<p>Netherlands Statistics Netherlands, Bedrijfsopleidingen 1993 (Company training 1993), Voorburg/ Heerlen, 1995.</p>	<p>The percentage of employees trained increases with enterprise size, ranging from 10 % in enterprises with less than 20 employees to 30 % for enterprises with more than 200 employees. Training courses are equally divided between the fields of general enterprise management, and courses with a more specific orientation on the products and services that enterprises provide.</p>
<p>Norway NOU Ny kompetanse, Grunnlaget for en helhetlig etter- og videreutdanningspolitikk. (Official Norwegian Report 1997:25 New Competence. The basis for a holistic policy of further and continuing education), Oslo, 1997.</p>	<p>The group of enterprises with no continuing training activity is dominated by the small enterprises (<50 employees). Existence of formal training plans increases with increasing size of enterprise. External training resulting from demand from the personnel increases with decreasing enterprise size.</p>
<p>Portugal Ministério para a Qualificação e Emprego- Departamento de Estatística, Inquérito ao Impacto das Acções de Formação Profissional nas Empresas-1994/1996 (Survey on the Impact of Vocational Training Actions within Enterprises-1994/1996), Lisbon, 1999.</p>	<p>The percentage of Portuguese enterprises involved in training actions is directly related to the enterprise size, in the sense that the larger the enterprise, the higher the percentage is. From a dynamic perspective in the time period 1994-1996, the percentage of enterprises active in CVT activities has increased in all enterprise sizes, especially amongst the largest ones.</p>

continued

continued

<i>Country and source</i>	<i>Main Findings</i>
<p>Spain CEOE-CEIM, Necesidades de Formación en las Empresas (Training Needs within Enterprises), Madrid, 1996.</p>	<p>There is a clear relationship between enterprise size and continuing training activities. However, the Spanish small enterprise active in CVT devotes on average more hours per person than the larger enterprises.</p>
<p>Sweden Statistics Sweden's Survey, Stockholm, 1998.</p>	<p>Personnel in large enterprises get more continuing training than personnel in small enterprises, both in terms of devoted time and share of people. Thus, micro enterprises devote 0.9 % of their total working time and 19 % of their employees to training, where these ratios go up to more than 3 % and 40 % for large enterprises, respectively. Large enterprises also provide longer training periods.</p>
<p>Switzerland Wüst, P., Betriebliche Weiterbildung in der Schweizer Industrie (Continuing Training in Swiss Industrial Enterprises), Chur/Zurich, Rügger, 1998.</p>	<p>This survey, conducted amongst 1 256 Swiss manufacturing enterprises, shows that 71 % of businesses with less than 20 employees usually invest in CVT. In the size class of 20-99 employees, this percentage raises to 89 %, whereas all enterprises with more than 99 employed people support and carry out CVT activities for their employees.</p>
<p>United Kingdom Cosh, A., and A. Hughes, Growth, Innovation and Public Policy in the Small and Medium-sized Enterprise Sector 1994-1997, ESRC Centre for Business Research, Cambridge, 1998.</p>	<p>There is a positive relationship between the size of and the proportion of enterprises providing continuing training to their employees. Older, innovating and growing enterprises are more likely to provide training than newer, non-innovating and stagnant/declining enterprises. Micro firms are more likely to spend 1 % or less on training than SMEs. However, although micro, small and medium firms are equally likely to spend 3 % or more, micro firms are less likely to spend between 1 % and 3 % on training. The use of all types of training providers increases with the size of the enterprise.</p>

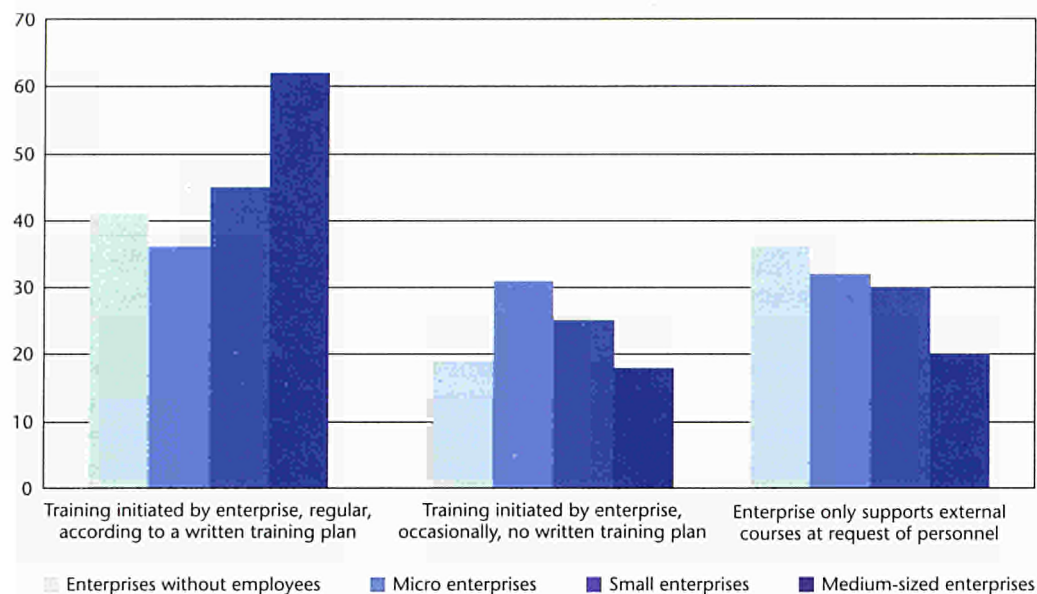
Source: Analysed by IKEI, studies collected by ENSR.

This enterprise-size effect seems to be also relevant in explaining the different nature of the European SMEs' CVT practices. According to the Enterprise Survey 1999, a significant share of the European SMEs effectively active in CVT have written training plans (39 %), in comparison to the 33 % and 26 % where training is done either at the request of the personnel or the enterprise, respectively, with no formal training plan by the enterprise¹⁵.

However, leaving aside the enterprises-without-employees category, the larger the enterprise is, the more formal the adopted training approach is. In this sense, formal training plans are more usual amongst larger enterprises actively involved

¹⁵ It is possible that in some cases, the employee carries out a training activity on his/her own initiative (i.e. in terms of expenses) without any communication to his/her employer. These cases are not included in the ENSR Enterprise Survey 99.

Figure 9.2 Type of training applying to SMEs, Europe-19



Note: Data only refer to SMEs with CVT practices. Results do not include 'Don't Know/No answer' answers.

Source: ENSR Enterprise Survey 1999.

in CVT¹⁶ where, by way of contrast, training either at the request of the enterprise or the personnel (with no formal training plan) is more frequent the smaller the enterprise (see Figure 9.2). Thus, 36 % of the European micro enterprises active in CVT have a formal written training plan in comparison to 45 % and 62 % of the small and medium-sized enterprises, respectively. Meanwhile, 31 % and 32 % of the micro enterprises active in CVT carry out their training activities with no formal training plan, either at the request of the enterprise or the personnel, where these percentages go down to 18 % and 20 % in the case of medium-sized enterprises.

As far as the training effort is concerned, the available ENSR Enterprise Survey 1999 shows that, generally speaking and with the only exception of enterprises without employees, the remaining size classes seem to devote a more or less similar level of resources to their training activities¹⁷ (see Table 9.2). Up to 23 % of the enterprises with no employees devote more than 7.5 % of their wage costs to training, where this percentage is lower and practically equal for the remaining enterprise sizes¹⁸ (11 % for the micro enterprises, 10 % for the small enterprises and 11 % for the medium-sized enterprises).

¹⁶ A similar result has been found for the Portuguese enterprises in: Ministério para a Qualificação e Emprego-Departamento de Estatística, Inquérito às Necessidades de Formação Profissional das Empresas-1996/1999 (Survey on the Enterprises' Vocational Training Needs-1996/1999), Lisbon, 1997.

¹⁷ In any case, it is important to have in mind that the efficiency of any investment in CVT activities is not only subject to the amount of devoted resources, but also to other issues such as a well-defined and implemented general enterprise strategy or a coherent training policy (definition of training needs, selection of candidates, implementation, evaluation of activities, etc). This idea has been taken from Sáez, F., Formación Continua: Una Evaluación de Estrategias (Continuing Training: an Evaluation of Strategies), in *Ekonomi Gerizan* No. 6, pp. 245-260, Federación de Cajas de Ahorro Vasco-Navarras, Vitoria-Gasteiz, 1999.

¹⁸ This result might be influenced by the fact that entrepreneurs with no employees may have difficulties to impute a wage for themselves.

Table 9.2 Resources devoted to training activities (as a percentage of total wage costs) by enterprise size*, Europe-19

Size class	< 3 %	3-7.5 %	> 7.5 %
0 employees	54	23	23
1-9 employees	56	33	11
10-49 employees	58	33	10
50-249 employees	58	31	11
Total	56	30	15

* Data only refer to SMEs involved in CVT activities and that have quantified their training costs.

Source: ENSR Enterprise Survey 1999.

Interestingly, the existing differences in terms of training activities are not only related to enterprise size but also to country (see Table 9.3). Generally speaking, Northern and Alpine European countries (i.e. Finland, Norway, Liechtenstein, Austria, Iceland, Sweden and Switzerland) have the highest proportion of SMEs offering CVT, where some of the peripheral Southern countries (Italy, Portugal and Greece) have the lowest share. These important country differences may reveal significant differences amongst countries as far as CVT structures and perceptions are concerned¹⁹.

Table 9.3 SMEs involved in vocational training for their personnel during 1998 and associated efforts, by country

	Percentage of SMEs involved in vocational training	Percentage of SMEs that devote less than 3 % of wage costs to training*	Percentage of SMEs active in CVT with a formal written training plan**
Austria	47 %	67 %	24 %
Belgium	23 %	49 %	36 %
Denmark***	21 %	68 %	32 %
Finland	58 %	66 %	15 %
France	35 %	55 %	57 %
Germany	27 %	38 %	41 %
Greece	13 %	86 %	28 %
Iceland	45 %	82 %	20 %
Ireland	33 %	44 %	37 %
Italy	23 %	65 %	26 %
Liechtenstein	49 %	56 %	16 %
Luxembourg	32 %	63 %	34 %
Netherlands	32 %	56 %	23 %
Norway	56 %	53 %	39 %
Portugal	19 %	57 %	36 %
Spain	28 %	75 %	49 %
Sweden	43 %	51 %	21 %
Switzerland	41 %	62 %	46 %
United Kingdom	38 %	49 %	41 %
Total	30 %	56 %	39 %

* Data only refer to SMEs involved in CVT activities and that have been able to quantify their training costs.

** Data only refer to SMEs with CVT practices.

*** According to the ENSR Enterprise Survey 1999, a minor percentage of Danish SMEs have been involved in vocational training, compared to the European-19 average. This result is not in accordance with Eurostat's CVT Survey, which shows that Danish SMEs are particularly active in this domain.

Source: ENSR Enterprise Survey 1999.

¹⁹ Similar geographical patterns were found in the Eurostat's CVT Survey and in Leonardo surveys.

These country differences can also be detected when looking into the percentage of SMEs involved in CVT activities that devote less than 3 % of wage costs to training. The countries where this percentage is higher are, by this order, Greece, Iceland and Spain whereas, by way of contrast, the UK, Belgium, Ireland and Germany are the countries where SMEs seem to devote more resources to training. Meanwhile, training plans are more common amongst the French, Spanish and Swiss SMEs, where the opposite is true for the Swedish, Icelandic, Liechtenstein or Finnish SMEs.

Concerning the type of SME staff that receives CVT, supported by his/her enterprise, the ENSR Enterprise Survey 1999 shows a positive relationship between highly skilled and highly educated job categories and the receipt of further training throughout working life, the only exception to this being the 'Directors and Managers' category²⁰ (see Table 9.4). This result, confirmed in several pan-European²¹ and national studies from Spain²², Switzerland²³ and the UK²⁴, might be explained by the fact that qualified staff is more likely to receive formal training in comparison to low-skilled workers, who receive much more informal, in-house training²⁵. Another feasible explanation, as an OECD study²⁶ shows, might be given by the fact that participation in continuing education and training is closely related to initial education attainment, since highly educated people are more sensitive to training issues in comparison to lower educated people. In any case, and from an enterprise-size perspective, the ENSR Enterprise Survey 1999 shows that the access rate to training increases with the size of the enterprise, irrespective of the staff category²⁷.

Table 9.4 Type of employment categories trained by SMEs, by enterprise size, Europe-19

Size class	Manual, low-skilled workers	Semi-skilled workers	Technicians, engineers	Clerks, administrative personnel	Foremen, chargehands	Directors and managers
0 employees*	14 %	13 %	23 %	16 %	13 %	41 %
1-9 employees	26 %	31 %	28 %	25 %	16 %	20 %
10-49 employees	33 %	39 %	37 %	35 %	27 %	23 %
50-249 employees	33 %	47 %	47 %	48 %	40 %	31 %
Total	23 %	27 %	28 %	24 %	17 %	28 %

* It might be expected to find all responses of this size group under the 'Directors and Managers' category. However, from the results it is possible to argue that a large percentage of these entrepreneurs regard themselves in other categories different from 'Directors and Managers'.

Note: Data only refer to European SMEs with CVT practices. The sum of rows can exceed 100 %.

Source: ENSR Enterprise Survey 1999.

²⁰ This result is obtained when analysing the results for the different enterprise sizes and leaving aside the enterprises without employees (see Table 9.4), which for obvious reasons distorts the results.

²¹ I.e. Eurostat, Continuing Vocational Training Survey (CVTS), Luxembourg, 1994.

²² CEOE-CEIM, Necesidades de Formación en las Empresas (Training Needs in the Spanish Enterprises), Madrid, 1996.

²³ Wüst, P., Betriebliche Weiterbildung in der Schweizer Industrie (Continued training in Swiss industrial companies), Chur/Zurich: Rüegger, 1998.

²⁴ Curran, J., et al., Establishing Small Firms Training Practices, Needs, Difficulties and Use of Industry Training Organisations, DfEE Research Studies RS17, HMSO, London, 1996.

²⁵ For a further discussion on this topic, please have a look at Section 9.2.2.

²⁶ O'Connell, P., Adults in Training: An International Comparison of Continuing Education and Training, OECD, ref. CER/WD(99)1, Paris, 1999.

²⁷ Similar results have been found in other national studies. For a further discussion please see Table 9.1.

9.2.2 General characteristics of the training

The aim of this section is to provide information on the main characteristics that define the training activities carried out by European SMEs. Some of the aspects that will be analysed include the main training suppliers, the type of courses followed (custom-made/open courses) and, finally, the location of the courses.

Before going into detail, it is important to stress that training in SMEs is very often of an informal nature²⁸. This informality may include different methods such as 'learning-by-doing' training, coaching, mentoring, 'sitting-by-Nellie' training or job rotation²⁹. A British author³⁰ even suggests that the training received by more than 50 % of SME employees whilst employed, is mainly informal in nature. This result is very much in line with empirical information obtained at European level. A Leonardo survey³¹ shows that personnel from the enterprise itself are the second most important training supplier for the European SMEs after training centres/organisations, where this 'in-house' training is generally of an enterprise-specific nature.

Interestingly also, a major British study conducted by the ESRC Centre for Business Research³² suggests that enterprises most frequently use their own staff to train semi- and unskilled employees whereas, by way of contrast, outside training is used most frequently for technical and professional personnel, especially the highest qualified. A similar result is found in a Swiss study³³, that provides additional information on main in-house and external training instruments (see Table 9.5). This result may reveal that SMEs resort to the training market when they need to obtain specialist skills and abilities that cannot be provided in-house.

Table 9.5 Instruments of in-house and external training in Swiss SMEs

<i>Instruments of in-house training</i>	<i>Instruments of external training</i>
<ul style="list-style-type: none"> • In-house instruction • In-house job rotation • On-the-job training • Technical literature, multimedia channels, CBT (computer-based training) • Product presentations • Talks given by employees about new developments in their jobs • Mutual assessment within a working group • Involvement of employees in projects that extend beyond their regular field of action • In-house communications of all types 	<ul style="list-style-type: none"> • External seminars or courses • Conferences • Visits to customers or suppliers • External job rotation with customers or suppliers • Visits to and participation intrade fairs • Former employees

Source: Sattes, I., et al. (Hrsg.), Erfolg in kleineren und mittleren Unternehmen (Success in SMEs), 2. Auflage (2nd ed.), Zurich: VdF Hochschulverlag AG, 1998.

²⁸ Metsä-Tokila, T., P. Tulkki and P. Tuominen, 1998. Ammattitaito, koulutus ja työ (Skills, training and work), ESR-julkaisut (ESF-Publications) 37/98. Helsinki: Edita Oy.

²⁹ Cambridge Small Business Research Centre, The State of British Enterprise, Department of Applied Economics, University of Cambridge, 1992.

³⁰ Curran, J., et al., Establishing Small Firms Training Practices, Needs, Difficulties and Use of Industry Training Organisations, DfEE Research Studies RS17, HMSO, London, 1996.

³¹ IKEI and ENSR, Training Processes in SMEs: Practices, Problems and Requirements, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

³² Cosh, A., and A. Hughes, Growth, Innovation and Public Policy in the Small and Medium-sized Enterprise Sector 1994-1997, ESRC Centre for Business Research, Cambridge, 1998.

³³ Sattes, I., et al. (Hrsg.), Erfolg in kleineren und mittleren Unternehmen (Success in SMEs), 2. Auflage (2nd ed.), Zurich: VdF Hochschulverlag AG, 1998.

Concerning the main types of course followed by the European SMEs, the available information suggests that SMEs are much more interested in custom-made courses rather than open courses³⁴. Indeed, several authors suggest that SMEs buying training services outside the enterprise look for contents that are exactly tailored to the enterprises' needs³⁵. Notwithstanding this, custom-made courses are relatively much more expensive, so they are not regarded as a first option by SMEs, especially by the smallest ones. Therefore, from an enterprise-size approach it is not strange that 45 % of medium-sized enterprises active in training use tailored courses in comparison to 37 % of the micro enterprises³⁶.

Concerning the physical location where training is held, training outside the SMEs' premises is the more typical location to develop a training activity, especially in comparison to the training held on the premises. Also, it is particularly interesting to notice that the larger the enterprise, the more training is held on the premises (see Figure 9.3). This result might be explained, at least partially, both by the higher probability amongst the medium-sized enterprises to have specific facilities/training departments and by the ability that larger enterprises have for training a larger number of people and therefore bringing training suppliers inside the enterprise.

Finally, and leaving aside the training internally provided by the enterprises themselves, the available evidence on main CVT suppliers suggests that, overall, the greatest amount of external training is provided by commercial organisations and private consultants. Other institutions relevant for training supply include business and trade associations, equipment suppliers and Technical Centres/Universities³⁷.

Notwithstanding this, it is important to emphasise the large differences that exist within the different European countries. This fact reflects the European countries' different historical and institutional traditions and the way in which training providers are financed³⁸. To give some examples, public course suppliers seem to be particularly relevant as CVT providers in Denmark³⁹, whilst the opposite seems to be the case in Switzerland⁴⁰: meanwhile, the most important training suppliers for the Spanish SMEs are non-profit organisations, an aspect clearly related to the current policy design and implementation⁴¹. In some countries (i.e. Norway⁴²) there seems to be a clear role division between public/private providers. Courses focused on developing individual

³⁴ Bernard Brunhes Consultants, *Le développement de la formation continue dans les petites et moyennes entreprises. Analyse comparative des dispositifs allemands et français* (Development of continuous training in small and medium-sized enterprises. Comparative analysis of German and French systems), *La lettre du Groupe Bernard Brunhes*, No. 34, Paris, May 1997.

³⁵ Metsä-Tokila, T., P. Tulkki and P. Tuominen, 1998. *Ammattitaito, koulutus ja työ* (Skills, training and work), *ESR-julkaisut* (ESF-Publications) 37/98. Helsinki: Edita Oy.

³⁶ IKEI and ENSR, *Training Processes in SMEs: Practices, Problems and Requirements*, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

³⁷ Eurostat, *Continuing Vocational Training Survey (CVTS)*, Luxembourg, 1994, and IKEI and ENSR, *Training Processes in SMEs: Practices, Problems and Requirements*, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

³⁸ Cosh, A., and A. Hughes, *Growth, Innovation and Public Policy in the Small and Medium-sized Enterprise Sector 1994-1997*, ESRC Centre for Business Research, Cambridge, 1998.

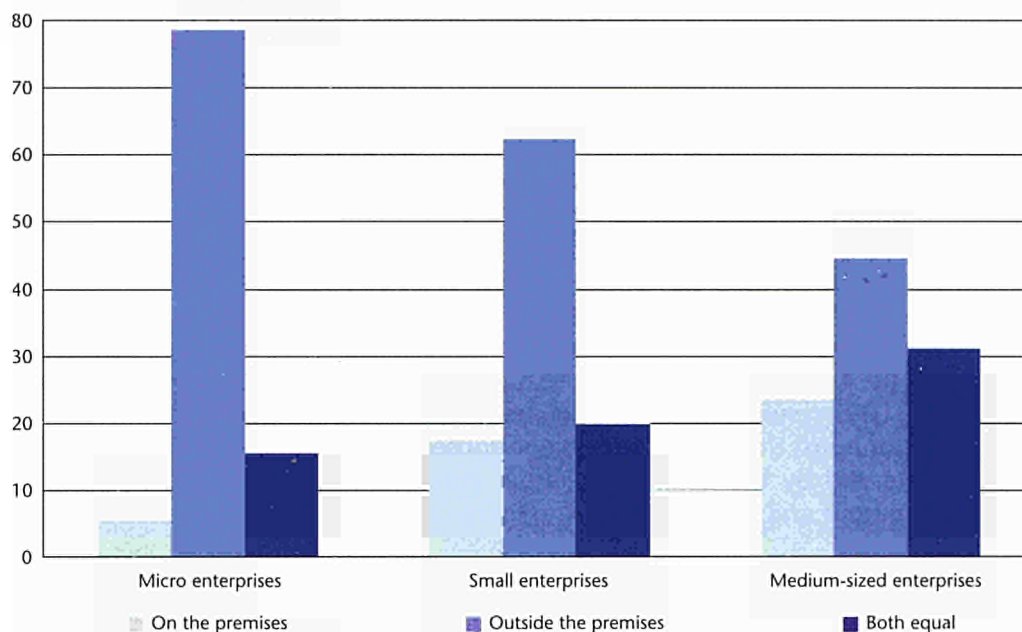
³⁹ Statistics Denmark, *Statistical information on Education and Culture*, Copenhagen, 1998:6. In this sense, a significant part of the total Danish adult and vocational training and education is publicly financed, where the public authorities plan the framework and the contents in collaboration with the labour market parties.

⁴⁰ Wüst, P., *Betriebliche Weiterbildung in der Schweizer Industrie* (Continued training in Swiss industrial companies), Chur/Zurich: Rüegger, 1998.

⁴¹ CEOE-CEIM, *Necesidades de Formación en las Empresas* (Training Needs in the Spanish Enterprises), Madrid, 1996.

⁴² NOU *Ny kompetanse. Grunnlaget for en helhetlig etter- og videreutdanningspolitikk* (Official Norwegian Report 1997:25. New Competence. The basis for a holistic policy of further and continuing education), Oslo, 1997.

Figure 9.3 Percentage of SMEs according to the more usually place where courses are held, by enterprise size, Europe-19



Source: IKEI & ENSR, Training Processes in SMEs: Practices, Problems and Requirements, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

competence and those leading to an official qualification are mostly provided by the state education system, whereas courses focused on applications and strongly work-related subjects are mostly provided by independent private or semi-private suppliers.

9.2.3 Incentives and barriers for SMEs to carry out CVT activities

Incentives to CVT amongst the European SMEs

Generally speaking, it is possible to argue that both SME employers and employees are becoming increasingly aware of the importance of continuous training. CVT is viewed as a tool not only for complementing the experiences gained during compulsory education but, more importantly, for keeping up with new technological developments, stronger competitive environments and organisational changes affecting the enterprise's competitiveness⁴³. Different national studies carried out in Denmark⁴⁴, Finland⁴⁵, Germany⁴⁶, Iceland⁴⁷ or Spain⁴⁸ show that both employers

⁴³ Nieuwenhuis, A.F.M., and J.R.L. Steijvers, *Opleiding en ontwikkeling (Education and development)*, 1995.

⁴⁴ The Danish Institute for Trend Analysis (Institut for Konjunktur-Analyse), *The Danish Market for Courses and Conferences. Competence Development in Danish Businesses 1999 (Det danske kursusmarked. Kompetenceudvikling i dansk erhvervsliv 1999)*, Copenhagen, March 1999.

⁴⁵ Suomen kuvalehti, 1999. 'Aikuiskoulutuksen outo yhtälö' (The bizarre equation in adult training), No. 3, Helsinki, 22 January 1999.

⁴⁶ Bundesministerium für Bildung und Forschung, *Berichtssystem Weiterbildung VI, Integrierter Gesamtbericht zur Weiterbildungssituation in Deutschland (Integrated Report on Continuing Training in Germany)*, Bonn, 1996.

⁴⁷ University of Iceland, *The Situation of Vocational Training in Iceland*, Social Science Research Institute, Reykjavik, April 1999.

⁴⁸ Moreno, F., *Los Empresarios ante la Formación Continua (Entrepreneurs and Continuous Training)*, in *Revista del Ministerio de Trabajo y Asuntos Sociales Economía y Sociología*, No. 1, Madrid, 1997.

and employees are positive towards CVT. Pan-European studies confirm this conclusion.

Interestingly also, and for some specific countries, the existing legal framework in the employment area may become an incentive for enterprises to engage themselves in continuing training activities. This seems to be the case in Sweden, where the rather strict social employment protection and industrial relations framework limits the enterprises' possibilities to adjust their workforce level and salaries to changes in the market. Therefore, Swedish enterprises have incentives to upgrade the qualifications of their workers and improve versatility over the longer run, so staff training is one of the major parameters by which Swedish enterprises adapt themselves to changes in their economic environment⁴⁹.

Barriers to CVT amongst the European SMEs

Despite the existence of important incentives for CVT amongst SMEs, the empirical evidence shows that the percentage of enterprises that train their personnel is directly related to the enterprise size⁵⁰. This important result may suggest that SMEs, especially the smallest ones, suffer from specific obstacles that make it difficult to develop training activities. In this sense, and looking into the existing literature on the topic, it is possible to differentiate these obstacles and barriers in two main groups, according to their 'internal-to-the-enterprise' or 'external-to-the-enterprise' nature. However, and before going into detail, it is important to remember that CVT activities are not regarded as necessary 'per se' by all SMEs. Most SMEs not active in training suggest that their rationale for such a decision is that they are satisfied with the existing skills of their employees⁵¹.

As far as the 'Internal-to-the-enterprise' barriers are concerned, literature suggests some of the following:

- Due to their small size, SMEs cannot devote a substantial number of employees to training activities without experiencing significant negative side effects on the enterprise's functioning. In other words, the burdens caused by the absence of employees whilst undertaking training, especially off-the-job training, are too high⁵² since, as a Finnish research suggests, the work input may be irreplaceable and production is always the primary consideration for enterprises⁵³.
- It is often argued that SMEs (and especially the smallest ones) perceive training as a cost rather than as an investment⁵⁴, basically due to the fact that the link between training and performance is difficult to be measured and realised, particularly in the short run⁵⁵. Thus, expenditures on learning and intellectual capital are usually deducted as current operating expenses, since financial accounting and reporting practices fail to reflect the value of learning and

⁴⁹ OECD, OECD Economic Surveys 1997-1998; Sweden. Special features; Education, training and labour market reform, Paris, 1998.

⁵⁰ For a further discussion on this point please see the results included in Section 9.2.1.

⁵¹ Fox, R., Company Training in Ireland 1993, FAS, Dublin, 1995.

⁵² Storey and Westhead, Management Training and Small Firm Performance: A Critical Review, Warwick Business School Centre for SMEs, Working Paper No. 18, 1994.

⁵³ Metsä-Tokila, T., P. Tulkki and P. Tuominen, 1998. Ammattitaito, koulutus ja työ (Skills, training and work), ESR-julkaisut (ESF-Publications) 37/98. Helsinki: Edita Oy.

⁵⁴ CEREQ, Les très petites entreprises. Pratiques et représentations de la formation continue (Very small enterprises. Practices and models in the field of continuous vocational training), Cereq Bref, Marseille, September 1996.

⁵⁵ Rensujeff, K., and K. Nyyssölä, Ammattipassi painossa (Gram) (Passport for occupation in press). ESR-julkaisut (ESF-Publications) 43/99. Työministeriö (Ministry of Labour). Helsinki: Edita Oy, 1999.

intellectual capital as assets with long-term values⁵⁶. Not surprisingly, SMEs often prefer to resort to other means for acquiring external skills such as recruiting fully trained people or by outsourcing activities⁵⁷.

- Linked to the previous point, most SMEs are characterised by having short-term business strategies, which make it very difficult to develop training, an activity for which a long-term viewpoint and commitment to people is necessary⁵⁸.
- Several authors suggest that CVT in enterprises is less professional the smaller the enterprise is⁵⁹. To give an example from the ENSR Enterprise Survey 1999: less than 40 % of the European SMEs have a training plan, this percentage increases by size of enterprise. This has already been described before in different terms: training in SMEs is very often informal and in-house provided, with special emphasis on 'on-the-job' and 'learning-by-doing' training.
- Some SME managers have important 'mental' barriers to providing training activities for their employees. Thus, SME employers are very often reluctant to invest in people, on the grounds that the employee is likely to be 'poached away' by competitors⁶⁰. Consequently, this reluctance is higher if the enterprise shows frequent changes among its personnel⁶¹. Notwithstanding this, SMEs are able to set up some mechanisms to minimise this danger. To give an example, personnel in 67.8 % of the Swiss enterprises with more than 99 employees have to refund part of the course fees if they leave the enterprise soon after a course⁶².
- The objectives pursued in training are very often different for employers and employees⁶³. Thus, employers define the ultimate goal of training in their enterprise's interest perspective, whereas employees define their willingness to participate mostly in their own interest (profession, mobility, higher wage, training during working time, etc)⁶⁴. Not surprisingly, SMEs are not interested in improving the general skills of their employees, so the acquired know-how and skills have to be strictly related to the enterprise's perceived special needs⁶⁵.
- Finally, Storey⁶⁶ argues that the reluctance of small enterprises to train may as much reflect employers' as employees' attitudes. Career progression is less likely to exist in small enterprises, so the ambitious employees move between enterprises rather than within the organisation. Since the small-enterprise

⁵⁶ OECD, *Technology, Productivity and Job Creation: Towards best Policy Practice*, Interim Report, Paris, 1997.

⁵⁷ Ritsilä, J., *Alueellisen osaamistarve-ennakoinnin kolme ulottuvuutta. HENKOOSTA-hankkeen välitaportti* (Three dimensions of anticipating the regional skills needs), ESF-publications 23/1998. Ministry of Labour. Helsinki: Edita Oy, 1998.

⁵⁸ IKEI and ENSR, *Training Processes in SMEs: Practices, Problems and Requirements*, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

⁵⁹ Münk, D., and A. Lipsmeier, *Objectives, Realisation and Organisation of Continuing Vocational Education and Training*, in CEDEFOP, *Vocational Education and Training - The European Research Field*, Background Report, Thessaloniki, 1998.

⁶⁰ Curran, J., et al., *Employment and Employment Relations in the Small Service Sector Enterprise - A Report*, ESRC centre for Research on Small Service Sector Enterprises, Kingston Business School, 1993.

⁶¹ Nieuwenhuis, A.F.M., and J.R.L. Steijvers, *Opleiding en ontwikkeling* (Education and development), 1995.

⁶² Wüst, P., *Betriebliche Weiterbildung in der Schweizer Industrie* (Continued training in Swiss industrial companies), Chur/Zurich: Rüeegg, 1998.

⁶³ *Gids voor de Opleidingspraktijk* (Guide for the education practice), Van Loghum Slaterus, Amsterdam, 1998.

⁶⁴ De Koning, a.o., *Bedrijfsopleidingen, omvang, aard, verdeling en effecten* (Company training, amount, sorts, shares and effects), RVE Adviescentrum Volwasseneneducatie, Rotterdam, 1991.

⁶⁵ Metsä-Tokila, T., P. Tulkki and P. Tuominen, *Ammattitaito, koulutus ja työ* (Skills, training and work), ESR-julkaisut (ESF-Publications) 37/98, Helsinki: Edita Yo, 1998.

⁶⁶ Storey, D.J., *Understanding the Small Business Sector*, Routledge, London, 1994.

employee realises that his next job is likely to be in another small enterprise, training is not perceived as having the added value as it has to an employee in a large enterprise who intends to make a career within the enterprise.

Besides these 'internal-to-the-enterprise' barriers, it is possible to identify several other external barriers that hamper and make difficult the carrying out of CVT activities amongst SMEs. To start with, the high cost of training is perhaps one of the main bottlenecks for most SMEs, especially having in mind their traditional weak financial structure⁶⁷. Just to give an example, high cost of the courses is by far the most quoted barrier by the European SMEs active in training⁶⁸. Moreover, estimations made in Switzerland⁶⁹ suggest that per capita costs of CVT (both direct-course fees, travelling expenses, teaching materials- and indirect costs due to loss of production or substitution costs) are significantly higher the smaller the enterprise is (see Table 9.6).

Table 9.6 Per capita costs of CVT for Swiss enterprises, by enterprise size (in euro)

	<i>Number of employees</i>		
	<i>up to 20 employees</i>	<i>20-99 employees</i>	<i>100 and more employees</i>
Direct cost	343	237	275
Indirect costs	243	250	212
Total costs	586	487	487

Source: Wüst, P., *Betriebliche Weiterbildung in der Schweizer Industrie (Continued training in Swiss industrial companies)*, Chur/Zurich: Rüegger, 1998.

Therefore it is not strange that some authors have suggested that many small enterprises are unlikely to be able to pay for unaided training⁷⁰. This interesting result is also confirmed by a Leonardo Survey, which suggests that external financial aids are regarded as a more determinant factor the smaller the enterprise is⁷¹ (see Figure 9.4).

This cost-related problem is partially aggravated by the existing evidence that SMEs consider the existing training supply as too theoretical and scarcely SME-oriented, so they tend to search more and more for custom-made training (which obviously is much more expensive than open courses)⁷².

⁶⁷ Achermann, S., et al., *KMU Weiterbildungsförderung / Development of SME continuation training*, KTI-Projekt, Muttenz 1997. See also Hauser, H.-E., (1999): *Das statistische Gewicht des Mittelstandes in Deutschland 1996 (The Statistical Importance of Medium-sized enterprises in Germany 1996)*, in: *Jahresschrift 1998 des Instituts für Mittelstandsforschung Bonn, Bonn, 1997.*

⁶⁸ IKEI and ENSR, *Training Processes in SMEs: Practices, Problems and Requirements*, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

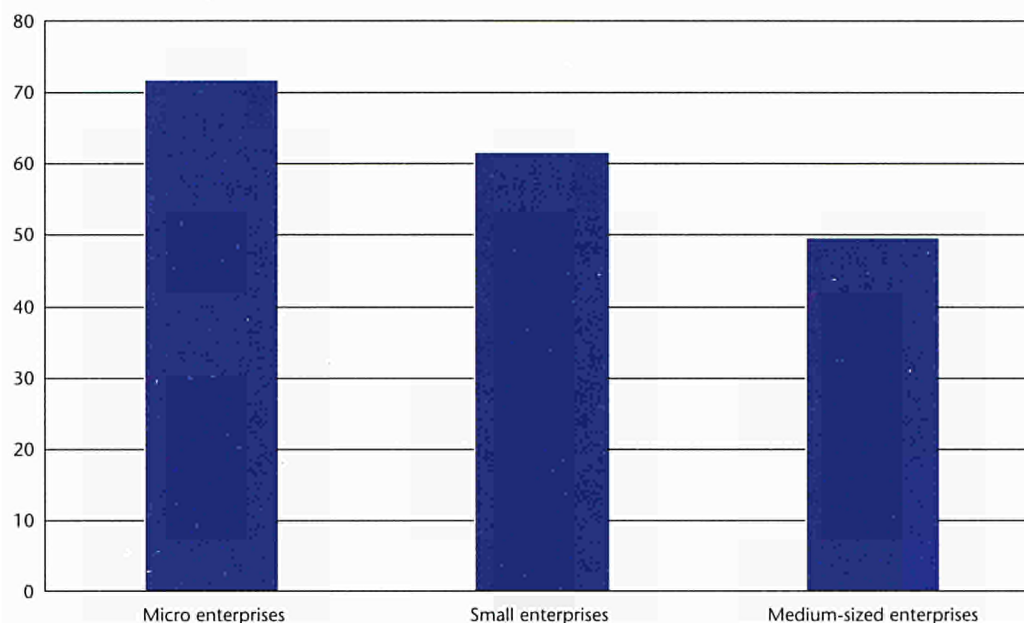
⁶⁹ Wüst, P., *Betriebliche Weiterbildung in der Schweizer Industrie (Continued training in Swiss industrial companies)*, Chur/Zurich: Rüegger 1998.

⁷⁰ Welch, B., *Developing Managers for the Smaller Business: A Report on Training and Development Needs*, Institute of Management, 1996.

⁷¹ IKEI and ENSR, *Training Processes in SMEs: Practices, Problems and Requirements*, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

⁷² Bernard Brunhes Consultants, *Le développement de la formation continue dans les petites et moyennes entreprises. Analyse comparative des dispositifs allemands et français (Development of continuous training in small and medium-sized enterprises. Comparative analysis of German and French systems)*, La lettre du Groupe Bernard Brunhes, N°34, Paris, May 1997.

Figure 9.4 Importance attributed to external aid for carrying out training, by enterprise size*



* Only enterprises with training activities.

From 0 (aids not determinant at all) to 100 (aids very much determinant).

Source: IKEI & ENSR, Training Processes in SMEs: Practices, Problems and Requirements, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

Other important external barriers include administrative procedures⁷³ and the lack of transparency for most of the existing European training markets, characterised by a wide array of institutions and courses difficult to be assimilated and discriminated by SMEs who do not have either the resources or the time for analysis⁷⁴. This problem is aggravated by the fact that SMEs often have difficulties to foresee and pinpoint their training needs and demands for the course or the training programme, so SMEs have a re-active rather than a pro-active training approach¹. This approach may suggest the need SMEs have for external advice and guidance when they are formulating their educational needs⁷⁵.

9.3 Continuing training activities amongst SME managers and owners

This section is looking into CVT activities carried out by SME managers and owners⁷⁶. This interest is raised due to the fact that, usually, the issue of CVT for employees draws most attention. In fact, the existing empirical evidence on the issue of training activities carried out by SME managers and owners seems to be rather limited in the European context. However, the central role that any

⁷³ AGEFOS-PME, Perspectives 99. L'emploi et la formation dans les PME (Perspectives 1999. Employment and training in SMEs), Paris, 1998.

⁷⁴ Keep, E., and K. Mayhew, The British System of Vocational Education and Training: A Critical Analysis, Oxford: Oxford University Press, 1995.

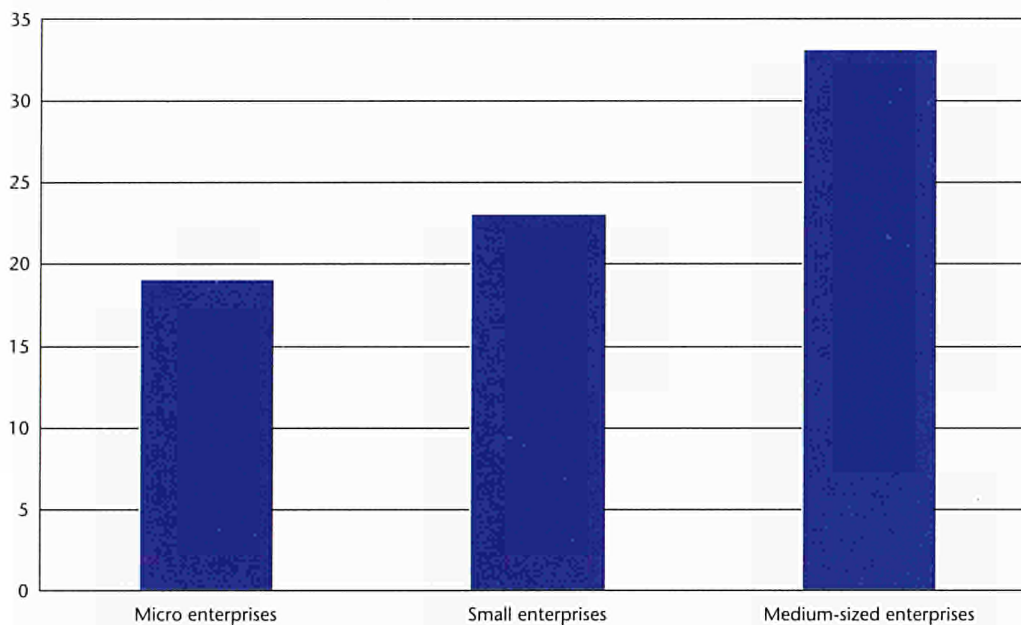
⁷⁵ Danish Agency for Industry and Trade, The Role and Opportunities of the CVT System in the Danish Innovative System, Copenhagen, July 1997.

⁷⁶ In this section, business owners are also included within the term 'managers'.

entrepreneur plays in the development of an SME⁷⁷ should not be forgotten, very often combining the position of owner and manager. Not surprisingly, a Dutch research suggests that the participation in CVT by SME employers depends to a great extent on the competencies of the entrepreneurs, in particular on their entrepreneurial and managerial skills⁷⁸.

To start with, the available empirical evidence⁷⁹ suggests that SME managers and owners seem to be less engaged in training activities than other employment categories. Interestingly also, and as the ENSR Enterprise Survey 1999 shows, the percentage of trained directors and managers is directly related to the enterprise size, ranging from 19 % as far as the European micro enterprises are concerned to 23 % and 33 % for the small and medium-sized enterprises, respectively (see Figure 9.5).

Figure 9.5 Percentage of European SMEs* that train their directors and managers, by enterprise size, Europe-19



* Data only refer to SMEs with CVT practices.

Source: ENSR Enterprise Survey 1999.

Generally speaking, SME managers and owners seem to have a positive attitude towards training for themselves. Just to give some examples, Swiss managers support the view that continued training for management staff is of prime importance in the field of corporate management in order to reinforce or even improve existing strengths⁸⁰. Meanwhile, 75 % of the UK owner-managers believe

⁷⁷ For a discussion on this topic please refer to Chapter 5 of the Fourth Annual Report of The European Observatory for SMEs.

⁷⁸ Van den Tillaart, H., and J. Warmerdam, Sectoral training policies towards small and medium-sized enterprises, ITS, Nijmegen, 1997.

⁷⁹ Please find references in Section 9.2.

⁸⁰ Aschoff, U., Nutzung von Weiterbildungsangeboten und Implementierung von Weiterbildungsinhalten für KMU Führungskräfte im internationalen Vergleich (Use of continued training programmes for SME owner/managers - an international comparison, PhD study), University of St Gallen, 1995.

management training to be important for business success⁸¹, whereas over half of a sample of Irish enterprises rate management training as important to the success of their business⁸². However, this positive attitude towards training might be somehow dependent on educational background. Thus, 'self-made entrepreneurs' are cited as most often learning by doing their job and by experience⁸³, where they seem to be more reluctant to use external training in comparison to highly educated managers and owners⁸⁴.

Training for SME owner-managers has to be adapted to their particular personalities to be fully attractive to them. Thus, SME owner-managers have a rather short-term attitude towards training, since they are interested in pursuing a training activity provided that the obtained knowledge and results can be rapidly translated into daily working practice⁸⁵. Evidence from German training institutes points out that the majority of the SME managers only participate in a training measure when they face real problems⁸⁶. Therefore it is not strange that in some countries (i.e. Finland), this short-term approach leads into increasingly tailored contents and general structures of programmes so that they fulfil the needs of a particular participant or organisation⁸⁷.

Additionally, and apart from formal training, several French studies⁸⁸ state that SME entrepreneurs are interested in other means than formal training to acquire knowledge and competencies, such as to resort to external advice, networking or entrepreneurs' clubs. This result is confirmed in the UK⁸⁹ and the Netherlands⁹⁰, since owner-managers are very fond of learning from the exchange of experiences with other managers. These kind of informal mechanisms, with colleagues from either the same or different disciplines, are very well appreciated by SME managers and owners⁹¹.

SME manager-owners do have to face difficulties and barriers for attending training courses that might explain the lower probability for this job category to

⁸¹ Barclays Bank Small Business Survey, London, May 1998.

⁸² Burke, T., Management Development: Final Report, EU Structural Funds Industry Evaluation Unit, Dublin, 1996.

⁸³ Cannon, F., Business Driven Management Development: Developing Competencies which Drive Business Performance, *Journal of European Industrial Training*, 19:2, 1995, and Gibb, A.A., Small Firms' Training and Competitiveness - Building Upon the Small Business as a Learning Organisation, *International Small Business Journal*, 15:3, 1997.

⁸⁴ CEDEFOP, Estrategias para el Acceso de los Empresarios de las Pyme a la Formación (Strategies for the Access of SME Managers to Training), Berlin, 1994.

⁸⁵ Aschoff, U., Nutzung von Weiterbildungsangeboten und Implementierung von Weiterbildungsinhalten für KMU Führungskräfte im internationalen Vergleich (Use of continued training programmes for SME owner/managers - an international comparison, PhD study), University of St. Gallen, 1995.

⁸⁶ O.V., Paßgenaue Konzepte sind gefragt (Custom-made concept is requested), Institut der Deutschen Wirtschaft Köln, in: *iwd* Nr. 5, 4 February 1999.

⁸⁷ Hytti, U., 1999. Yliopistollisen täydennyskoulutuksen strategiat ja kilpailuvaltit (Strategies and competitive advantages in continued education provided by the universities), Publications of the Turku School of Economics and Business Administration C 3/1999, Turku, 1999.

⁸⁸ These studies are summarised in Ducheneaut, B., Les dirigeants de PME (SME leaders), Ed. MAXIMA, Paris, 1996.

⁸⁹ Stanworth, J., and C. Gray (eds), *Bolton 20 years On: The Small Firm in the 1990s*, Paul Chapman Publishing London, 1991.

⁹⁰ Nieuwenhuis, A.F.M., and J.R.L. Steijvers, *Opleiding en ontwikkeling* (Education and development), 1995.

⁹¹ The Foundation for Manufacturing and Industry, et al., *The Middle Market - How They Perform: Education, Training and Development*, a joint report by the Foundation for Manufacturing and Industry, Coopers & Lybrand and Warwick Business School, 1997.

Table 9.7 External training days during the last 12 months for owner-managers in the United Kingdom, by enterprise size

	<i>Number of employees</i>			
	<i>1-9</i>	<i>10-24</i>	<i>25-49</i>	<i>50-199</i>
1 day or less	23 %	26 %	10 %	8 %
2-5 days	48 %	39 %	48 %	48 %
6-15 days	20 %	36 %	29 %	34 %
More than 15 days	4 %	9 %	13 %	8 %
Don't know/No answer	6 %	1 %	0 %	2 %

Source: Curran, J., et al., 'Establishing Small Firms Training Practices, Needs, Difficulties and Use of Industry Training Organisations', DfEE Research Studies RS17, HMSO, London, 1996.

receive training, especially formal training. Equally, these barriers can be divided in 'internal-to-the-firm' and 'external-to-the-firm' barriers as seen in the previous section.

As far as the first ones are concerned, perhaps the most important one is related to the central role that most managers and owners play in the organisation. Most SME managers and owners face delegation and lack-of-time problems⁹² since they cannot be away from the enterprise too long. Just to give an example, Swiss SME managers are confronted by overwork with an average of 55.8 working hours per week⁹³. Not surprisingly, Swiss managers limit their training to weekends, if possible.

These delegation and 'lack-of-time' problems are confirmed when looking into the number of days that British owner-managers are able to devote to external training (see Table 9.7). Thus, the available data shows that owner-managers use more days for external training the larger the enterprise is⁹⁴.

Additionally, most SME managers and owners are subject to the uncertainty of how business will develop and the resulting problem of enrolling months in advance⁹⁵, which leads to an obvious demand for short and flexible courses, possibly carried out within the enterprise. Just to give an example, a survey⁹⁶ conducted amongst British owner-managers in 1996 showed that 75 % of owner-managers reported having undertaken training in the past 12 months, where this training was mainly in-house with only 33 % having used external training.

There are some other internal reasons for not engaging in management training, most of them related to the owner-managers' personal perception on training already explained in this chapter. Examples of these internal barriers include problems related to poor previous experiences, scepticism about the value of training or perceived risks of trained managers being poached away by other enterprises⁹⁷.

⁹² Ducheneaut, B., *Les dirigeants de PME (SME leaders)*, Ed. MAXIMA, Paris, 1996.

⁹³ Füglistaller, U., *KMU und ihre Dienstleistungen (SMEs and their services)*, Swiss Research Institute of Small Business and Entrepreneurship, St. Gallen, 1998.

⁹⁴ Curran, J., et al., *Establishing Small Firms Training Practices, Needs, Difficulties and Use of Industry Training Organisations*, DfEE Research Studies RS17, HMSO, London, 1996.

⁹⁵ Aschoff, U., *Nutzung von Weiterbildungsangeboten und Implementierung von Weiterbildungsinhalten für KMU Führungskräfte im internationalen Vergleich (Use of continued training programmes for SME owner/managers - an international comparison, PhD study)*, University of St. Gallen, 1995.

⁹⁶ Curran, J., et al., *Establishing Small Firms Training Practices, Needs, Difficulties and Use of Industry Training Organisations*, DfEE Research Studies RS17, HMSO, London, 1996.

⁹⁷ Burke, T., *Management Development: Final Report*, EU Structural Funds Industry Evaluation Unit, Dublin, 1996.

To end with, several external barriers that hamper access of employees to training also confront SME managers and owners. Examples of these external barriers include lack of information to identify appropriate courses or lack of SME-relevant training and effective providers⁹⁸. Meanwhile, and as far as costs are concerned, this obstacle seems to be less relevant in the case of owner-managers training (although it is obviously important). Thus, empirical evidence from Germany supports the view that SME managers and owners are more concerned with the duration and location of the course rather than with the price they have to pay for it⁹⁹. Meanwhile, Dutch managers/owners pay also significant attention to the fact that occupation-specific topics are raised and/or the teacher has some working experience in the actual occupation¹⁰⁰.

9.4 Information and communication technology (ICT) and continuous training in SMEs

The development and the widening application of the so-called 'Information and Communication Technology' (ICT) is perhaps one of the main characteristics of our current society, although, as the European Commission points out, the speed of introduction of these technologies varies widely between countries, regions, sectors, industries and enterprises¹⁰¹.

These ICT are deeply affecting the education and training field in a number of ways:

- On the one hand, ICT is changing the work organisation within enterprises and the structure of competencies and qualifications currently required by enterprises¹⁰². Our current technological environment, characterised by constant innovation, requires from employers and employees a permanent ability to learn, resulting also in a clear danger of gradual exclusion from employment and therefore society for certain under-skilled groups¹⁰³.
- On the other hand, ICT is offering new possibilities as training tools. Examples of these new possibilities include collaborative and interactive learning through educational multimedia tools or the possibility to have access to large amounts of information world-wide through data networks¹⁰⁴. Moreover, ICT is currently viewed as a powerful training tool for those groups who find current modes of learning hard to access¹⁰⁵. Examples of these groups are several, such as disabled, sick, house-bound or under-qualified young people, people in remote

⁹⁸ Storey and Westhead, *Management Training and Small Firm Performance: A Critical Review*, Warwick Business School Centre for SMEs, Working Paper No. 18, 1994.

⁹⁹ O.V., *Nicht alle sind wissensdurstig (Not all are Learning Organisations)*, Institut der Deutschen Wirtschaft Köln, in: *iwd* No. 13 vom 1.4.1999, Köln.

¹⁰⁰ Nieuwenhuis, A.F.M., and J.R.L. Steijvers, *Opleiding en ontwikkeling (Education and development)*, 1995.

¹⁰¹ European Commission, *Green Paper on Living and Working in the Information Society: People First*, COM(96) 389 final, Brussels, 1996.

¹⁰² European Commission, *Building the European Information Society for us all. Final policy report of the high-level expert group*, Brussels, April 1997.

¹⁰³ European Commission, *Job Opportunities in the Information Society: Exploiting the Potential of the Information Revolution*, Report to the European Council, COM (1998) 590 final, Brussels, 1998.

¹⁰⁴ European Commission, *Working Document on the Social and Societal Aspects of the Information Society*, Brussels, 1995. See also European Commission, *Technologies for Knowledge and Skills Acquisition, Proposal for a Research Agenda*, October 1997. This document can be found in http://www2.echo.lu/telematics/education/en/interact/bul_5th2.htm#tech 2 (situation on 24 July 1999).

¹⁰⁵ UNEVOC, *Vocational Education and Training in Europe on the Threshold of the 21st Century*, UNESCO, Berlin, 1999.

areas or, interestingly from an SME perspective, workers in enterprises that do not have in-house training capacities¹⁰⁶ and SME owners/managers who lack the time for engaging themselves in training activities.

The use of ICT offers huge possibilities for teaching and learning, not only for learners in traditional classrooms but also and more interestingly for those in other learning environments such as distance learning (see Table 9.8). In this last area, it is possible to use a large variety of ICT systems to deliver distance instruction, such as voice technologies (real time, voice mail), video technologies (tapes, live telecasts, cable television, teleconferences), CD-ROMs and compact-disk interactive tools, computer-aided technologies and, finally, the Internet¹⁰⁷.

Moreover, the merge between the multimedia and the telecommunication technologies is resulting in a large number of different possibilities in the distance training domain, such as inter-active classes, constant updating of the training materials, distance exams, etc¹⁰⁸. Not surprisingly, substantial progress in quantity

Table 9.8 Main advantages and disadvantages of distance training for enterprises

Main advantages:

- Organisational aspects, such as flexibility of hours, decentralisation of the training process outside the training site, permanent availability of the courses or possibility to reach geographically disseminated populations;
- Cost, since distance training implies important savings related to the lessening of travel hours to the training site, the reduction in transfer cost (travel, lodging, etc), the possibility to train a large number of people from an initial investment in the course design. For this purpose, it is obvious that the contents should not change and the course has to be widely used by a large number of enterprises;
- Teaching aspects, such as simultaneous transmission of contents to all students, adaptability to different habits and learning rhythms, possibility of a more customised training and attention from the teachers.

Main difficulties:

- Difficulties to study in-depth certain training contents;
- Difficulties for the exchange of ideas and problems of isolation. This problem is partially solved by the new communication technologies;
- Difficulties to set up feed-back mechanisms;
- Difficulties for obtaining certain training goals linked to social or practical abilities;
- Difficulties for low-skilled workers and low-motivated students to follow up the training materials;
- Small existing supply of training materials well suited to the enterprises' training needs, resulting in a need for purchasing tailor-made training materials, much more expensive.

Source: AECS (Association of European Correspondence Schools), XV European Congress of Distance Training, Minutes Book, 1996, taken from Rubio Hurtado, M., and A. Escofet Roig, La Formación a Distancia en la Pequeña y Mediana empresa. Usos y Posibilidades (Distance Training in SMEs, Habits and Possibilities), in Capital Humano, No. 118, 1999.

¹⁰⁶ As it was discussed in a previous section, this lack of in-house training facilities is common to most European SMEs.

¹⁰⁷ New developments in the ICT domain are also dealt with in Chapter 5 of this report.

¹⁰⁸ The possibilities opened by ICT in the training domain have attracted the attention of the European Commission. The Commission has developed the Telematics Applications Programme within the Fourth Framework Programme for Research and Technological Development. One of its main action lines has been the Education and Training Sector, basically with the main aim of supporting the development of access to lifelong learning for educators, learners, trainers and trainees alike through the use of new technologies. The Fifth Framework Programme (1998-2002) has set up a Key Action III, 'Multimedia Content and Tools', with the same goals.

Case Study: An SME successfully developing new interactive learning products

Boxer Technology AS in Kristiansand, Norway, is an enterprise with 40 employees specialising in developing IT-based programmes for interactive learning. The starting point was simulation packages specially developed for large enterprises in the oil industry, shipping and aviation. The current product range also includes standard training programmes in software applications, used by large as well as small enterprises.

Source: Agder Research Foundation.

and quality of supply of multimedia products and services for education and training has taken place in the last years¹⁰⁹ where, in some cases, SMEs themselves are developing some of these products¹¹⁰.

From an SME perspective, there appears to be little published information on the use of ICT in SMEs for training purposes, where most of this information can be labelled as 'theoretical'¹¹¹. Nevertheless, it is possible to identify several studies that have dealt with the topic from an empirical perspective. Evidence collected from Denmark shows that the use of ICT for distance and self-training purposes is directly related to the enterprise size, where the larger the enterprise the more the use of ICT for training issues¹¹². The majority of Danish enterprises have found that their expectations in the use of ICT for training purposes have been met.

Several Austrian and British studies suggest that SMEs are very interested in introducing Computer-based Training (CBT) in their enterprises. Thus, and referring to the Austrian evidence, 74 % of the surveyed SMEs are interested in CBT (mainly due to the advantages identified for distance training), although only 18 % of the sample have already used CBT and only 7 % of them have already used CBT within their premises¹¹³.

This size effect is partially explained by the fact that the small business sector is recognised as being deficient in its use of ICT as a general support tool¹¹⁴, where most of the SMEs just use ICT for basic functions such as word-processing or financial management packages. It is not therefore strange that most SMEs may consider training through ICT on a theoretical basis, although few of them appear to use them in practice. Additionally, it is worth mentioning the existing national

¹⁰⁹ SCIENTER, Multimedia Educational Software Observatory (MESO) Final Report, European Overview, DGXXII, Brussels, 1998.

¹¹⁰ Taken from Fournet, M., and V. Bedin, L'Ingénierie de Formation entre Traditionalisme et Modernisme (The Training Engineering between Traditionalism and Modernism), Formation Emploi, No. 63, Paris, 1998.

¹¹¹ Some of this information can be found in Straka, G., and M. Stöckl, New Learning Formats and Venues in the Context of Information and Communication Technologies, in CEDEFOP, Vocational Education and Training - The European Research Field, Background report, Thessaloniki, 1998.

¹¹² Information technology for training purposes in private enterprises, carried out by IFKA for Centre for Technology Supported Learning, February 1999. The questionnaire study covers a representative selection of Danish private enterprises.

¹¹³ Unpublished report Tele-Lernen (Distance Training), December 1996-November 1997, project telelearning.

¹¹⁴ For a further discussion on this topic see Chapter 8 on Information Technologies in SMEs in the Fourth Report of The European Observatory for SMEs, Zoetermeer, 1996.

differences as far as the availability of computers is concerned¹¹⁵, an aspect that obviously influences their use for educational achievements.

SMEs argue several barriers associated with the use of ICT for distance and self-training purposes. The Austrian SMEs¹¹⁶ seem to be particularly concerned about the problems of social isolation and lack of personal contacts¹¹⁷, together with the technical problems associated with the learning programmes. Meanwhile, British SMEs¹¹⁸ are especially affected by the high costs of ICT, the difficulties in differentiating the myriad of providers¹¹⁹ and, finally, the frequent changes in technology¹²⁰. By way of contrast, the Danish SMEs, which have not used ICT for training purposes, argue that their decision is to a large extent a deliberate choice since, according to them, their educational needs are covered better in a different manner, where economic barriers are not crucial¹²¹.

Case Study: ICT for SME training purposes

The 'Formação à Distância' (Distance-Learning) initiative within the Formação PME (SME Training) sub-programme, managed by the AIPortuense (Oporto Industrial Association), is an interesting case study of successful use of information technology by SMEs for training purposes.

These courses, which include a wide array of different topics (i.e. time management, sales, financial management, quality systems or working conditions), are organised around participant groups. The courses include an initial session introducing the course and outlining the forms of participation and communication, an on-line conference between participants and the trainer, a system of communication between the trainer and participants and, finally, a session of conclusion and course evaluation. This communication system enables feedback in the training process through the use of electronic mailing. Each course includes as training materials an interactive multimedia CD-ROM, a course study video and, finally, a course manual.

Source: Associação Empresarial de Portugal.

¹¹⁵ For a further discussion on this, please see OECD, Information Technology Outlook, Paris 1997. An interesting reference is also made in Chapter 5 on Electronic Commerce and SMEs of this Sixth Report of The European Observatory for SMEs.

¹¹⁶ Thum-Kraft, M., Einsatz neuer Medien in der betrieblichen Weiterbildung (The Use of New Tools in Company-Based Continuing Training), in: Institut für Bildungsforschung der Wirtschaft, Lebensbegleitendes Lernen - Aktuelle Beiträge zur beruflichen Weiterbildung in Österreich, Vienna, 1997.

¹¹⁷ This point is important, since one of the main advantages linked to the new information and communication technology is linked to the expectancy that the form, extent and radius of potential social contacts should widen. However, it remains to be seen whether face-to-face interactions can be replaced by 'parasocial interactions' through the new media. This reflection has been taken from Straka, G., and M. Stöckl, New Learning Formats and Venues in the Context of Information and Communication Technologies, in CEDEFOP, Vocational Education and Training, The European Research Field, Background report, Thessaloniki, 1998.

¹¹⁸ Howard, K., IT Means Business? A Survey of Attitudes in Smaller Businesses to Information and Technology, Institute of Management, 1997.

¹¹⁹ This result is also confirmed in Kailer, Norbert (ed.), Innovative Weiterbildung durch Computer Based Training, Ergebnisse einer europaweiten Studie (Innovative Continuing Training through Computer Based Training - Results of a European-wide Study), Vienna: Signum, 1998.

¹²⁰ It is not therefore surprising that up to 21 % of British SMEs argue that the benefits associated to ITs are overplayed.

¹²¹ Information technology for training purposes in private enterprises, carried out by IFKA for Centre for Technology Supported Learning, February 1999.

From a more general perspective, Icelandic evidence argues several important barriers for the diffusion of CBT¹²². These barriers include the limited access and knowledge of technical matters by customers, the existing technical complications regarding the speed of communications, the availability of appropriate infrastructures, the high cost related to the use of ICT, the scarce development of textbooks and, finally, the shortage of instructors. In addition, some other authors have stressed the barriers associated with acquiring the required skills for successfully using these ICT (both as student and as trainer)¹²³.

The ENSR Enterprise Survey 1999 provides some useful information on the use of ICT for training purposes. Traditional tools such as written materials and books are predominantly used by the European SMEs for the training of their personnel, whereas other new and more innovative tools are less extended (see Table 9.9). Up to 66 % of the surveyed European SMEs active in CVT have employed written materials for training, where this percentage is less important when referring to other more innovative media such as videos, CD-ROMs or the Internet (24 %, 25 % and 22 %, respectively)¹²⁴. However, and from a dynamic perspective, it seems that the new innovative media such as the Internet and CD-ROMs are becoming increasingly predominant in comparison to other traditional media for training¹²⁵.

Table 9.9 Use of different media for training purposes by SMEs, Europe-19

<i>Size class</i>	<i>Internet</i>	<i>CD-ROM</i>	<i>Video</i>	<i>Written materials</i>	<i>Don't know/ No answer</i>
0 employees	20 %	24 %	16 %	65 %	24 %
1-9 employees	22 %	25 %	26 %	66 %	15 %
10-49 employees	26 %	30 %	32 %	65 %	15 %
50-249 employees	23 %	34 %	39 %	66 %	12 %
Total	22 %	25 %	24 %	66 %	18 %

Note: Data only refer to SMEs with CVT practices. The sum of row can exceed 100 %.

Source: ENSR Enterprise Survey 1999.

On the other hand, it is interesting to notice that, with the exception of the Internet and the traditional written materials, there is a positive relation between enterprise size and use of other media for training purposes such as CD-ROMs or videos. This result is important, since it might be showing that, nowadays, SMEs are not lagging behind LSEs in the use of the Internet, as was the case a few years ago.

Finally, for this section it is possible to conclude that the new technologies open up significant prospects in the world of lifelong learning and education, provided that as many people as possible have access and are able to use them. However,

¹²² VMA (Verkmenntaskólinn á Akureyri), Hörður Ágústsson, Reykjavík, April 1999.

¹²³ Roberts, J.M., and E.M. Keough (Eds), *Why the Information Highway? Lessons from Open and Distance Learning*. Trifolium Books Inc, Toronto, 1995.

¹²⁴ This result is also confirmed by a Spanish study. This study shows that advanced telematic tools for distance training purposes are scarcely used by the Spanish enterprises, whereas written materials are widely employed. The scarce development of the CBT supply is pointed out as a major cause for this result. For a wider discussion see Rubio Hurtado, M., and A. Escofet Roig, *La Formación a Distancia en la Pequeña y Mediana empresa. Usos y Posibilidades* (Distance Training in SMEs, Habits and Possibilities), in *Capital Humano*, No. 118, Madrid, 1999.

¹²⁵ Howard, K., *IT Means Business? A Survey of Attitudes in Smaller Businesses to Information and Technology*, Institute of Management, 1997.

as the Study Group on Education and Training stresses¹²⁶, the European educational and training systems are being adapted to these new demands and technological innovations very slowly, especially as far as SMEs are concerned. Therefore, a greater impetus and effort is required in the next years for Europe to catch up with the existing situation in other advanced geographical areas such as the USA or Japan.

9.5 Policy schemes directed at fostering CVT activities amongst SMEs

The variety of existing measures and CVT systems throughout Europe is so great that it is extremely difficult to obtain a clear general picture¹²⁷. This variety is defined by the existence or not of several elements, such as ad hoc legislative frameworks and institutions, sources of financing or policy schemes aimed at fostering CVT amongst enterprises. Having in mind this heterogeneity, it is not unexpected that Article 127 in the Union Treaty stresses that the EU should limit its activities to supporting the national policies of the Member States. The text explicitly states that the intervention of the Community in no way foresees the harmonisation of the legislative and regulatory provisions of Member States, whose responsibility in respect of the content of programmes and organisation of training is confirmed.

Notwithstanding these differences, it is possible to detect several trends that are becoming common amongst the different existing national CVT systems¹²⁸. These trends include:

- Links between initial and continuing vocational training are being increasingly reinforced, a trend which is reflected in a growing use of vocational training institutes for both types of training.
- Growing attention is being paid to the accreditation of qualifications and the certification of competencies, intended both to improve the quality of systems and to foster recognition of titles and skills within the different European States and amongst them.
- There is a shift away from the role of governments in finance and provision towards an emphasis on the responsibility of the social partners and the individual adult learners, so competencies and responsibilities concerning CVT are increasingly being shifted to the private sector. A good example of this is given by the Spanish case, where since 1993 the administration of the existing CVT funds is managed by the FORCEM Foundation, made up of the main Spanish employers' organisation and trade unions.
- There is a strong trend towards decentralisation and regionalisation, basically through the transfer of competencies and responsibilities from the central level to the regional/local level. This regionalisation process is intended to adapt the existing training supply and measures to the needs of the local economy.

¹²⁶ Study group on Education and Training, *Accomplishing Europe Through Education and Training*, European Commission, Luxembourg, 1997.

¹²⁷ For a comprehensive review of the existing national systems of Continuing Vocational Training within the different EU Member States, please have a look at European Commission, *Continuing Vocational Training: Europe, Japan and the United States of America*, Luxembourg, 1997.

¹²⁸ Quoted in Münk, D., and A. Lipsmeier, *Objectives, Realisation and Organisation of Continuing Vocational Education and Training*, in CEDEFOP, *Vocational Education and Training - The European Research Field*, Background Report, Thessaloniki, 1998.

- Finally, and linked to the previous point, CVT systems are becoming increasingly aware of the needs of SMEs. Not surprisingly, the European Commission has concluded that SMEs are in all Member States at the top of the political agenda¹²⁹.

There is a number of policy schemes and initiatives throughout Europe intended to foster CVT activities in general, paying special attention to SMEs. Thus, and at European level, the European Commission has launched since 1994 the 'Leonardo da Vinci' Programme for a period of five years, 1995-1999. This 'Leonardo da Vinci' Programme is now the umbrella programme relating to EU training policy, and whose key objective is to support the development of policies and innovative actions in the Member States, particularly trans-national partnerships involving different organisations with an interest in training. The programme has five strategic priorities, these are: i) the acquisition of new skills; ii) forging closer links between schools and enterprises; iii) combating exclusion; iv) promoting investment in human resources and, finally, v) using information technology to build the Learning Society.

Additionally, and always from a Pan-European perspective, it is worth underlining the activities carried out by the agencies of CEDEFOP in Thessaloniki (Greece) and the European Training Foundation (ETF) in Torino (Italy). On the one hand, CEDEFOP (European Centre for the Development of Vocational Training) has been involved since 1976 in the promotion and the development of vocational training of young people and the continuing training of adults, primarily through European-wide co-ordination of analysis and research activities. On the other hand, the European Training Foundation is intended to promote co-operation and co-ordination of assistance in the field of vocational training reform in central and eastern Europe, the New Independent States and Mongolia and, since July 1998, the countries eligible for support from the MEDA programme.

The Commission has signed in December 1999 a contract to research, design and set up the Business Education Network in Europe (BENE). BENE will be a Europe-wide network of educational organisations, including existing networks, directly involved either in teaching of entrepreneurship or in training of entrepreneurs, to improve the exchange of experience, cross-cultural learning, comparative analysis and identification, where relevant, of best practices.

From a national perspective, the different European countries are also developing different policy strategies to foster CVT activities amongst their national SMEs. In some cases (i.e. France, Norway), it is compulsory for all enterprises (including independents and self-employed) to participate in the financing of the vocational training of employees.

For this purpose, French enterprises have to dedicate a percentage of their gross wage bill volume to the financing of vocational training activities for the benefit of employees, where the rate of legal obligation is dependant on the size of the enterprise. If not spent on training, the amount of the legal contribution is nevertheless paid into a kitty (OPCA and FONGECIF), so this contribution may support vocational training activities of other enterprises in the framework of the so-called system of 'mutual training funds'. Interestingly also, enterprises with 50 employees and more have the legal obligation to produce a written document presenting the annual orientation in CVT activities. In Norway, a similar practice is regulated by the Basic Agreement between the employers' and employees' organisations.

¹²⁹ European Commission, Report of the Commission on Access to Continuing Vocational Training in the Union (Council Recommendation of 30th June 1993), COM (97) 180 final, Brussels, 1997.

Other European countries have developed different policy orientations for supporting CVT activities amongst SMEs. As for Ireland, it is worthwhile to highlight the 'Training Support Scheme' (TSS). This TSS is intended to improve the skills of existing Irish SME employees at all levels from operative to management. Assistance takes the form of grant aid to eligible companies to purchase their training in the market. Enterprises that participate in the TSS must initially demonstrate that the training need has been clearly identified and is linked to a business development plan or strategy. Rates of subsidy differ according to enterprise size, and overall quotas have been established to ensure that 50 per cent of funds are reserved for firms with less than 50 employees.

In other countries (i.e. the Netherlands), support is provided through tax relief. The Dutch 'Extra scholingsaftrek in de winstfeer' (Extra tax deduction from profits) is intended to stimulate CVT for employed people¹³⁰, with a special emphasis on those employed in the SME sector. For this purpose, the aid includes an additional tax deduction facility on top of the normal tax deduction facility for educational purposes. It is expected that similar tax incentives will be introduced in Austria within the tax reform for 2000, so investments in human capital will be treated as favourably as other capital investments.

Interestingly, other countries have set up a network of institutions for supporting CVT activities. As far as Portugal is concerned, the 'Programa Piloto Formação PME' (SME Training Pilot Programme) has been designed to build up a training/counselling network for small-enterprise management support in order to improve companies' competitiveness and employed persons' competencies. This public programme provides, free of charge to enterprises, a combined profile of trainers and counsellors. A somewhat similar idea was previously developed in the UK, with the creation of the National Centre for Vocational Qualification (NCVQ) and the subsequent setting up by 1991 of a network of regional Training and Enterprise Councils (TECs), intended to take responsibility for and administer the provision of training to small enterprises.

Notwithstanding all the existing policy developments aimed directly or indirectly at fostering CVT activities amongst SMEs, the limited empirical evidence on the topic suggests that there is still much room for improvement in the public action domain. SMEs attach little value to the existing public support for CVT, a result that might explain their scarce use of public schemes. A pan-European study carried out in 11 European countries¹³¹ suggests that only three out of ten European SMEs active in CVT have benefited from public aid in this area. The surveyed European SMEs' valuation of the existing public programmes for supporting CVT was 37.4 on the scale from 0 (very poor) to 100 (very good). These valuations were lower as the enterprises became smaller.

9.6 Policy Issues

Policy makers are devoting increasing attention to the subject of Continuing Vocational Training (CVT), basically through the development of a support structure to improve both the qualifications and employment prospects of those

¹³⁰ The definition of participants in CVT in the Netherlands includes both the employed and those seeking employment.

¹³¹ IKEI and ENSR, Training Processes in SMEs: Practices, Problems and Requirements, project funded by the Leonardo Programme, Donostia-San Sebastián, 1997.

who are currently in employment. Notwithstanding this augmenting policy focus, SMEs do not fully benefit from the existing training support infrastructure. This chapter has shown that SMEs experience specific barriers to training that have to be taken into account in the design of a successful SME-oriented training policy.

Thus, an SME-oriented training policy, irrespective of the existing differences in the legal and cultural frameworks in the European-19 territory, should take sufficient account of some of the following elements:

- Primarily, public authorities have to make an important effort in improving the basic and generic skills that the general education system provides, since these skills are a cornerstone both for employment and for further lifelong learning activities.
- Relevant public and private policy-making actors should encourage, amongst SMEs, the idea of training and education for employers and employees as a lifelong strategic tool within the management of the enterprise.
- SMEs' investments on skill and training development have to be specifically encouraged and stimulated by public authorities since, as the chapter has shown, external aids are regarded as determinant for carrying out CVT activities, especially amongst the smaller enterprises and the less qualified personnel. This recommendation can be extended to those countries where training expenses are decided by the social agents themselves at sector/branch level.
- Continuing training should be treated by the public sector as any material investment, so training might be benefited from existing incentives (i.e. tax relief).
- Partially linked to the previous point, it is extremely important to design better ways of valuing long-term, intangible assets (i.e. CVT activities carried out by enterprises). Thus, while acquisition of new machinery is treated as an investment by the enterprises' current reporting systems, the acquisition of new skills to run the machinery is often treated as a cost, and its value is 'invisible'. This situation is important, since it may also affect the way enterprises are externally evaluated by potential investors and lenders.
- Any support aimed at SMEs should take into account not only the direct costs derived from training (course fees, teaching materials, travel costs), but also the indirect costs (i.e. costs due to loss of production or substitution costs), since SMEs are especially sensitive to these kind of costs.
- Support to advice and counselling activities has traditionally been ignored by most of the policy-making processes to date. However, this chapter has shown that the greatest need most SMEs have is for external advice and guidance to identify and formulate their educational needs.
- Public authorities should support other measures than formal training for supporting continuing training activities amongst SME owners and managers. This chapter has suggested that SME owner-managers are very fond of learning from the exchange of experiences with other managers. The creation of these entrepreneurs' clubs and exchange fora could be a valuable public support for training purposes.
- Public authorities should support the full exploitation of the possibilities opened up by the Information and Communication Technology (ICT) for training purposes. For this purpose, special attention should be paid to the improvement of the existing ICT infrastructures, together with the upgrading of the computer skills amongst the population, and the lowering of equipment costs for schools.

- Public CVT support policy has to pay attention to administrative burdens and overhead costs, aspects particularly sensitive for SMEs. Additionally, more attention is required to improve SMEs' knowledge and information on the existing training programmes and measures.
- Public bodies have to set up/improve methods for the evaluation of the existing CVT supply, so its quality can be continuously improved and adapted to the existing needs and requirements of enterprises. Additionally, it is important to ensure the existence of strong incentives for training providers to apply continuously innovations in the training field.
- Training providers need to make an effort to adapt their training supply to the SMEs' real characteristics. Otherwise, it is possible to envisage that any public support policy intended to foster CVT activities amongst SMEs will achieve little success.
- Finally, the support to individual employees who want to upgrade their own skills irrespective of the enterprise's needs should not be forgotten, since the new competitive paradigm requires individuals to be responsible for their own training and skill upgrading. Specific attention should be devoted to those groups that have special difficulties in their access to continuing training activities, i.e. persons with childcare responsibilities, older workers or disabled employees.

10 New services

Co-ordinated by CREA 'Furio Cicogna', Bocconi University

MAIN POINTS

- The majority of new enterprises have arisen in the service sector, and over 80 % of all new jobs created in Europe during the past decade are also in the service sector.
- Technological factors, economic trends, socio-cultural, socio-demographic and institutional factors create new needs and change the ways of doing business, thus pushing the evolution of the service sector through the emergence of new services. These new services are difficult to assess statistically, due to continuously emerging developments.
- New services and renewed services are playing a major role in developing entrepreneurial skills and in creating employment.
- Two changes have an especially strong impact on the new service sector. Firstly, the emergence of Information and Communication Technology (ICT) has greatly changed the possible characteristics of services and their dependence on location and time, opening opportunities for innovations in new and renewed services, often moving from services where the knowledge rests with the provider to ones where the lesser knowledge rests with the consumer, from labour-intensive to almost labour-free services. Secondly, the demand for personal services is increasing due to several socio-economic shifts such as the government retrenchment on many services, the emergence of double-income families, an increasingly older population and shifts towards a knowledge-intensive economy. Some of these phenomena are creating an excess supply of low-skilled workers, with lower relative wages, who might, with the support sometimes of public policies, move to jobs in the personal and home services branches.
- The previously explained changes are having a major influence on the demand for services. In this sense, the most dynamic sub-sectors in the service industry, in terms of employment generation and business dynamics, during the past decade have been the non-market service sector, the business-related services and the Information and Communication Technology-related sector.
- The main barriers to start-up and growth of new services, as perceived by national experts, are, in order of importance: access to funding, administrative burdens and regulation, obstacles to sales, lack of skills, obstacles to input acquisition and, finally, cultural obstacles. Administrative burdens and obstacles to sales are seen as the main barriers in the case of personal services, while financial difficulties and lack of skills are judged particularly relevant for technology-driven new services.
- In general there are no specific policies to provide incentives for new services, although there are some policies that indirectly address this issue. Some general trends are under way in policy-making, which influence new services

development, such as the reduction in administrative burdens and the spread of educational policies aimed at increasing computer literacy. In the case of personal services, employment policies are taking particular account of the self-employed, and there are also some subsidies available to foster demand for personal and home services. Intellectual-property rights to protect new ideas and systems of service delivery are thought to be relevant in the case of knowledge-embedded and knowledge-separated new services.

10.1 Introduction

The aim of this chapter is to provide an overall idea of both the role that new services are playing in the evolution of the European economies and the role that enterprises have in the generation and spread of new services in the different European countries.

European policy-makers are currently focusing their attention on two main policy fields as far as the service sector is concerned:

- Services are currently viewed as a powerful tool for increasing the competitiveness and growth of new and existing enterprises producing both goods and services.
- European governments are trying to exploit all the possibilities opened up by service activities as 'creators' of new job opportunities. The service sector has accounted for over 80 % of all new jobs created in Europe during the past decade¹. Examples of this positive attitude towards services can be found in the 1998 Employment Guidelines, where Member States are trying to implement measures to exploit fully the possibilities offered by job creation at local level and in new activities linked to needs not yet satisfied by the market².

10.2 New services: definition and main trends

It has to be emphasised that the analysis of the service sector is confronted with serious statistical problems due to the current shift from physical production to service provision within enterprises in other sectors (manufacturing, construction, transport, etc.) Therefore, the analysis in this section will primarily rely upon statistical data on the service sector in total³.

10.2.1 Structure and development of the European service sector

The European economy can be labelled as a service-dominated one, although subject to important national differences. Taking as a reference the year 1998, the service sector represented 75 % of the existing enterprises, 63 % of the existing

¹ European Commission, DG V, Employment in Europe '97, Brussels, 1997.

² Along the same lines, in 1997 the Commission introduced a new pilot action, 'Third economy and unemployment'. This action was aimed at exploring and enhancing the employment potential of the third economy with emphasis on the areas of social and neighbourhood services, the environment and the arts, and dissemination throughout the European Union. The third economy refers to the economic and social fields represented by co-operatives, mutuals, associations and foundations, along with all local job initiatives intended to respond, through the provision of goods and services, to needs for which neither the market nor the public sector currently appear to make adequate provision. For more information on the Third economy or Social economy see Chapter 7 of this report.

³ Eurostat, Services in Europe, Luxembourg, 1999.

Table 10.1 Global sector* structure in Europe-19 (private, non-primary sector), 1998

	<i>Number of enterprises (1 000)</i>	<i>Employment (1 000)</i>	<i>Gross value added (EUR mln)</i>	<i>Gross value added per occupied person (EUR)</i>
Manufacturing	2 262	32 392	1 624 406	50 148
Construction	2 777	10 664	352 791	33 082
Services; of which:	14 812	73 910	5 324 885	72 046
• Market services	12 235	61 239	5 006 265	81 750
• Non-market services	2 577	12 672	318 621	25 144
Total	19 851	116 967	7 302 083	62 429

* The service sector includes the following subsectors: retail trade, wholesale trade, repair, banking, assurance, transport, communication, tourism, business services, personal services.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report, Brussels/Luxembourg (forthcoming).

total employment and 73 % of the gross value added⁴. Market-oriented services represent the most important share of total services, especially in terms of employment and value added (see Table 10.1).

In comparison to the US and the Japanese situation, Europe seems to be halfway between both countries. Taking employment as the main indicator, employment in the service sector in the USA accounts for 75 % of total employment, whereas in Japan this percentage was certainly lower (59 %)⁵.

Also from a national perspective, sector distribution is very different between the European countries⁶. Countries such as the United Kingdom, Sweden, the Netherlands and Belgium have the largest percentage of people involved in service activities (with percentages over 71 % of total private employment), whereas other countries, i.e. Portugal, Greece or Ireland, have the lowest percentages (less than 58 %). The relative importance of market/non-market services amongst the countries seems to differ widely. Market-oriented sectors are particularly important in countries such as the Netherlands, the United Kingdom and Luxembourg (in these countries market services account for more than 75 % of employment in services), where the opposite is true for the Nordic countries such as Sweden, Denmark or Finland and, interestingly, Greece (less than 56 % of employment in services is involved in market activities).

Within the broadly defined service sector the following five important subsectors can be distinguished:

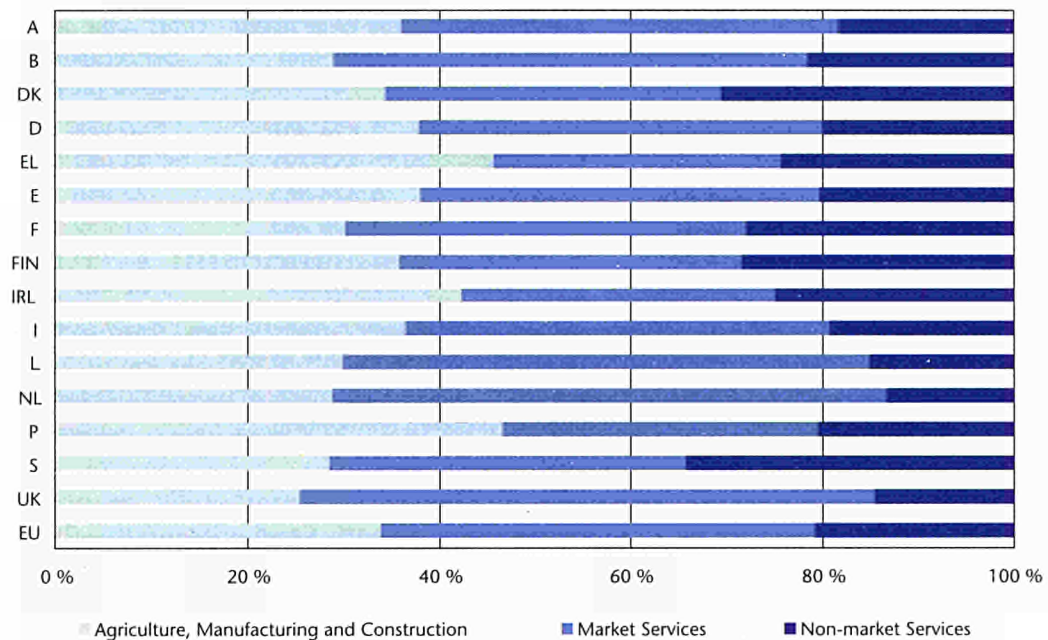
- Retail trade, repair of household goods: 18 % of employment;
- Other business activities: 16 % of employment;
- Health and social work: 11 % of employment;
- Wholesale & commission trade: 11 % of employment;
- Hotels and restaurants: 9 % of employment.

⁴ Data for Europe-19. Data does include neither primary activities nor public enterprises.

⁵ US data for 1994, Japanese data for 1995.

⁶ The data provided in this paragraph is only related to the European Union Member States, and it has been obtained from Eurostat, Services in Europe, Luxembourg, 1999. Data referred to all types of economic sectors (including the primary sector).

Figure 10.1 Distribution of employment in the private sector in the 15 Member States of the EU, 1995



Source: Eurostat, Services in Europe, Luxembourg, 1999.

A time-dynamic analysis may provide some very interesting clues on those sectors that have experienced a greater growth during this decade. As Table 10.2 shows, the non-market services have experienced the largest employment growth during the decade (20 %), clearly above the market services and the manufacturing and construction sector (3 % and -9 %, respectively).

Within the market-oriented-services, the sub-sectors of financial and other market services⁷ have experienced the largest employment increase (12 % and 10 %, respectively), whereas other sub-sectors seem to have had a much more moderate

Table 10.2 Increase and decrease of employment (x 1 000) in the private, non-primary sector, Europe-19

	1988	1998	% growth 1988/1998
Manufacturing & construction	47 463	43 056	-9
Market services, of which:	59 214	61 239	3
• Distributive trades	24 575	24 075	-2
• Hotels & restaurants	6 839	6 849	0
• Transport services	6 032	6 584	9
• Communication	2 482	2 436	-2
• Financial services	4 794	5 351	12
• Other market services	14 492	15 944	10
Non-market services	10 544	12 672	20

Source: Estimations of EIM Small Business Research and Consultancy, based on Eurostat, Labour Force Survey, Luxembourg.

⁷ This sector includes a large number of different activities, mainly business-related services (research & development, computer & related activities, consulting, etc.), together with renting and real-estate activities.

or even negative growth, such as Hotels & restaurants, Communications (basically postal services) and Distributive Trades (0 %, -2 % and -2 %, respectively).

It is well-known that SMEs play an active role within the service sector. In essence, this idea is well-supported by empirical evidence. With the exception of six sub-sectors (i.e. Water Transport, Research & Development, Financial Intermediation, Insurance & Pension funding, Air Transport and Post & Telecommunications), the remaining sub-sectors have more than 60 % of their employment concentrated in SMEs, where in some cases this percentage goes up to more than 80 % of total employment (see Table 10.3; data for 1998).

Table 10.3 Classification of sub-sectors according to the percentage SMEs represent in total employment in the service sector, Europe-19, 1998

More than 80 %

- Real-estate activities
 - Sale, maintenance & repair of motor vehicles & motorcycles
 - Other service activities
 - Activities of membership organisations n.e.c.
 - Activities auxiliary to financial intermediation
 - Hotels and restaurants
 - Wholesale & commission trade, except of motor vehicles & motorcycles
-

Between 70 % and 79 %

- Renting of machinery & equipment
 - Recreational, cultural & sporting activities
 - Computer & related activities
 - Health and social work
-

Between 60 % and 69 %

- Retail trade, repair of household goods
 - Other business activities
 - Land transport; transport via pipelines
 - Supporting & auxiliary transport activities; activities of travel agents
 - Sewage & refuse disposal, sanitation & similar services
-

Between 30 % and 59 %

- Water transport
 - Research & development
-

Between 10 % and 29 %

- Financial intermediation
 - Insurance & pension funding
 - Air transport
-

Less than 10 %

- Post & telecommunication
-

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report, Brussels/Luxembourg (forthcoming).

Market services seem to have a much higher productivity than non-market services (81 800 and 25 100 euro per occupied person), which reflects not only different productive structures but also different working conditions (i.e. in terms of salaries and wages). Within these two broad groups, the differences between sub-sectors are as might be expected even bigger. e.g. within the group of market services, financial services (financial intermediation, auxiliary activities, insurance) show a productivity of 735 200 euro per occupied person, whereas the Hotels & restaurants sector has a productivity of only 20 800 euro (see Table 10.4).

Table 10.4 Productivity levels in the service sector, Europe-19, 1998

<i>Sub-sector</i>	<i>Gross value added per occupied person (EUR 1 000)</i>
Financial intermediation	735.2
Activities auxiliary to financial intermediation	278.6
Insurance & pension funding	197.4
Air transport	136.4
Renting of machinery & equipment	77.4
Water transport	65.9
Real-estate activities	62.2
Post & telecommunication	58.2
Supporting & auxiliary transport activities; activities of travel agents	56.9
Wholesale & commission trade, except of motor vehicles & motorcycles	55.9
Computer & related activities	42.2
Land transport; transport via pipelines	35.8
Other business activities	33.5
Sale, maintenance & repair of motor vehicles & motorcycles	30.4
Research & development	25.6
Retail trade, repair of household goods	23.8
Hotels and restaurants	20.8
Total Market Services	81.8
Recreational, cultural & sporting activities	46.6
Sewage & refuse disposal, sanitation & similar services	45.9
Health and social work	20.9
Activities of membership organisations n.e.c	20.6
Other service activities	19.6
Total Non-Market Services	25.1
Total Services	76.4

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report, Brussels/Luxembourg (forthcoming).

10.2.2 Definition and a framework for analysis

Shostack⁸, has made a first attempt to design a common market-oriented framework to analyse both goods and services. He ranks them along a spectrum, from tangible dominant, e.g. salt, you can store it, to intangible dominant, e.g.: teaching, it can only be rendered or experienced, but it cannot be stored. The main characteristics that distinguish services from goods are:

- Intangibility;
- Heterogeneity (variability), e.g. bank transactions customised to meet customer's needs, since all bank transactions involve the movement of money, but each customer may want a different type of movement;
- Perishability of output, it is not possible to store services, although automated teller machines have somehow reduced its relevance in the banking industry;
- Simultaneity of production and consumption (co-production), e.g. a physician-patient encounter is generally needed in the health-care industry;
- Greater customer involvement in the production process⁹.

⁸ Shostack, G. L., Breaking Free from Product Marketing, Journal of Marketing, April 1977.

⁹ However, the manufacturing industry produces goods (tangible objects), whereas the service sector provides the necessary actions (steps and sequences of a process) to satisfy the consumer's needs. Shostack, G.L., How to design a Service, in The European Journal of Marketing, vol. 16, no. 1, 1982, and Pellicelli, G., Il marketing dei servizi (Services Marketing), UTET, Torino, 1997.

'New' services can be seen as a form of innovation. In general, when an enterprise is established and maintains a distinctive place for itself and its offerings in the market, it is said to be successfully positioned. Therefore, product and service innovations can be seen as a planned choice of, or as a change in, positioning and an effective move of this type can be considered one of strategic planning's most critical tasks. Market positions can be affected by many elements, e.g. pricing, distribution, advertising and promotion, but any positioning strategy must undoubtedly revolve around one core element, that is the product or service itself. Products are often designed on purpose to reach certain markets, i.e. diet coke, to satisfy the calorie-conscious consumer, or existing products are changed in order to change the market position.

However, services are not tangible objects, like products, which exist both in time and space. Rather, services consist solely of acts or processes, constituted by steps and sequences and exist in time only¹⁰. Therefore, innovation in the service sector has some distinctive features. It requires the capability of designing a new service, or changing an existing one and successfully managing the implementation of such a strategy¹¹, and in turn the need of a service's analysis and description¹². It is possible to analyse, on the one hand, the number and intricacy of the steps required to perform a service in order to describe its complexity and, on the other hand, the degree of freedom allowed in or inherent to a process step or sequence in order to assess the degree of divergence of a service. Therefore, a service of high divergence would be one customised, in which at the extreme every performance of the process is virtually unique, whereas a service of low divergence would be one that is largely standardised.

Most of the literature faces the problem of product innovation by discussing risks and rewards of different possible strategies.¹³ Building on it with regard to services, it is possible to distinguish major innovations from changes in existing services and from the extension, the upgrading or the re-styling of services already provided by the entrepreneur or the enterprise.

Changes in already existing services can create two types of activities. First, the enterprise adds characteristics to a service or introduces in the market a new start-up service, usually tailored to the needs of a specific target group, e.g. day-hospital care instead of the traditional hospitalisation or, in a high-tech context: Netscape. Second, services which are new for the enterprise but are already provided by other enterprises. In both cases they use, or just improve or modify, existing technologies. They require smaller investments and involve smaller-risks service (higher in the second case, when the new provider must face competition from the existing providers, unless he operates in a geographically-bounded market).

All in all, innovation in the service sector presents many aspects and the innovation patterns of service enterprises may vary considerably. Therefore, it is difficult to

¹⁰ Anyway, though they are different, services and products are intimately and symbiotically linked. A department store, for instance, is a place in which the service of retailing is rendered. Yet retailing is not a complete entity without the inclusion of products. A department store's image and clientele are a function of both retailing and merchandise, and these cannot be separated without sacrificing the unique definition of a department store.

¹¹ Pellicelli, G., *Il marketing dei servizi (Services marketing)*, UTET, Torino, 1997.

¹² Shostack, G.L., How to design a service, in *The European Journal of Marketing*, no. 1, 1982, and Shostack, G.L., Service positioning through structural change, in *The Journal of Marketing*, January 1987.

¹³ For instance, Heany, D.F., Degree of product innovation, in *The Journal of Business Strategy*, Spring 1983.

arrive at a precise and unanimously accepted definition of the term *new service*. A reasonable definition seems to be that *new services* refer to services that, in an international or in a specific national or even local context, are new to the consumer or renewed, that is when the way of generating them changes or a combination of already existing services takes place. Services can be considered new as far as they are in the introduction phase or in the growing phase when looking at their development time¹⁴, which obviously also includes those services that might have disappeared some time ago but are now back to the market.

The supply of and demand for many services has changed in nature or come into being. These ones may be named renewed services and new services, respectively. In the general opinion they are responsible for a large part of the increase in employment in the service sector. However, it is difficult to assess their net effect from a statistical point of view, since new jobs may be partly offset by a loss of jobs in old services, which they have substituted, and, on the other hand, lots of old services may have increased employment also.

Furthermore, it is important to bear in mind that there exists a sort of 'geographic boundary' for many services, since the cost of transport, in comparison with the mere cost of the service itself, limits the possible area of business for services where the face-to-face producer-consumer relationship is relevant or, more generally, where the user is part of the process of service production. Local differences in tastes produce the same effect, with relevant implications for the spatial distribution of employment generated by new services. At local level, new services, especially personal and some of the ones traditionally supplied by government, are often provided by organisations belonging neither to the private sector nor to the public sector, the so-called third economy¹⁵.

On the contrary, new services spawned by Information and Communication Technology (ICT) can reach a world-wide market. In this case the spatial distribution of new services' employment depends on the provider's ICT skills and on the users' computer literacy, rather than on geographic boundaries as mentioned above.

Next, a definition is presented to allow for a categorisation of services as *new* or *renewed* or existing. The term new cannot be easily defined on the basis of objectively assessable criteria but, nevertheless, when determining the difference between a new service and an already existing service, it is possible to take into account three aspects:

- Dimension of novelty;
- Life-cycle stage of the service;
- Service characteristics.

To answer the question as to what degree a service can be defined as new with regard to novelty, it is possible to refer to the following expressions:

- Services recently emerged, or re-emerged when old services have come back, produced or designed;

¹⁴ That is the first phase in a life-cycle theory of growth. For a study on new services referring to the Netherlands and the U.S., see Hulshoff, H.E., F.M.J. Westhoff et al., *New services, Strategic exploratory survey of a dynamic phenomenon*, EIM Small Business Research and Consultancy, Zoetermeer, 1998.

¹⁵ For more information see Chapter 7 of this report.

- Services applying new methods;
- Services not previously perceived, encountered or utilised.

Referring to the application of the life-cycle model, new services are usually in the introduction or growth phase, although it can also be argued that a new service includes any activity that has disappeared from the market for some reason in the past but has returned. When referring to service characteristics new elements and/or characteristics are added to the service.

There are some crucial problems in analysing and measuring new services. First of all, many enterprises offering services with a dimension of novelty cannot be separated from those operating more traditionally. These enterprises cannot be examined specifically as they still belong to the same statistical category as those enterprises applying traditional techniques. Secondly, the identification of new services according to the life-cycle theory requires a close look at figures of growth, in terms of turnover, employment, etc., related to the single line of the new service. This is not a very precise and reliable method for two reasons:

- Some services could have experienced a dramatic growth for other reasons, e.g. deregulation, and still not be new services in the sense highlighted above.
- It is difficult to assess the new services' share of the turnover, or employment, of a single enterprise. For this reason qualitative data can be provided only, especially as far as the emerging demand for new services is concerned.

In order to analyse the new services phenomenon the analytical framework given in Table 10.5, will be used, evaluating service processes to determine whether different types of processes result in different levels of customer involvement¹⁶. The degree of customer involvement in production, also referred to as 'inseparability', provides a means of assessing possible geographic boundaries and their potential evolution, affecting perhaps the spatial distribution of employment generated by new services. This classification is relevant because of the level of involvement required from the customer. In some cases the presence of the customer is needed, in others only the fact of his/her physical possession is required. It is possible to apply this framework to Local Development and Employment Initiatives (LDEI)¹⁷ (see also Section 10.4.1), since these initiatives are made up by a set of enterprises, and/or organisations, providing their services to single customers or coalitions of them.

It is worthwhile analysing deeper the evolutionary trends in services resulting from the technological evolution, because this evolution changes the degree of knowledge needed by the user and the provider, up to services without any human interaction between the user and the provider. This is especially true for some of the new services generated by ICT. Here it is possible to apply the conceptual scheme proposed by McDermott, enlarging it to include knowledge-separated services. McDermott distinguishes between knowledge-based services and knowledge-embedded services.

Knowledge-based services are characterised by a high level of knowledge and skills of the service provider. The provider-customer transaction is personal and labour-intensive. When rendered directly to consumers these services are often called personal services, e.g. teaching, consultancy as physician, dentistry.

¹⁶ Lovelock, C.H., *Services Marketing*, Boston (Mass., USA), 1997.

¹⁷ Initiatives Locales de Développement et d'Emploi (ILDE). See European Commission, *The era of tailor-made jobs - Second report on LDEI*, Report SEC (98) 25 (January 1998), and *Des leçons pour les pactes territoriaux et locaux pour l'emploi - I Rapport sur les ILDE (Lessons on the territorial and local employment agreements)*, 1996.

Table 10.5 Classification of services

<i>Nature of the service action</i>	<i>Recipient of the service</i>	
	<i>People</i>	<i>Possessions</i>
Tangible actions	PEOPLE PROCESSING (Services directed at people's bodies): passenger transportation; health and social work; hotels, restaurants and cafes; etc.	POSSESSION PROCESSING (Services directed at physical possessions): freight transportation; distributive trades; disposal/-recycling; etc.
Intangible actions	MENTAL STIMULUS PROCESSING (Services directed at people's minds): communication; education; cultural, recreational and sporting activities	INFORMATION PROCESSING (Services directed at intangible assets): financial services; business services; research and development; computer activities; etc.

Source: Elaborated by CREA 'Furio Cicogna', Bocconi University, based on Lovelock, C.H., *Services Marketing*, Boston (Mass., USA), 1997.

Knowledge-embedded services are those where the customer value is provided by an automated system delivering the service, in other words, the knowledge of the provider has been embedded into a system of delivery, e.g. fast food, diagnostic tools in the health services.

Knowledge-separated services are those in which customer value is provided by the knowledge of the customer acquiring the service, that is, the knowledge component has been embedded in the product component in such a way that the only knowledge necessary to receive the service resides with the customer, e.g. telephones, automated teller machines.

In a sense, knowledge is the technology involved in the service provision and is gained largely through education, while skills might be acquired through experience, training and retraining. Following the previous conceptual scheme, and moving along the service continuum, it is possible to pass from a situation where nearly all the knowledge and skills needed to perform the transaction rest with the provider to a situation where most of them rest with the consumer.

New personal services are mostly knowledge-based and they range from those requiring high levels of knowledge and skills, e.g. teachers and medical professions, to services requiring very little education and minimal skills in the providers, e.g. cat-feeding and home delivery of meals.

Within the framework of making a sector more competitive, nevertheless, the share of people with high levels of educational attainment employed¹⁸ in it, might be seen as a proxy of knowledge-based intensity and, above all, of likelihood of innovative capability in devising new services and new systems of service delivery¹⁹.

¹⁸ A picture of the situation across European countries and in the EU as a whole in 1997 can be drawn from the Labour Force Survey data, as shown in Table 3.8, in Eurostat, *Services in Europe*, Luxembourg, 1999.

¹⁹ Although, in many professions, e.g.: the health-care industry in the U.S, providers of personal services with high levels of educational attainment may use it to resist innovations. See Hulshoff, H.E., F.M.J. Westhoff et al.: *New services*, Strategic exploratory survey of a dynamic phenomenon, EIM Small Business Research and Consultancy, Zoetermeer, 1998.

For most service providers, the change from knowledge-based to knowledge-separated services, possibly by way of knowledge-embedded ones, means a transition from labour-intensive to labour-free service transactions. This transition can be fast or slow, depending upon the nature of the service and the ability of service providers to protect themselves against the transition or to invent new services.

However, this change from knowledge-based to knowledge-separated services is not necessarily accompanied by a decrease in the number of people employed by the service sector. First of all, although the service undergoing the transition becomes less labour-intensive, the product component in which the knowledge is embedded must be produced and maintained. Furthermore, the providers of the knowledge-based services undergoing transition can use their knowledge and time to design and offer new services. Obviously, this transition opens opportunities for both large enterprises and SMEs, with larger effects more likely for the smaller enterprises.

10.2.3 Main trends in Europe

The situation in the service sector is evolving since the European economy is going through a period of change of almost revolutionary proportions in which established ways of doing business are being continuously substituted by others, as a result of many different kinds of change, e.g.:

- Technological factors, especially the development of Information and Communication Technology (ICT), pushing a process of transformation from labour-intensive services to partly or fully machine-dependent services (e.g. automatic teller machines), explained by innovations, the rising cost of skilled workers and by problems of defining and delivering quality services; ICT has also strongly affected modes of service production and supply;
- Economic factors, such as increasing per-capita income, coupled with socio-cultural changes such as the emergence of double-income families, globalisation processes under way, the diffusion of self-employment, restructuring and outsourcing processes, knowledge-economy diffusion and the renaissance of traditional welfare services currently provided by private agents;
- Socio-cultural and socio-demographic factors, where examples can be found in an increasingly elderly population, the emergence of a multi-cultural society, growing individualisation patterns, relevance of leisure time, environment-protection awareness and flexible working practices;
- Institutional factors, such as laws and regulations that preclude or protect services, legislation governing business hours, decreasing government involvement in economic activity, including some traditional activities, privatisation processes, etc.

The new services emerging from these trends are summarised in Table 10.6.

Amongst the above-mentioned trends, two especially important ones are affecting the service sector, these are the dramatic increase in the importance of technological innovation, especially computerisation and advances in telecommunications, on the one hand, and the growth of the demand for personal services besides pressures on public and non-profit organisations to find new income sources, on the other.

Finally, interacting with these trends, in recent years an increasing consumer demand for services can be witnessed, especially for new ones, induced by the growth of income and by preferences, which are both differentiated and quickly changing over time.

Table 10.6 New service developments in Europe

<i>Factors underpinning new services</i>	<i>Push factors</i>	<i>Examples of new services provided</i>
Technological factors	Development of Information and Communication Technology	E-commerce, Internet providers, computerisation and advanced telecommunication services, development of knowledge-intensive services
Economic factors	Globalisation, spread of self-employment, knowledge-intensive economies, outsourcing processes, flexible working practices	Innovative business-related services, technological services
Socio-demo-cultural factors	Development of double-income families, multi-cultural societies, growing elderly society, increasing individualisation and importance of leisure time	Elderly and baby caring services, environmental services, new entertainment and tourism services, household services
Institutional factors	Privatisation and deregulation processes, environmental protection	Private provision of previously public services, development of the third economy

Source: Elaborated by CREA 'Furio Cicogna', Bocconi University.

Technological factors

As far as technological factors are concerned, most European countries have witnessed a trend of rapid development in ICT (Internet, intranet, mobile phones, etc.).

In countries like Denmark, Germany, Sweden, Norway and Switzerland the domestic IT market is large relative to the size of the population²⁰. In particular, Internet access has increased and its cost has decreased. As described in Chapter 5, the number of Internet hosts world-wide has increased dramatically in the period 1995-1999. The percentage of consumers who have access to the Internet is highest in Sweden, Denmark, the Netherlands and Finland and the highest percentage of SMEs that have access is found in Sweden, Iceland, Finland and Norway.

By contrast, in the Mediterranean countries (Greece, Italy, Portugal and Spain) the IT market is small but the share of hardware purchases in the total market is relatively large, with Italy being a notable exception since it has a relatively small domestic market for IT products and services, but a relatively large service market in general. As found in Chapter 5, the number of consumers and SMEs having access to the Internet in these countries is relatively low.

The increased availability of technology at low cost is a factor that can enhance entrepreneurship, because it permits easier access to information and lowers the cost of start-up in the case of many intangible services. The liberalisation of telecommunications and postal systems for example has led to the creation of many new enterprises, such as those offering mobile phone services and postal services. The latter can be considered as a renewed service, because it offers not only delivery but

²⁰ European Information Technology Observatory, 1998, and Chapter 8 of the Fourth Annual Report of The European Observatory for SMEs.

Case Study: A virtual consultancy enterprise

Ki Net is a new virtual enterprise that carries out on-line market research for customers all over the world. It obtains high-quality information from anywhere in the world, analyses it, and presents it to its clients. Its unique selling point is that it can provide timely, tailored information to clients when they need it, saving them from information overload. At present, the company obtains around 30 % of its information directly from the Internet, and this proportion is growing all the time. However, it also has links to other on-line information sources. Ki Net finds customers through networks of personal contacts, and then building up a relationship with potential leads via e-mail. It has discovered that conventional sales and marketing techniques, such as cold calling, do not work for a virtual company. Ki Net does not make face-to-face visits to clients.

also the picking up of the mail at the enterprise's offices, photocopying services, sending of faxes, sometimes Internet services, etc. These new services are being adjusted and extended continuously, in order to satisfy the new needs of enterprises and private persons.

Growing demand for personal services

Due to the trends mentioned above, all European countries show a trend towards more flexible enterprises and an increasing need for flexible ways of working, both with regard to time and place. Flexibility needs are due to restructuring and outsourcing activities induced by the globalisation processes under way and by the acceleration of technological change, which has significantly influenced production processes, developing new knowledge-intensive modes of production. This shift²¹ is also clear at the labour market, where it creates an excess supply of workers with a low level of education (and a reduction of their relative wage), a problem which may be partly solved through the creation of low-skill and educational-content jobs, preferably in labour-intensive sectors, as is the case as regards personal and domestic services.

Case Study: Personal organiser

A year ago, Mrs G. started her own business as a personal organiser. Mrs G. provides her services to businesses and private persons. She assists people in getting their work organised: time management; filing their material, changing their work attitude, etc. The idea of this business activity, which comes from the USA, was given to Mrs G. by several references she saw in different magazine articles.

As stipulated before, this development in personal services has been the second most relevant trend besides technology, as far as the service sector evolution is concerned, This may be explained by already mentioned factors, such as the growing spread of double-income families²² and an increasingly ageing

²¹ Coffey, W.J., and A.S. Bailly, *Producer Services and Flexible Production: An Exploratory Analysis in Growth and Change*; Elfring, T., *An International Comparison of Service Sector Employment Growth*, United Nations Economic Commission for Europe, Geneva (CH), and 'Furio Cicogna' Research Center on Entrepreneurship (Bocconi University), *Business Related Services and Competitiveness*, Milan, 1997.

²² A phenomenon first developed in Nordic countries, where the participation rate of women has been high for quite some time and that have later spread to other European countries.

population, which in turn increase the demand for this type of service. The increasing relevance of domestic services can also be explained by the growing participation rate of women and the growth of per-capita income, both leading to changes in the consumers' demand structure²³, resulting in a larger share of services. All these factors could open interesting opportunities for the creation of new enterprises.

Case Study: HomeService Scheme

The intent of the Danish HomeService scheme is to create a whole new marketplace for home and garden jobs. This market is now being serviced by newly established enterprises as well as existing enterprises active in the service sector. From 1 January, 1994, until 31 December, 1996, the HomeService scheme was run as an experimental effort to establish a new market for and a new trade in household services. The scheme became permanent on 1 January 1997. The objectives of the HomeService scheme are:

- To create a new market for private enterprises;
- To create permanent jobs for people with little or no training;
- To reduce black-market employment;
- To convert do-it-yourself work into paid jobs.

The HomeService scheme thus provides valuable assistance to senior citizens and creates more leisure time for busy families. There is almost no room for a market-based home service sector. The enterprises involved are supported by public subsidies. By 1998, the scheme had created approximately 3 900, mainly very small enterprises.

Social factors

Due to the emerging multi-cultural society, new services are demanded such as the provision of foods and beverages, entertainment, hairdressing, clothes and fashion in general. This might be a partial explanation for growing ethnic entrepreneurship in many countries. Expectations of ethnic minorities play an important role also in health care and assistance for example, since for cultural reasons the care requested does not necessarily match with the health care presently rendered in many countries.

Regulation and deregulation

In many countries there is a general trend under way whereby administrative burdens are decreasing and new regulations are emerging. The most common of these are: liberalisation of opening hours²⁴, permission to provide private health-care services, liberalisation and privatisation of markets and services that were previously public-run and increasing environmental protection.

²³ With a notable exception: in experts' opinion, the increasing per-capita income did not lead to an essential change in the demand structure (or considerable increasing demand) of the consumers in Germany.

²⁴ See also Chapter 2 of this Report.

Summing up, these are the main trends acting as external, to the enterprise, driving forces in the development of innovation patterns in the service sector. Besides these, there are also several internal driving forces, which can be identified in the entrepreneurial capabilities²⁵ available in the enterprise.

10.2.4 Demand for new services by SMEs: present use and expectations

In the ENSR Enterprise Survey 1999²⁶ new services were defined as 'those services, presently available on a market basis in a form which the SMEs had never heard of 5 years ago'. In addition to the present consumption of new services, enterprises were asked about their expectations of the development of the volume of new services over the next three years.

For Europe-19, on average 18 % of SMEs did buy new services over the past few years, whereas as much as 80 % expect consumption to grow. This implies that a majority of enterprises expect to start using new services for the first time. The use ranges from more than 20 % in manufacturing, wholesale trade and business services to only 11 % in retailing and 7 % in repair. In most sectors well over 80 % of all SME expects consumption to grow, only in manufacturing and other services figures are relatively low at around 70 %.

By size of enterprise there exists a clear pattern, the percentage of SMEs using new services ranges from only 13 % for enterprises without employees to 44 % for medium-sized enterprises. About 80 % of enterprises in all size classes expect consumption to grow. The use also increases by age of enterprise, but for expectations with regard to the near future the situation is reversed: the younger the enterprises the higher the percentages expecting increases.

Analysing by legal form shows that foundations and associations use new services most frequently, 48 % and 56 %, respectively. Over 80 % of associations expect consumption to grow even further, whereas only 20 % of foundations do.

Finally, it appears that enterprises with a positive opinion on the effects of the Single Market, and enterprises growing relatively fast in employment, use more new services than others do. The highest future increase on the other hand is expected by enterprises showing a decrease in employment.

Demand for new services by country

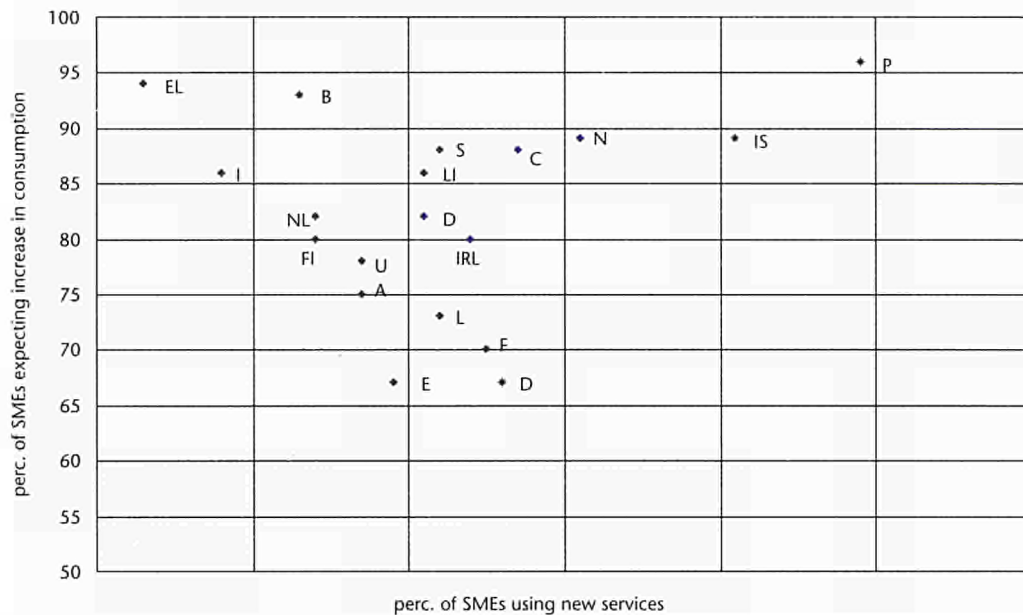
To analyse the situation in the 19 countries covered by this report, the two aspects 'present use of new services' and 'expected development of the use of new services' are combined in Figure 10.2.

The horizontal dimension shows that only less than 15 % of SMEs in Greece, Italy, Belgium, Finland and the Netherlands consume new services. But the vertical dimension on the other hand shows that at least 80 % of SMEs in these five countries plan to buy more new services in the next three years. Greece, Belgium and Italy, located in the upper left corner of the figure, take extreme positions. The

²⁵ Building on literature on innovation in the manufacturing industry, the employees' role and, possibly, institutionalised innovation efforts may be added. This second part will be dealt with in Section 10.3.

²⁶ See Annex I, The set up and analyses of the ENSR Enterprise Survey 1999.

Figure 10.2 The percentage of SMEs using new services plotted against the percentage of SMEs expecting an increase in consumption



Source: ENSR Enterprise Survey 1999.

present consumption of new services in these countries is much below the Europe-19 average, whereas relatively many SMEs in these countries plan to increase their consumption.

In Spain, Denmark, France and Luxembourg - countries which already use new services frequently - the planned increase is relatively low. In the upper right corner of the figure Portugal is located, implying that although the use of new services is already rather high, as much as 96 % of all SMEs anticipate to buy even more new services over the next three years.

10.3 Entrepreneurship and job creation in new services

10.3.1 Entry and exit and the effects on employment

Empirical evidence on the topic

The available empirical evidence on enterprise creation seems to support the view that some activities in the service sector are currently underpinning an intensive process of entrepreneurship. As Table 10.7 shows, a process of net enterprise creation has taken place in 1995 in the service sector, whereas in the manufacturing and construction sector the net growth of enterprises was negative.

Within the category of Market Services important differences occurred. Most of the net creation seems to have taken place in the Other market services²⁷. This group

²⁷ This sector includes a large number of different activities, mainly business-related services (i.e. research & development, computer & related activities, consulting, etc.), together with renting and real-estate activities.

Table 10.7 Enterprise dynamics in Europe-19, 1995

Sector	Enterprise creation			Associated Employment		
	Gross Entry rate*	Death rate**	Net Entry rate***	Gross Entry rate*	Death rate**	Net Entry rate***
Manufacturing and construction	9	10	-1	2	2	0
Market services	12	10	2	2	2	0
Distributive trades	10	10	0	2	2	-1
Hotels & restaurants	11	10	1	2	4	-2
Transport services	12	10	1	2	2	0
Communication	11	10	1	1	2	-1
Financial services	10	8	1	2	2	0
Other market services	16	9	6	4	2	2
Non-market services	9	7	2	4	2	1

* Gross Entry rate is defined as (number of new entries*100/existing stock).

** Death rate is defined as (number of exits*100/existing stock).

*** Net Entry rate is defined as (gross entry rate - death rate)

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report, Brussels/Luxembourg (forthcoming).

has experienced a net enterprise creation rate of 6 %, which is much higher than in the other market-oriented services.

Only the Non-market oriented services and the Other market services have experienced an increase in the total net employment²⁸. This result is of great interest, since it shows that even for a year (1995) when the economic climate was not very favourable for most sectors, only these two sectors were capable of creating jobs through a remarkable 'entrepreneurship' ability.

Table 10.8 shows that the sub-sectors with a relatively high percentage of net entry rates are, in this order, Other market service, Research & Development, Renting and real-estate activities and, finally, Recreational, cultural and sporting activities.

Economic growth and indirect employment depend also on the multiplier effect of a sector. Tourism is a very interesting example, since it is geographically bounded as far as providers are concerned, while the users come from far away and their demand for local products can last also when they have left the area.

Also business-related services show a strong multiplier effect on the productivity of client firms. Some elements of the geographically bounded type are embedded in them but their marketing strategies are often world-markets-oriented.

Job creation by personal services

Anecdotal qualitative evidence surveyed across Europe shows that the trends described in Section 10.2.3 are offering wide entrepreneurial opportunities in the service sector, both in geographically bounded²⁹ and in world-wide markets.

²⁸ This change in employment denoted in Table 10.7 is only caused by entry and exit of enterprises, and is not the result of employment changes in existing enterprises.

²⁹ It must be noticed that in some countries (France and Spain are notable examples) the expression proximity services is used instead of the expression new services, referring mainly to personal services, although business services are not excluded a priori.

Table 10.8 Enterprise dynamics in Europe-19 in service sectors, 1994

Sector	Enterprise dynamic			Associated employment dynamics		
	Gross Entry rate*	Death rate**	Net Entry rate***	Gross Entry rate*	Death rate**	Net Entry rate***
Other market service activities	17	9	8	4	3	1
Research and development	17	10	7	2	2	0
Renting of machinery and equipment	13	8	5	3	2	1
Real-estate activities	14	9	5	3	4	-1
Recreational, cultural and sporting activities	11	7	4	6	2	3
Banking, financial leasing	13	9	4	3	2	1
Computer and related activities	13	10	3	2	2	1
Other service activities	11	8	3	5	1	4
Sewage disposal, sanitation and similar services	11	8	3	3	2	1
Activities of membership organisations n.e.c.	14	11	2	7	2	5
Post and telecommunication	11	10	1	1	2	-1
Land transport; transport via pipelines	12	11	1	3	3	0
Hotels and restaurants	11	10	1	2	3	-1
Activities auxiliary to financial intermediation	9	8	1	1	3	-2
Air transport	10	9	1	1	2	0
Health and social work	7	7	1	3	2	1
Retail trade, repair of household goods	10	10	1	2	2	0
Supporting/auxiliary transport activities; travel agents	9	9	1	1	2	-1
Water transport	9	8	0	4	6	-2
Sale and repair of motor vehicles and motorcycles	11	11	0	3	3	-1
Insurance and pension funding	9	9	0	1	4	-3
Wholesale trade	8	8	0	2	2	-1

* Gross entry rate is defined as (number of new entries*100/existing stock).

** Death rate is defined as (number of exits*100/existing stock).

*** Net Entry rate is defined as (gross entry rate - death rate).

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report, Brussels/Luxembourg (forthcoming).

As described before, many jobs are being created in the personal service sector, making it an increasingly important industry. Besides, many new services arise in the personal service sector because people tend to have less time to carry out ordinary household tasks. People become accustomed to 'buy' services that provide household activities like ironing, personal organisers or dog walking³⁰.

Often, most of these emerging needs which are going to be met by personal and domestic services are now provided by the black market, because the purchasing power for these services is too low and only the cost of concealed labour is

³⁰ This is due principally to the growth of double-income families (see Section 10.2.3), with two consequences: (i) these families have less time available for performing these activities, and (ii) an increasing personal income changes people's needs, which shift towards 'superior' goods, for instance leisure activities.

The producer service sector in Germany

In Germany a thorough analysis has been recently carried out on all branches of the producer service sector³¹ from 1980 to 1998³², looking for the most dynamic branches in order to get information about enterprises supplying with a high probability new services. Fourteen sections showed growth rates in turnover, value added and number of enterprises above average. The total number of the enterprises (likely providing new services) in these branches in 1998 was about 250 000. They employed almost 1.2 million employees, had a turnover of 184 000 million euro and value added in 1998 has been 118 000 million euro.

The majority (97 %) of the enterprises had less than 250 employees and 90 % of them were owner-led. Their most important customer is industry (77 %), although a considerable share of demand for new services³³ comes from the service sector itself (61 %) and trade (61 %).

Entrepreneurial dynamics more than job creation seems at work. Actually, the new producer service enterprises are very young. More than 50 % were established in the period from 1990 to 1998. 36 % of the new producer services are supplied by new enterprises (younger than 5 years) and 64 % by established enterprises.

Only 2 % of the enterprises were set up by unemployed people.

The character of the provided services can be described as complex service systems or bundles of different cross-branch services³⁴.

Three quarters of the enterprises estimated their service to be innovative, almost two thirds supply a new combination of already existing services, one third modify the existing supply, one tenth say they supply totally new services and another tenth provide a service that was performed by the customer himself before it was provided by the enterprise.

The most important factor for the development of new services appears to be technological progress (technology-push), followed by the demand of the customers (demand-pull), the supply of product-related services (product-bundles including goods and services) and finally the outsourcing of services.

Two thirds of the enterprises have grown in the last five years with an average annual growth rate of about 45 % for turnover and 38 % for employment.

Source: IfM, Institut für Mittelstandsforschung, Bonn.

³¹ Since in Germany producer services have experienced higher than average rate of growth, while consumer services have experienced moderate growth or stagnation.

³² Wimmers, St., et alia, Wachstumsmarkt Dienstleistungen, Empirische Analyse der Marktzutritts- und Erfolgsbedingungen neuer unternehmensnaher Dienstleistungen in Deutschland (Growing service market, conditions for the market entry and success of business related services in Germany), No. 83 NF, IfM, Bonn, 1999. The underlying assumption is that enterprises providing new services are most easily found in branches that compared with the whole service sector (1) have growth rates above the average rate with respect to turnover, value added and number of enterprises and (2) these rates are constant or increasing.

³³ Multiple responses were admitted.

³⁴ According to the requests of their customers, keen on receiving all services from only one supplier. So, the enterprises provide overall services like at the same time perform market-research and marketing, give advice, make multimedia and design or installation of computer systems, software engineering and advice out of one hand.

affordable. In Sweden, for instance the report of the Committee for the Evaluation of the Tax Reform estimated that, at the beginning of the nineties, income generated in the black-market economy amounted to 4-5 % of GDP³⁵.

Since domestic services seem to be more price sensitive than most other product categories, some results³⁶ indicate that in some of these sectors reduction of prices, obtained through even relatively low levels of subsidies, would generate increased demand and, therefore, would generate new 'official' jobs.

The capability of the personal services sector to generate new jobs has been confirmed in national studies. In the Netherlands, for instance, in 1995 a survey was carried out into personal services³⁷. It included an estimation of the number of jobs created by personal services and showed that about 18 000 to 20 000 jobs could be created in the personal service sector relating to services for older people. Employment in the sector of personal household services was estimated to grow by 47 000 to reach 1 23 000 labour years, especially child-care and household services.

Hardly any quantitative information was available on the job creation by the personal service sector. However, in order to assess which branches in the personal service

Table 10.9 Highest growth of branches rendering services directly to consumers, by country

Country	Health care	Other personal services	Horeca (*)	Educational services
A				x
B			x	x
CH	x	x		x
D				x
DK		x		x
E	x			x
EL			x	x
F	x	x		x
FIN				x
I	x	x	x	
IRL			x	
IS				x
L				x
LI	x			
NL		x		
NO		x		
P	x		x	x
S		x		
UK		x		

Note: x indicates the branches (among the ones mentioned) characterised by the highest growth in the country, based on national experts' opinion.

* Hotels and restaurants.

Source: ENSR, 1999.

³⁵ National Audit Bureau, 1996: 6.

³⁶ Assarsson in the Appendix of the Report of the Service Taxation Commission (SOU, 1997:17) estimated that a price fall of 10 %, as a result of tax deduction, would generate a decrease of the unemployment rate ranging between 0.6 to 0.8 % (30 000-35 000 jobs in absolute terms).

³⁷ OSA, Zorgen voor ouderen, zorgen voor werk en behoeften en effectieve vraag van alleen- en tweeverdieners (Taking care of elderly people, taking care of work and the needs and demand of single- and double-income households), The Hague, 1995.

sector have experienced a higher rate of growth in recent years, in comparison with other branches of the same sector, national experts³⁸ were asked for their opinion. The results are shown in Table 10.9. From this evidence it seems that educational services had a larger impact on the personal services sector across Europe.

Local Initiatives and job creation

In the realm of personal services it is important to pay attention to the so-called Local Initiatives. Local Initiatives, focusing on development and job creation, have recently spread across Europe³⁹. Local and regional authorities have joined their efforts with national governments trying to counterbalance the deterioration of social and welfare services, sometimes caused by the reduction of public expenditures. Local initiatives aim to provide services in areas where needs are not being met. They are not restricted to social services, but they also extend to leisure-related and tourism-related services and, sometimes, to business-related services as well. They open a window on new job sources and can bring 'tailor-made' jobs into the area, breaking away from the standardised approach to job creation since they are inextricably linked with sociological changes. New services for the elderly, child-care and home services (due to the increase of women employment and the ageing of people), basic services for rural areas with decreasing population are just a few examples of the fields in which local programmes operate⁴⁰.

Enterprise activity in local new services is deeply embedded in the local dimension both in terms of production and consumption of these goods because it is at the local level that unsatisfied needs are better understood. These types of new services are important because their development also leads to the achievement of different goals: economic growth, employment and improvement of quality of life. More information on Local Initiatives is given in Section 10.4.1.

IT and job creation

Besides the Local Initiatives, it is also possible to identify new service opportunities linked to the truly world-wide market-oriented service sectors, mainly information technology (IT) industries. These industries have become one of the biggest and fastest-growing sectors, since they are creating new jobs, new opportunities, new products and new services, driving economic growth and enhancing competitiveness.

It is difficult in general terms to give an estimation of the number of jobs created by the introduction of IT-related new services, because enterprises that can be considered as new service providers are not yet found in the statistics. It is clear that new jobs have been created, especially in the IT sector, in which fast-growing enterprises can be found. Generally speaking, job creation is concentrated in this type of enterprise. However, it must be noted that jobs are also lost because of IT. For instance in the banking sector, where information technology has made it possible for customers to get their money directly from a machine instead of through an employee behind a counter. Redundancy caused by IT development

³⁸ ENSR partners.

³⁹ European Commission Working Document, SEC(98) 25, Second report on Local Development and Employment Initiatives; The era of tailor-made jobs, Brussels, 1998.

⁴⁰ For a survey of the French experience see: La Documentation Française, *Activités de proximité; 43 expériences territoriales (Proximity activities; 43 local experiments)*, Paris, 1998.

will slow down and come to an end, so on balance it is likely that the number of jobs will increase overall as a consequence of new service business.

Many new services require the utilisation of IT. This is especially the case in knowledge-intensive service enterprises. A small number of studies have identified how services delivered by using IT are requiring changes in the business concept. This particularly applies to new digital products and services, such as:

- Infotainment services (in competition with TV and traditional media);
- On-line communities (with moderators) within many different areas of interest (sports, news, hobbies, etc.) compete with ordinary news coverage and other leisure-time activities;
- Specially adapted software development;
- Multimedia, for entertainment and educational purposes;
- Internet-related activities (homepage design, ISP, Internet-café).

A number of specialised knowledge-intensive service enterprises also use the possibilities of developing new business concepts. This applies to e.g. travel agents, lawyers, bankers and insurance brokers, real-estate agents, accountants, car sales and rentals, leasing of consumer goods and tuition via the Internet.

National studies provide information on the impact of IT on employment. The studies show that an important part of new services is the result of new enterprises making new forms of services available to the market. Below, evidence is presented for a number of countries.

In Norway, the emergence of the information society has resulted in the growth of the number of information-related enterprises. This trend is expected to continue and strengthen in the future. The coalescence of information technology, telecommunication and multimedia into one sector makes the IT sector important by Norwegian standards, both when it comes to employment and production. However, even in the field of IT, statistics are not very accurate. The main reason is that there is no precise definition of what kind of enterprise this sector is supposed to embrace. In spite of these limitations, the Ministry of Trade and Industry has estimated that a total of 77 000 people were employed in the IT sector in 1997. The growth in the sector has been considerable in the past years and is expected to continue in the years to come.

In Austria the number of start-ups in IT enterprises was 460 in 1997 and 270 in 1998, while in EDP/consulting enterprises it was 1 885 in 1997 and 1 774 in 1998. New jobs created in 1995-1997 numbered 2 700 in EDP enterprises (+23.5 %), 1 400 in R&D enterprises (+24.5 %) and 14 000 in enterprises offering services to companies (+11.7 %).

In Ireland, the more dynamic business-related services are: data processing, which from 1990 to 1996 showed an increase in employment of 344 % for the foreign-owned enterprises, and of 12 % for the Irish-owned enterprises; software processing, which over the same period showed an increase of 193 % for the foreign- and of 105 % for the Irish-owned enterprises; and international financing, which again over the same period showed employment increasing by 276 % for the foreign-owned enterprises and by 175 % for the Irish-owned enterprises. The bulk of new employment in the Agency-Assisted Growth Service Sectors has come from foreign, rather than domestically owned, enterprises. Cumulative employment from 1990

to 1996 has increased in the specified 'growth sectors', totalling a 239 % growth in the case of foreign-owned companies compared with only 69 % for domestically owned enterprises. The key growth sectors have been software development, international financial services and data processing.

In Sweden, most jobs in the software and services industries have been created between 1982 and 1992⁴¹. During this period, Sweden created 4.6 jobs per thousand inhabitants of working age, compared to 4.3 in Japan and 3.0 in the United States. The new media industry alone, for example, has created upwards of 10 000 new jobs⁴². The new media turnover is expected to grow by 100 % a year. The typical enterprise in this sector has 6-7 employees, but a small number of larger companies bring the average number of employees up to just under 20⁴³.

In Switzerland, IT services have seen a high concentration of micro enterprises, and in this sector the number of enterprises more than doubled from 1985 to 1995, hinting that new jobs have been created in large numbers.

10.3.2 Barriers to start-up and growth

As any enterprise, also innovating enterprises operating in the service sector can be helped or constrained in their innovation activity⁴⁴. The success of an innovation in services⁴⁵ can be achieved by a number of factors such as an innovative organisation where innovation itself is a priority, good knowledge of service characteristics and consumer needs, best use of technology, careful production planning both by managers and the workforce and adequate resources. Also innovation in services, of course, faces obstacles, which can hinder its success: such as service complexity, novelty of the market and lack of adequate resources. Finally, regulations prevailing in the markets can represent an obstacle, which might be lessened by government deregulation.

Some obstacles are of an internal nature, associated with the service or its providers. An obstacle related to the service and its context, for instance, is the problem of the geographic constraint which confine a service to a certain area for time/cost reasons. An obstacle related to the provider is for example the amount of time and energy available to provide the service.

Usually, in literature, mainly economic constraints such as obstacles in inputs or outputs, financial markets and/or administrative burdens are considered. In this case possible problems in the availability of needed business services and/or skills have been singled out.

Since no studies on the barriers for start-ups in new services are available, national experts in all countries covered by this report were asked for an opinion about barriers to new economic activities and growth (with special attention, if possible, to new services). In addition, the experts were asked to give their opinion about possible problems in the infrastructure, including the communication infrastructure, and in

⁴¹ McKinsey, on behalf of the Invest in Sweden Agency.

⁴² Veckans Affärer's.

⁴³ Sandberg, Åke, *New Media in Sweden - The Swedish New Media and Internet Industry Survey*, Stockholm, Swedish National Institute for Working Life, 1998.

⁴⁴ Kirchoff, B.A., *Entrepreneurship and dynamic capitalism*, Westport (Conn., USA), 1994.

⁴⁵ Easingwood, C.J., et al., *Marketplace success factors for new financial services*, in *The Journal of Service Marketing*, Winter, 1993, and Edgett, S., *The traits of successful new service development*, in *The Journal of Service Management*, Summer, 1994.

the cultural domain, since cultural values make a service acceptable or objectionable. The results of the expert interviews are presented in Table 10.10. It should be stressed that the major reason to hold expert interviews has been to get an overview of the situation at European level. At country level the outcome may be biased towards the opinion of the individual expert. In no way the outcomes may be considered a representative survey.

When analysing the principal obstacles (according to the experts) for start-up and growth it was found that, in general, specific barriers to the new services enterprises hardly exist; the barriers are those common to all start-ups. The major obstacles are related to administrative burdens and regulations, access to finance, sales, a lack of skills and information and advice.

As Table 10.10 shows, the most important problem that start-ups face is related to getting the necessary financing to start a business. This is due to high financing cost (high interest rates, unfavourable repayment conditions, etc.) and difficulties in obtaining loans (guarantees demanded by banks, lead time to approval, etc.). In this category the most frequent problem is the relationship with the loan officer, according to experts in six countries (Austria, Belgium, Germany, Italy, Luxembourg and the Netherlands). This problem is probably less important for enterprises in the service sector than in other sectors. These enterprises, especially knowledge-based services, do not need large assets to perform their services⁴⁶ and therefore need mainly working capital.

Another barrier, of almost equal importance, is administrative burdens caused by all kind of regulations and obligations. In fact, fourteen countries consider this a problem. To give some examples, in the Netherlands the Business Licensing Act, although reducing the number of branches requiring a diploma from 88 to 8, still presents an important hurdle for enterprises. In the United Kingdom and Sweden this problem exists but is not considered significant. Only 6 % of Swedish enterprises find labour law a problem and instead 20 % cite tax regulations whereas, in the United Kingdom, the problem of government regulation has recently returned as an area of concern.

The existence of barriers related to sales is considered important by experts in twelve countries, mainly due to insufficient or unstable demand and high competition. As regards demand in Spain, there is the problem of lower-income communities who are not able to afford services. Another obstacle to sales is the lack of marketing skills in three countries: Greece, Italy and Sweden.⁴⁷ A special problem for new service providers is that the service is often not yet known by the potential user.

Lack of skills must be underlined as one of the most relevant obstacles for the development of entrepreneurial activities. Actually, in a high number of countries (twelve) national experts consider it a problem, especially the recruitment of qualified employees⁴⁸.

⁴⁶ See also Chapter 4 of this report.

⁴⁷ Difficulties in achieving a minimum level of publicity is one of the main obstacles faced by service enterprises during their market entry in Germany. Furthermore they need a successful entry in the market, informal contacts and links to the customers, service-related special knowledge and a highly qualified, creative and flexible staff. See Wimmers, St., et alia, *Wachstumsmarkt Dienstleistungen, Empirische Analyse der Marktzutritts- und Erfolgsbedingungen neuer unternehmensnaher Dienstleistungen in Deutschland* (Growing service market, conditions for the market entry and success of business-related services in Germany), No. 83 NF, IfM, Bonn, 1999.

⁴⁸ See also Chapter 3 of this report.

Table 10.10 Barriers to start-up and growth

	A	B	CH	D	DK	E	EL	F	FIN	I	IRL	IS	L	LI	NL	NO	P	S	UK
Infrastructure	X									X	X			X					X
Cultural obstacles						X		X		X	X				X				
Administrative burdens	X	X			X	X	X	X	X	X	X				X	X	X	X	X
Obstacles to input	X					X				X		X			X				X
Acquisition																			
• Price												X			X				X
• Quality							X												X
Obstacles to sales		X				X	X	X	X	X	X	X			X	X			X
• Demand insufficient or unstable						X		X	X										X
• Insufficient funds for promotion							X												X
• High competition		X									X				X				X
• Lack of marketing skills							X			X								X	
Financial difficulties	X	X	X	X		X	X	X	X	X	X	X	X		X	X			X
• Relationship with loan officers	X	X		X						X			X		X				
• Credit file required by bank			X	X			X			X			X						
• Guarantees						X				X			X						
• Lead time to approve							X												
• Interest rate							X								X				
• Repayment conditions															X				
Information/advice				X		X	X			X	X	X			X	X			X
• On potential market				X						X	X				X				X
• Business administration				X			X												X
• Specific sector-related information									X	X							X		
Skills			X	X			X		X	X	X		X	X	X	X			X

Note: X indicates the most relevant (in experts' opinion) existing barriers for start-ups (and, therefore, also for new services) in each country.

Source: ENSR, 1999.

10.4 Support measures

In most European countries there is no policy scheme specifically designed to either stimulate the generation of or support the spread of new services. However, all policy measures, which could have an impact upon the demand and, therefore, the purchase of services or the supply of them surely affect new services, at least indirectly. Furthermore, as has already been discussed, new services are often developed as a result of innovation. Therefore, any kind of policy scheme fostering entrepreneurial attitudes, innovative activities and the diffusion of their results are relevant. Finally, it seems that public policies encouraging education and training are important also for start-ups. In Chapter 8 of this report more information is provided on the SME policy support measures which were established and planned in the 19 countries covered by this report from May 1997 till the end of 1999.

The actions of the European Commission in the specific areas of SMEs and technological innovation may also be relevant for enterprises in the service sector, especially as far as the Structural Funds are concerned, since they significantly favour and influence local interventions in the Member States. Most job creation policies have local elements. More specifically, the European Commission is supporting activities in the fields of employment, training and the encouragement of entrepreneurial activities carried out by local and national authorities in an attempt to reconcile solidarity, creativity and economic performance. In the nineties the Commission⁴⁹ has been encouraging experimentation in this field supporting local practices in launching territorial and local pacts for employment within the co-ordinated European employment strategy. These important experiments are emerging slowly, hampered by the rigidity of current social and economic structures.

Regulations are relevant in a twin manner, since they may play a helpful or a hampering role. So, intellectual-property rights to protect new ideas and systems of service delivery are relevant, but just as relevant are the requirements for practising the services: e.g. licensing laws, certification of skills, standard-of-practice behaviour and duties and liabilities. However, regulations may also inhibit these services, if laws are unreasonably restrictive, preventing entry into the sector or raising prices beyond the level people are able or willing to pay, or inhibit the technological evolution of the service.

In this section examples are given of measures which are relevant for new services.

Measures aimed at entrepreneurship in general

Generally speaking, the fundamental role of start-ups in job creation is acknowledged and in many countries the liberalisation of the prerequisites for starting a new enterprise has been envisaged and the first steps have been implemented. Policies first tailored only for manufacturing now also extend eligibility to the service sector as the most promising sector for the creation of new jobs.

New enterprises, especially in the areas of technology and environmental protection, have been indirectly fostered by technology and environmental policies. As far as the supply of social and health services is concerned, schemes

⁴⁹ European Commission: A European strategy for encouraging local development and employment initiatives (LDEI), Luxembourg, 1995, and European Commission, Rapport sur le Séminaire européen sur les politiques nationales d'encouragement aux initiatives locales de développement et d'emploi, 19/2/1997.

have been and are being devised to overcome the problem posed by the fact that often there is no market providing cost-covering prices for these services. Thus, many countries have identified health-care/social services as a growing sector, since the demand for new services in health care and geriatric care, e.g. old people's homes, will substantially increase⁵⁰.

Fostering the supply of social services is perceived as an important opportunity in the creation of new jobs⁵¹. Private companies in this area face competition from the shadow economy.

Table 10.11 provides a general overview of instruments implemented at national level to foster entrepreneurship in general, which is, of course, a broader concept than new services. As shown in this table, almost all countries provide information and advice to start-ups.

Case Study: Genossenschaft Gründerzentrum Bern

The Genossenschaft Gründerzentrum Bern is a co-operative, which through combined self-help, pursues the operation of incubator centres to assist start-ups. These enterprises can hire initial premises at favourable costs for up to four years. With the spatial concentration of new enterprises, the co-operative intends to encourage synergy and, at the same time, make available premises for consultation and the communication of business-administrative know-how, particularly in the context of job creation programmes. Prospective entrepreneurs must submit a business plan if they want to be adopted by the incubator centre. On request, the centre helps with the drafting of this plan, discusses business prospects with applicants, and takes part in the decision-making about the start-up. The activities of the co-operative are funded by co-operative capital, the rent from the new companies, services provided and financial support of the public and private sector. Aid is granted by cantonal and local authorities, employers' federations, banks, insurance companies and individual companies. In addition, the unemployment insurance pays a contribution for each unemployed person who finds a job thanks to the incubator centre. The co-operative is non-profit-making and has no political or denominational affiliations.

Measures relevant for new services

As described before, in some countries measures are developed which are very relevant for the development of start-ups in new services. Some examples of measures are described here.

In France, the core of the national policy regarding new services has been the support of the development of the so-called family jobs (*emplois familiaux*) and more precisely to household services through mainly tax incentives. Independent from how these employees are hired (directly employed by individuals, either through a classic working contract or through a mandatory organisation or through

⁵⁰ Due to the increasing age of the population. See Section 10.2.3.

⁵¹ In many cases the interest for new services is clearly linked to the unemployment situation. In France, for instance, the interest in the topic dates back to the end of the eighties. See Heritier, P., *Nouvelle croissance et emplois* (New growth and employment), SYROS, Paris, 1988, and Greffe, X., *Nouvelles demandes, nouveaux services* (New demands, new services), Rapport pour le X plan, La Documentation Française, Paris, 1990.

Table 10.11 Instruments to foster entrepreneurship in general

<i>Instruments to stimulate entrepreneurship</i>	A	B	CH	D	DK	E	EL	F	FIN	I	IRL	IS	L	LI	NL	NO	P	S	UK
Direct subsidies	+				+			+	+	+			+			+	+		+
Subsidised loans	+	+		+		+		+	+	+	+	+	+			+	+	+	+
Financial guarantees or participation	+		+	+		+		+	+			+	+		+	+	+		+
Tax facilities	+			+	+	+		+	+	+			+		+				
Information, advice and consultancy	+	+	+	+	+	+	+	+	+	+	+	+	+		+	+	+	+	+
Export guarantees			+						+			+				+			
Savings regulations with favourable interest rates		+				+													
Job guarantee, social security							+	+											
Start-up subsidy for jobless people	+	+		+			+	+	+			+				+	+	+	+
Labour-cost subsidies	+					+		+			+				+		+	+	
Subsidies for capital investments	+			+		+			+	+	+		+				+		

Source: ENSR partners.

the system of the 'service-employment cheque'⁵²) individuals can deduct part of the cost from income tax. In addition special tax exemptions are available for hiring certain groups of people such as older people or disabled. In an attempt to make the sector more open to private enterprises via a price reduction mechanism, the French National Employment Guidelines in 1998 envisaged the possibility to reduce the VAT paid by enterprises supplying household services at home.

In Sweden Law 1996:725 allowed a substantial tax reduction for home repairs, rebuilding and extension and it is generally expected that some form of tax deduction on other types of domestic services will be established in the near future.

In Ireland, government policy towards new services, outlined in a 'Government strategy for services', is aimed at ensuring that the whole service sector will have access to seed and development capital, since it was acknowledged that a significant equity gap still exists. The instruments are available for both start-ups and existing enterprises.

Measures aimed at the service sector in total

In Ireland, besides the above mentioned 'Government strategy for services', the Skill Base has been enhanced for the development of service sector enterprises and the National Linkage Programme (assisting enterprises in developing sub-supply opportunities) has been extended to the service sector. Furthermore, some support schemes designed for high-growth enterprises (Management Development Grants, The Mentor and Patron Programme, Graduate Placement Scheme, Feasibility Study Grants, Strategic Alliances/Network Supports) have also been extended to the service sector.

In Germany, public policy for the service sector has been organised in 'Dienstleistungen für das 21. Jahrhundert' (Services for the 21st century), which was first discussed and initiated in 1996, although the planning and implementation stage is only going to start just now. This policy focus on business-related services, not on consumer services (which are not a central topic in the political debate) and its measures will be performed on behalf of the Ministry of Education and Research (BMBF). They are:

1. Promotion of research within the field Service Engineering and Service Design;
2. Promotion of innovative services within the field of craft aimed at enlarging the mainly product-oriented craft supply also to the services field;
3. Research programme to identify legal barriers for new services, paying special attention to the question whether regulations really are responsible or whether it is more the case that the observed barriers are caused by wrong application or understanding of the existing regulations;
4. Benchmarking to foster innovation, growth and employment in the service sector;

⁵² The scheme has first been launched as a pilot experience in 1994 for family jobs up to 8 hours per week, simplifying administrative procedures for individual employers. Afterwards, Law 29/1/1999 has confirmed the scheme, allowing its use for full-time jobs. It should be further mentioned that local authorities (municipalities and NUTS-III regions) and the French Caisses de Retrait (Pension Funds) also subsidise the resort to household services, in particular for elderly people, disabled and persons in great social difficulties. After the French experience in attempting to formalise the so-called economy of proximity, which has lasted now for several years, in Switzerland recently a proposal has been submitted to the Parliament of the Canton of Geneva which aims at raising the value of the economy of proximity by introducing a 'service-employment cheque' (including social security contributions and registration for taxes). It should establish a transparent partnership between employer and employee which is both employment contract and payment voucher. This system should prevent illicit employment.

5. Promotion of research in the field of standardisation and quality, due to the growing need of standardisation in the service sector promoted by the World Trade Organisation (WTO) and the International Standard Organisation (ISO);
6. Promotion of research in the field of working organisation, management and services.

BMBF sees the need to organise work in the service sector in a different way, due to the changing environment (trend to closer links to customers, differentiation of products, new ways of communication, etc.)

Measures in the field of ICT

As described before, many new services are directly linked with the development in ICT. So, many of the measures aimed at ICT are also relevant for service enterprises in this sector. In Chapter 5 of this report some measures in this field are already described. Here two examples are given.

A national initiative with regional and local implementation is the British 'Information Society Initiative' for business which has been developed by the government and which is a partnership between industry and the government to help business thrive in the emerging information-based economy. Since the programme started in 1996, the usage of the scheme has reached a level of 45 000 per year across the UK. The initial phase established 80 regional centres with a government investment of approximately 12.5 million euro. The programme was extended at the end of 1998 to add a further 20 regional centres and incur a further 3.1 million euro investment. When this is completed, 100 centres will be in a position to provide support and it will effectively cover the whole of UK. An evaluation of the programme will be implemented towards the end of 1999.

In Switzerland, one national programme includes literally the service sector in its aims. The CTI (Commission for Technology and Innovation) start-up initiative primarily serves to support know-how based high-tech projects in their transformation of R&D efforts into marketable products. The support provides assistance in terms of technology and science and in management and marketing. The encouragement of continuing technological development by concerted co-operation with universities and polytechnics is considered to be the basis for co-operation with venture capital investors and banks. The projects concentrate in micro-technology, medical technology and IT. With a credit of 6.2 million euro granted by parliament for 1996-1999, 20 companies with 100 new jobs have been created so far. CTI encourages project-related co-operation between enterprises, primarily SMEs, and helps them to prepare projects and submit them for feasibility tests.

10.4.1 Local Initiatives

As described in Section 10.3.1, Local Initiatives aim to provide services in areas where needs are not being met, either by the market or by the public sector. They are not restricted to social services, but they also extend to leisure-related and tourism-related services and, sometimes, to business-related services as well.

Local Initiatives are characterised by at least some of the following aspects:

- Serving local needs;
- Additional rather than replacement employment is created;

- Employment becomes available for individuals with low qualifications who are more at risk of unemployment;
- Often rather labour-intensive, like personal services;
- Usually provided by small organisations, i.e. SMEs, able to adapt to a flexible and innovative mode of production and delivery;
- Improving welfare while costs for the public sector, cost per job created, are decreasing.

A Local Initiative may consist also of the creation of a network of local partners for local development and stimulation of Local Initiatives centres supporting the creation of service enterprises.

In Spain the Plan of Action for Employment 1998 includes guidelines for the creation of jobs at local level and the development of the social economy, aiming at fostering the institutional co-operation between the different levels of public administrations on the one hand and between the public sector and private initiatives on the other. The strategic lines for the development of the new employment opportunities are:

- Promotion of the public or private services, especially those related with the social economy;
- Priority to projects referring to the environment, culture, education, solidarity, health, family, leisure time, tourism, sport, development of the rural and urban environment;
- Fostering the creation of micro enterprises and their appropriate financing;
- Determination of the professional profiles needed, according to those foreseen in the new National Programme of Professional Training;
- Structuring of an appropriate training offer.

These strategies will be implemented through a revision of Active Policies, such as Programmes of Work-Schools and Local Training Centres, and of local development programmes. Resources have been allocated: 7.2 million euro for local initiatives of employment by INEM and 2.3 million euro by Autonomous Communities.

Another interesting example of a local initiative in the field of business services can be found in Luxembourg. The project, called 'Technoport Schlassgoart', has two activities that complement each other: consultancy for large enterprises and for SMEs manned by the 'Laboratoire de Technologies Industrielles' - LTI (Industrial Technologies Laboratories), on the one hand, and services for service enterprises and start-ups, manned by the 'Centre d'Accueil et d'Innovation pour Entreprises-CAIE' (Enterprises Support and Innovation Centre), on the other. It has started from a co-operation form with the technological resources of the steel industry, then from 1997 it is implementing the new strategic plan. Further planned development will be the extension to a larger group of enterprises from the transnational Greater Region Saar-Lor-Lux. Apart from that, the Technoport management and the Ministry of Environment jointly decided to create a Resource Centre for Environmental Technologies (CRTE) to support SMEs in the development of the best available technologies and to advise the ministry and local administration.

In Norway there is a positive attitude towards Local Initiatives. One reason is that these are seen as very valuable in the general policy toward regional development,

particularly in the more rural areas. There are various programmes and policies directed at promoting SMEs and new developments in general. SMEs working in the field of new services have access to these programmes on the same basis as other SMEs. The SME-related programmes are mainly enacted by the Norwegian Industrial and Regional Development Fund (SND). Many of the projects based on new developments are high-risk when it comes to profitability and thus very often one will not be able to obtain funding in the private market. In order to promote new developments, SND provides both counselling, training and various forms of risk capital and subsidies, for which the entrepreneurs may apply. As it is an overall goal that this source of funding and advice shall be available for entrepreneurs across Norway, these days the SND is developing a decentralised structure of administration.

Furthermore there is a central initiative which has developed into an important service at the local level, namely the centres for voluntary work. The Norwegian centres of voluntary work (Frivillighetssentralen) were established in 1992 as a pilot project in order to strengthen the voluntary social work. The Ministry of Health and Social Relations granted funds to 95 pilot centres for a period of three years. In 1996 the centres were made permanent and since then the number of centres has increased to about 234 in 1999. Today, national funds and grants from the municipalities mainly finance the centres. The national funds are primarily covering the salaries for one full-time employed person per centre. The national funds are distributed to the centres of voluntary work by a co-ordinating body called FRISAM. A prerequisite for this financial support is that each centre for voluntary work is able to generate at least 1.9 man-years voluntary work. Some centres are owned by voluntary organisations, others are owned by foundations or co-operations, some are owned by the local congregation or religious organisations, and finally the municipalities are responsible for about one third of the centres. The centres are mainly preoccupied with various social and care-taking efforts. Of secondary importance are various hobby and leisure-time activities. There has been a gradual integration between the public health and social care in the municipalities and today many of them function as supplements to the public activities. The centres of voluntary work seem to develop into some sort of hybrid welfare organisation. On the one hand they are run by or in co-operation with voluntary workers. On the other hand central or local authorities finance them and they are deeply integrated into the administration of the municipality. Thus, the centres are signalling a new type of co-operation between the voluntary and municipal sector and a partial removal of the traditional demarcation between civilian and public activities.

In Finland a further educational programme for female entrepreneurs operating in physiotherapy in the frame of the European Social Fund, Objective 4 Region, has been carried out. A year after the start of the programme the share of employment had increased overall by 56 % (39 new jobs). 36 % were full-time jobs, 33 % part-time jobs and 3 % temporary jobs. 3 % of the workers were in apprenticeship contracts and 26 % were employed as receptionists. One of the main reasons for such good results was the close communication between the instructor (the Centre for Extension Studies at the University of Turku) and the head of the trainee's organisation (Suomen Fysioterapiayrittäjät-FYSI, i.e. the Finnish Physiotherapy Entrepreneurs). At the beginning of the programme 20 enterprises had a total of 70 employees and at the end of the programme (27 November 1998) those 20 enterprises had a total of 109 employees so it seems clear that measures of support should be allocated expressly to experienced entrepreneurs in the service sector.

10.5 Policy issues

At present two main forces are at work in the service sector: a technology-push element, mainly IT-induced, with an increasing shift towards new more knowledge-intensive services and a demand-pull element, mainly induced by economic and socio-cultural changes in the personal services sector.

To encourage innovation and realise the welfare benefits and the cost savings obtainable from the evolution of services, both forces ask for a public policy on education, re-education and training⁵³ and re-training of entrepreneurs, workforce and consumers. There is a general consensus as to the necessity of making the education system in general and vocational training in particular more flexible, fostering new types of profession and new skilled trades such as media experts, media engineers, fitness consultants, and new ways of qualifying for these professions.

Regarding the technology-push element, the technological evolution of many services from knowledge-based to knowledge-separated though knowledge-embedded, intellectual-property rights to protect ideas and systems of service delivery, and standards and policies for transferring knowledge make all these policies playing a crucial role. Anyway, care must be taken that these policies do not inhibit the technological evolution of services. Thus policies must strike a balance between protection of current service providers, protection of customers and stimulation of service expansion, innovation and technological evolution. Special attention should be paid to the specific characteristics of e-commerce, like tax levying, safe payments, consumer protection, fair competition. This is a new area with far reaching consequences, also for policies.

Regarding the demand-pull element, the afore-mentioned economic and socio-cultural changes seem to continue to induce additional needs for - mainly personal - services. These needs have not yet fully been translated into purchasing power. It seems that any measure to reduce the labour costs of new personal services would create additional demand, and thus jobs. In this respect also local programmes play a crucial role. The results of the experiments carried out in the Member States in the field of LDEI⁵⁴ must be taken into account in the development of the future projects financed by, among others, the Structural Funds. Community support for local experiments, besides playing an important pioneering and demonstrative role, should increase the opportunities for social and economic innovation across Europe, through transnational exchanges of best practices experiences.

In order to overcome the difficulties encountered at present, the promotion of Local Initiatives will probably necessitate an updating of national employment policies, coupled with the enhancement of training policies and of policies fostering the setting-up of businesses. Public policy at national level, especially in the larger European countries, will probably have to move towards greater diversification of schemes, decentralisation of policy-making and, perhaps, also a partial outsourcing of instruments.

⁵³ Local Development and Employment Initiatives. See European Commission, A European strategy for encouraging local development and employment initiatives (LDEI), Luxembourg, 1995, and European Commission, Rapport sur le Séminaire européen sur les politiques nationales d'encouragement aux initiatives locales de développement et d'emploi, 19/2/1997.

⁵⁴ Local Development and Employment Initiatives.

PART V MONITORING

11 SMEs in the European Single Market

Co-ordinated by EIM Small Business Research and Consultancy

MAIN POINTS

Since the previous report of The European Observatory for SMEs, the European Commission reports significant progress towards improving the functioning of the Single Market and making it a reality for citizens and business. In this chapter the perceptions of entrepreneurs of the Single Market are studied using results of the ENSR Enterprise Survey 1999, a large-scale sample survey covering the countries of the European Economic Area and Switzerland.

Perceptions of the Single Market

- Considering both advantages and disadvantages of the Single Market, 33 % of SMEs see on balance more advantages compared to just 13 % who see more disadvantages. Larger SMEs, exporting and fast-growing enterprises are more positive than other SMEs.
- More than half of the SMEs do not recognise any major advantage or disadvantage of the Single Market, many of these are likely to be operating on a local scale only. This perception is strongly related to the size of the enterprise (smaller enterprises see less effects) and whether an enterprise is exporting or not (exporters acknowledge more effects).
- In total there are 2.5 times more SMEs seeing mainly advantages than SMEs seeing mainly disadvantages. However, large country differences exist. Finland, Iceland and Ireland are very positive with 6 to 8 times more positive enterprises than negative ones. Relatively negative are France, Austria and Luxembourg with a factor of less than 2, and especially negative is Greece where the SMEs with a negative perception even outnumber the positive ones.
- The four major advantages associated with the Single Market by SMEs are *'larger selling market'*, *'simplified international co-operation'*, *'introduction of the euro'* and *'larger markets for inputs'*.
- The two major disadvantages most frequently cited are *'greater competition'* and *'increased regulations'*. Also mentioned are *'costs of the euro'* and *'higher production costs'*. Greater competition is seen as a disadvantage by individual SMEs, whereas it is valued positively taking a socio-economic point of view. The emergence of a more competitive market is even an explicit policy target.
- The larger the SME the more likely it is to have experienced increasing competition. Non-exporters perceive that competition is increasing mainly from domestic enterprises whereas exporters report increasing competition mainly from international enterprises.

The change-over to the euro

- Between 35 % (enterprises without employees) and 75 % (medium-sized enterprises) have already considered the consequences of the change-over to the euro. These percentages are expected to increase steadily up to the year 2001 (55-85 %), after that a jump still has to be made.
- SMEs have reported whether they received sufficient information on the change-over to the euro from six types of institution. Banks score as high as 80 %, and also trade bodies and accountants do rather well. Between 20 to 40 % of enterprises were of the opinion that they got sufficient information from the national or local governments and the European Commission. One should however realise that the Commission as well as national governments have made considerable efforts to inform individual enterprises by supporting other (private) organisations to reach out to SMEs.
- The share of SMEs having made a detailed analysis of the impact of the euro on their business increases with enterprise size from only 4 % of all enterprises without employees to about 35 % of all medium-sized enterprises.
- With regard to the share of enterprises having designed a detailed strategy to deal with the change-over to the euro, exactly the same situation exists. More than half of all medium-sized enterprises do have checklists or other tools for action. For enterprises without employees and micro enterprises this is only 11 % and 21 %, respectively. Internationally exposed SMEs are much better prepared for the change-over to the euro than enterprises active on home markets only.
- Across all sizes, less than 20 % of all SMEs expect a negative impact of the euro. The share of enterprises expecting positive effects increases from just over 20 % for enterprises without employees to over 45 % for medium-sized enterprises. Enterprises which did make a detailed analysis of the effects of the euro on their business, come to a more positive conclusion than other enterprises.
- The share of SMEs that are or plan to be fully euro-compatible increases from a low initial value in 1999 to well over 90 % in 2002 in euro countries and even to 50 % in non-euro countries. Exporting SMEs from Europe-19 are getting ready for the euro well in advance of non-exporting SMEs.

International co-operation and trade

- Overall, exports from Europe-19 countries are, to a large extent, 'intra-EU' exports, international trade flows from one Member State to the other. SMEs are even more concentrated on EU markets, and the focus on other continents is substantially lower. SMEs focusing on markets in central and eastern Europe show a relatively stable export turnover from year to year, whereas SMEs exporting mainly to other continents seem to have a more fluctuating export turnover.
- The number of international business contacts continues to rise. 25 % of all small enterprises report such an increase, and 50 % of medium-sized enterprises do too.
- Export seems to coincide with more volatility in the development of turnover over the years. If enterprises are classified in five classes ranging from fast-shrinking to fast-growing turnover, it shows that exporters are mainly found in the fast-growing and fast-shrinking groups. In these classes 20 to 25 % of SMEs are exporting, whereas in the group with stable turnover only 7 % export.

11.1 Introduction

Generally, quite positive effects from the Single Market are anticipated by SMEs: *'The Internal Market programme opens up new commercial opportunities for companies previously operating in one Member State and offers new avenues for growth. It is expected to deliver proportionately greater benefits to SMEs than to larger firms, especially in those sectors where there were many non-tariff barriers and in those regions where markets were artificially divided by trade barriers'*¹.

Since the previous report of The European Observatory for SMEs, significant progress towards improving the functioning of the Single Market and making it a reality for citizens and business has been achieved by the Single Market Action Plan². Endorsed by the Amsterdam European Council in June 1997, the Action Plan sets out an ambitious 18-month programme³ in the run-up to the introduction of the euro.

The present chapter continues the approach taken in the Fifth Annual Report of The European Observatory for SMEs, albeit with modifications and improvements. These relate for example to the inclusion of new topics such as the way in which SMEs deal with the conversion to the euro.

The main aim of the chapter is to monitor the experiences and perceptions of entrepreneurs in the Single Market⁴. Given the limitations of survey data, it is however important to stress one point. Businesses can be affected by the Single Market in two ways:

- Directly (e.g. much easier to market their products in various Member States), or
- Indirectly (e.g. because more competitive markets for inputs are brought about and/or transport and transaction costs are lowered, the price of inputs may decline).

Almost by definition the survey results refer to the perception of entrepreneurs of direct effects only. To make an overall assessment of the impacts of the Single Market a different approach using macro-economic models is needed. This has already been stated in the previous report⁵.

¹ http://www.europa.eu.int/en/comm/dg23/guide_en/intmarkt.htm (situation on 26 September 1999).

² According to an assessment published by the European Commission, DG XV. This section is based on the text available on the Commission's Website: 'Single Market: Action Plan bears fruit', Dated 23 February 1999, (<http://www.europa.eu.int/comm/dg15/en/update/action/128.htm>, situation 26 September 1999).

³ For example cutting the 'fragmentation factor', i.e. the percentage of Single Market Directives not yet implemented in all Member States: 35 % in June 1997, 18 % in May 1998, 14 % in December 1998 to 13 % in June 1999. A fragmentation factor of 13 % across the whole of the Union implies that 180 out of 1 405 Directives have not yet been transposed in one or more Member States (Source: Single Market Scoreboard, text dated 16 June 1999, on: <http://www.europa.eu.int/comm/dg15>, situation on 26 September 1999). For non EU Member States the rate is 3 to 4 % (May 1999, Source: EFTA Single Market Scoreboard No. 4).

⁴ See Annex I to this report: The set-up and analyses of the ENSR Enterprise Survey 1999. Given this responsibility to monitor, some major results reported in this chapter are compared to findings from the ENSR Enterprise Survey 1997 (ENSR, The European Observatory for SMEs, Fifth Annual Report, Zoetermeer, 1997, Section 12.2).

⁵ The main aggregate macro-economic effects of the Single Market Programme (growth and employment) have been econometrically assessed by comparing the results of a baseline scenario for the 1987-1994 period to a counterfactual one, in order to isolate the impact of the Single Market Programme ('European Commission, European Economy Reports and Studies, No. 4, Brussels, 1996, as quoted in Section 12.1 of: ENSR, The European Observatory for SMEs, Fifth Annual Report, Zoetermeer, 1997).

11.2 The opinions of SMEs about the Single Market

Entrepreneurs have been asked to consider carefully advantages and disadvantages associated with the process of creating the Single Market. Thereafter the entrepreneurs were asked whether the Single Market had, in their opinion, on balance, more advantages or more disadvantages for the enterprise. First, this balanced opinion is presented, then in a subsequent section the specific advantages and disadvantages are analysed.

11.2.1 Overall assessment of the Single Market

As will be analysed in more detail in Section 11.2.4, about half of SMEs consider that they are not affected much by the Single Market. However, those entrepreneurs who do feel they are affected are on balance clearly positive: 34 % see more advantages vs. only 13 % more disadvantages. In Table 11.1 these results are compared to those of a business survey conducted for the Commission by EOS Gallup in 1998.

Table 11.1 Perceived overall effect of the Single Market (percentage of enterprises)

<i>Gallup Survey 1998</i> <i>enterprises with 10 employees or more</i>		<i>ENSR Enterprise Survey 1999</i> <i>enterprises 0-249 workers</i>	
very positive	3 %		
positive	24 %	more advantages	34 %
qually positive and negative	7 %		
no impact	57 %	not affected much	48 %
negative	6 %	more disadvantages	13 %
very negative	1 %		
don't know	2 %	no answer	6 %
Total	100 %		100 %

Source: European Commission, DG XV, Single Market Scoreboard, No. 3, Brussels, October 1998, and ENSR Enterprise Survey 1999.

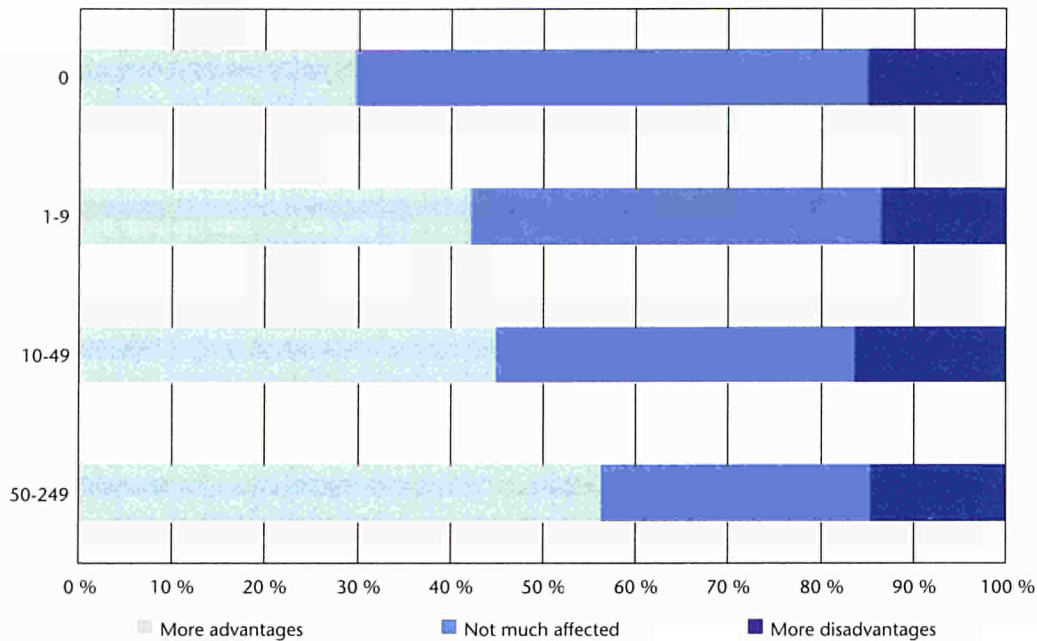
Although the phrasing of the questions and the populations studied differ somewhat, results are broadly comparable. The positive balance is in both cases 20 %⁶, i.e. the percentage of positive enterprises minus the percentage of negative enterprises.

Overall assessment by enterprise size

The balanced opinion differs substantially by size class. The percentage of SMEs seeing more advantages on balance increases from only 28 % for the enterprises without employees to as high as 54 % for the medium-sized enterprises (Figure 11.1). Findings from the Gallup Survey referred to above, indicate that large

⁶ According to the ENSR Enterprise Survey 1997, 46 % of the enterprises saw the Single Market as an opportunity vs. 18 % who saw it as a threat, so the 'balance' was about 28 % (ENSR, The European Observatory for SMEs, Fifth Annual Report, Zoetermeer, 1997, Section 12.2). However, the 1997 survey did not include 'enterprises without employees'. If only enterprises with 1-249 employees are considered for 1999 also, the conclusion is that the positive balance did not change (the difference between 'advantages' (41 %) and 'disadvantages' (13 %) being 28 %).

Figure 11.1 Overall assessment of Single Market by enterprise size (percentage of enterprises)



Source: ENSR Enterprise Survey 1999.

enterprises are even more positive than SMEs. It can be concluded therefore that - for the full range from enterprises without employees to large enterprises - the larger the enterprise the more positive the perception of the Single Market.

Overall assessment: exporters versus non-exporters

Of all SMEs in the survey about 16 % export. However as the percentage of exporting enterprise increases by enterprise size⁷, different perceptions of the Single Market for exporters and non-exporters are bound to be influenced by size-class effects. Therefore, Figure 11.2 shows exporters versus non-exporters within each size class. It can be seen that not only overall exporters are much more positive of the effects of the Single Market, but also that this relation holds within each size class.

Overall assessment by country

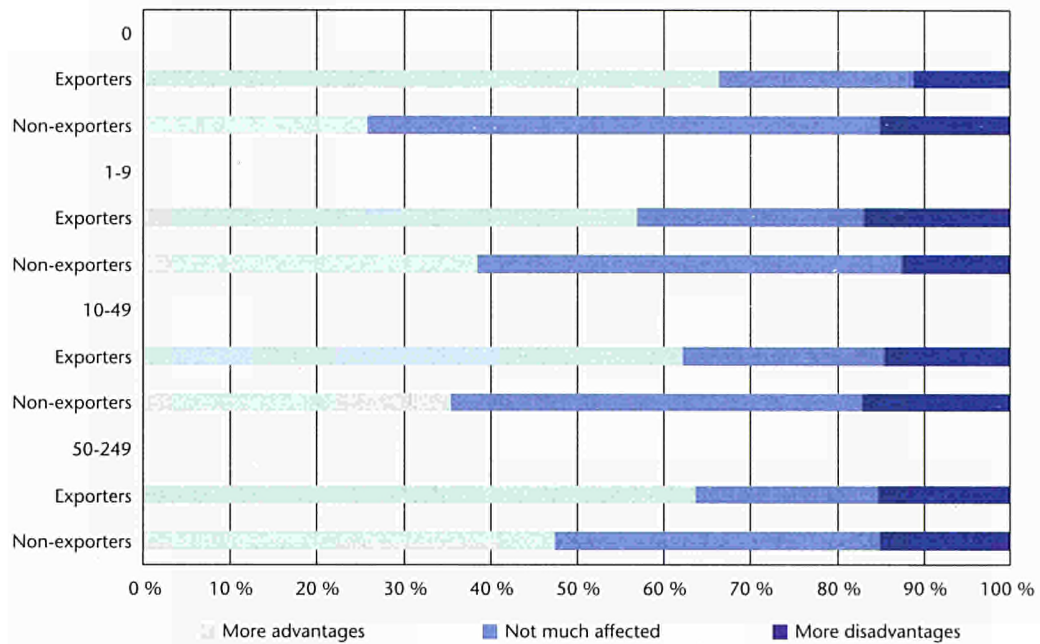
In the Fifth Annual Report of The European Observatory for SMEs, the effect of the Single Market was analysed by country clusters. The enlarged scope of the ENSR Enterprise Survey 1999 enables analysis by individual countries.

Figure 11.3 shows substantial differences between countries:

- In Ireland, Iceland and Finland the group of SMEs with a positive perception is much greater than the ones with a negative;
- In France, Luxembourg and UK the positive group is only a little larger than the negative one;
- In Greece the SMEs with a negative perception outnumber the positive ones;

⁷ For the four size classes distinguished - starting from the low end - 10, 20, 35 and 45 %, respectively.

Figure 11.2 Overall assessment of Single Market, exporters versus non-exporters by enterprise size



Source: ENSR Enterprise Survey 1999.

- The entrepreneurs in the four non-EU countries covered in this report, i.e. Iceland, Liechtenstein, Norway and Switzerland, are, on balance, more positive than the overall average.

A better insight into the differences between countries can be obtained by looking at the percentage of SMEs seeing mainly advantages divided by the percentage seeing mainly disadvantages. In total there are 2.5 times more SMEs seeing mainly advantages than SMEs seeing mainly disadvantages⁸.

By presenting this ratio for each country in Figure 11.4, the large country differences come out more clearly. Ireland is at the positive end with 8.5 times more positive enterprises than negative ones. At the other extreme is Greece: the enterprises seeing disadvantages even outnumber the enterprises seeing advantages.

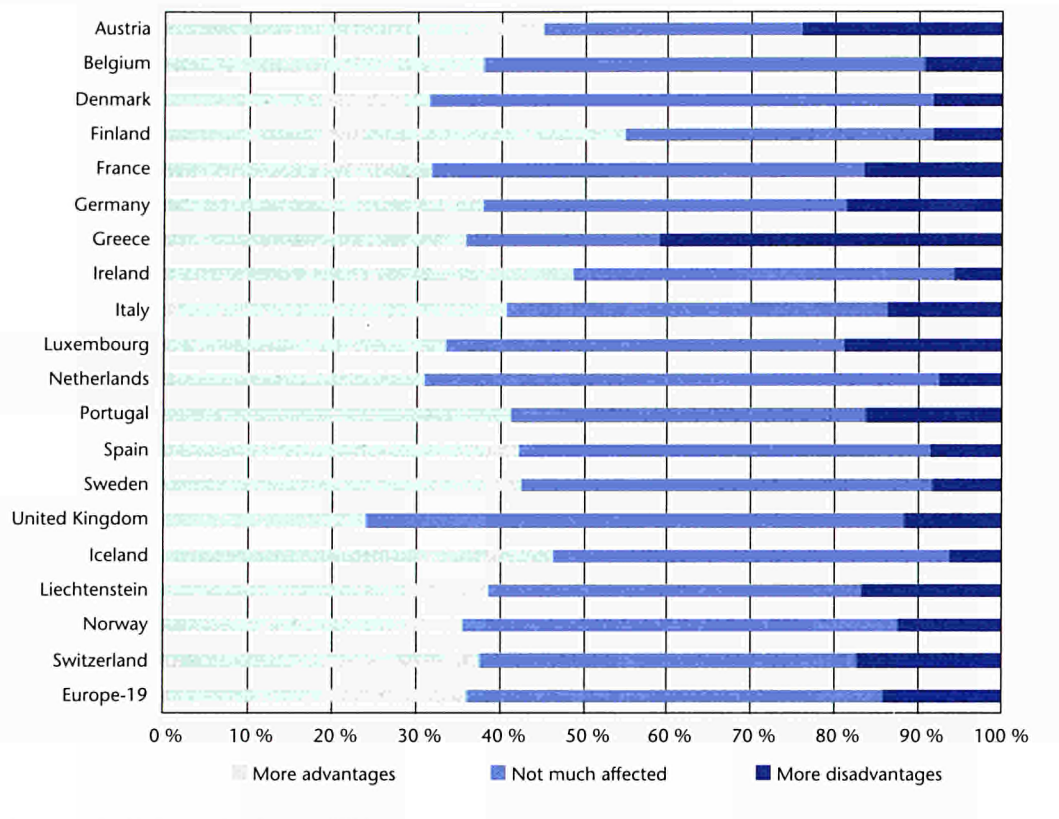
11.2.2 Advantages and disadvantages perceived

Advantages by size class and sector

The four major advantages identified by SMEs are 'larger selling market', 'simplified international co-operation', 'introduction of the euro' and 'larger markets for inputs' (see Table 11.2). Substantial differences are found by size class: the larger the enterprise the more they identify advantages. Percentages are twice as high for medium-sized enterprises as for enterprises without employees.

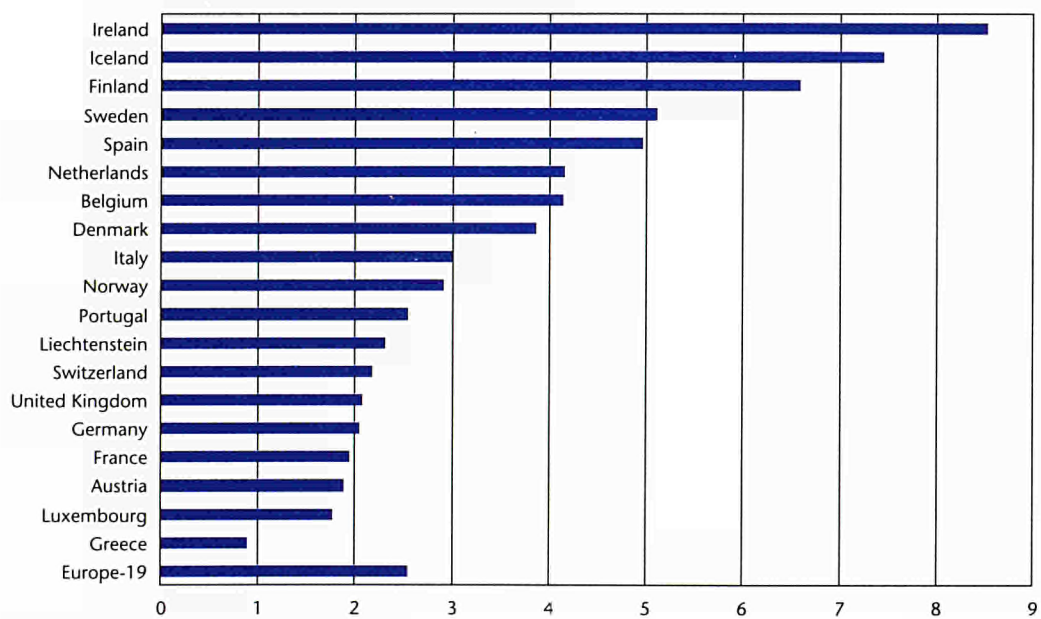
⁸ In this analysis about 5 % of enterprises that do not provide an answer (don't know) have been left out. However, remarkable differences between countries do appear also in this respect. In some countries many enterprises answer, 'don't know', i.e. Greece (9 %) and France (13 %), whereas in other countries such as Denmark, Finland and Ireland this percentage is only 1 %.

Figure 11.3 Overall assessment of Single Market by country



Source: ENSR Enterprise Survey 1999.

Figure 11.4 The relation between the share of SMEs seeing mainly advantages and the share of SMEs seeing mainly disadvantages of the Single Market, countries ranked from positive to negative



Source: ENSR Enterprise Survey 1999.

Table 11.2 Single Market Advantages by enterprise size (percentage of enterprises)

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Larger selling market	14 %	19 %	25 %	28 %	17 %
Simplified international collaboration	12 %	17 %	19 %	25 %	14 %
The euro	10 %	17 %	15 %	25 %	13 %
Larger markets for inputs	8 %	17 %	16 %	20 %	13 %
Lower transaction costs	8 %	13 %	14 %	19 %	10 %
Larger labour market	5 %	6 %	6 %	9 %	5 %
Lower transportation costs	4 %	6 %	7 %	10 %	5 %
Lower production costs	4 %	5 %	4 %	5 %	4 %
No advantages	64 %	48 %	43 %	33 %	56 %
Don't know/no answer	3 %	3 %	1 %	1 %	3 %

Note: More answers possible, hence figures do not total to 100 %

Source: ENSR Enterprise Survey 1999.

By sector the ranking of advantages also differs. Relatively important are:

- 'Larger selling market' for manufacturing,
- 'Larger market for inputs' for trade sectors, and
- 'Lower transaction costs' also for trade sectors.

There is hardly any variation by sector with regard to the share of enterprises seeing no advantages at all.

Disadvantages by size class and sector

The four major disadvantages identified by enterprises are 'greater competition', 'increased regulations', 'costs of the euro' and 'higher production costs' (see Table 11.3). As with advantages, larger enterprises tend to identify more disadvantages. It is important to note that the disadvantage identified by most enterprises, i.e. higher competition, is an issue which might be perceived negatively by the individual entrepreneur, whereas it is valued positively taking a socio-economic point of view. Achieving a more competitive market structure is even an explicit policy target.

Table 11.3 Disadvantages of the Single Market by enterprise size (percentage of enterprises)

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Greater competition	22 %	32 %	35 %	40 %	27 %
Increased regulation	16 %	16 %	21 %	27 %	17 %
Costs of the euro	7 %	8 %	8 %	8 %	7 %
Higher production cost	6 %	6 %	5 %	5 %	6 %
No disadvantages	57 %	47 %	42 %	37 %	52 %
Don't know/no answer	5 %	4 %	2 %	2 %	4 %

Note: More answers possible, hence figures do not add up to 100 %

Source: ENSR Enterprise Survey 1999.

There is some variation in perception by major industry division: 'increased regulations' is relatively more frequent among manufacturing and less among trade enterprises, whereas the 'costs of the euro' are somewhat more important

for trade enterprises. Also the share of enterprises seeing no disadvantages at all varies: from 46 % for trade to 57 % for services.

Advantages and disadvantages: exporters versus non-exporters

Advantages within the Single Market are not only related to cross-border operations, but one would expect internationally active enterprises to be more affected. Table 11.4 shows that all advantages are acknowledged by significantly more exporters than non-exporters. Only 25 % of exporters see no advantages, whereas this figure is as high as 62 % for non-exporters⁹.

Table 11.4 Advantages of the Single Market, exporters versus non-exporters (percentage of enterprises)

	<i>Exporters</i>	<i>Non-exporters</i>	<i>Total</i>
Larger selling market	40 %	13 %	17 %
Simplified international collaboration	28 %	12 %	14 %
The euro	26 %	11 %	13 %
Larger markets for inputs	19 %	12 %	13 %
Lower transaction costs	23 %	8 %	10 %
Larger labour market	10 %	5 %	5 %
Lower transportation costs	12 %	4 %	5 %
Lower production costs	7 %	4 %	4 %
No advantages	25 %	62 %	56 %
Don't know/no answer	1 %	3 %	3 %

Note: More answers possible, hence figures do not total to 100 %

Source: ENSR Enterprise Survey 1999.

Table 11.5 also shows that disadvantages are acknowledged more by exporters than by non-exporters. The difference is however not so large as with advantages. Still, the percentage of non-exporters seeing no disadvantages is, at 55 %, considerably higher than the 40 % of exporters¹⁰.

Table 11.5 Disadvantages of the Single Market, exporters versus non-exporters (percentage of enterprises)

	<i>Exporters</i>	<i>Non-exporters</i>	<i>Total</i>
Greater competition	35 %	25 %	27 %
Increased regulation	25 %	15 %	17 %
Costs of the euro	8 %	7 %	7 %
Higher production cost	8 %	6 %	6 %
No disadvantages	40 %	55 %	52 %
Don't know/no answer	2 %	4 %	4 %

Note: More answers possible, hence figures do not add up to 100 %

Source: ENSR Enterprise Survey 1999.

⁹ However, as the percentage of exporting enterprises increases by enterprise size (for the four size classes distinguished 10, 20, 35 and 45 %, respectively), differences between exporters and non-exporters might be influenced by a size class effect. Therefore it has been tested and confirmed that similar differences between exporters and non-exporters exist within each size class.

¹⁰ Here it has been checked whether differences found are not due only to a size class effect. For all issues tabulated in Table 11.5, similar differences are found if exporters are compared with non-exporters within the same size class. The only exception is the perceived disadvantages (costs) related to the introduction of the euro. The small difference reported in Table 11.5 (7 %, respectively 8 %), does not hold within size classes.

Advantages and disadvantages for different business strategies

SMEs are classified by the main focus of their business strategy to allow a study of the perception of the Single Market in more detail. Five possible business strategies are distinguished:

- Cost reduction;
- Increase quality;
- Product differentiation;
- Apply new technologies;
- Improve service.

The percentage of SMEs that feel that the Single Market has no major disadvantages or no major advantages, varies only a little with type of business strategy followed. However, the type of advantages perceived differs somewhat by main focus of business strategy:

- SMEs following a strategy of product differentiation and cost reduction acknowledge especially the larger selling market as main advantage.
- Lower costs are reported as an advantage mainly by SMEs following 'cost reduction', 'increase quality' and 'product differentiation'; The SMEs focusing on 'applying new technologies' and 'improving services' report little advantages overall. The only exception being the larger selling market for those 'applying new technologies'.

With regard to main disadvantages, differences are small. Greater competition and increased regulations are most important for all profiles. SMEs focusing on 'applying new technologies' report relatively more '*increased regulations*', whereas SMEs aiming at cost reduction are especially aware of '*increased competition*' being brought about by the Single Market.

11.2.3 How important is the Single Market for SMEs?

According to the ENSR Enterprise Survey 1997 about 45 % of the SMEs did not perceive any Single Market opportunity or threat¹¹. In 1999, more than half of the enterprises did not recognise any major advantage or any major disadvantage of the Single Market¹². This perception is strongly related to size of enterprise: smaller enterprises see fewer effects.

Also in 1997 a clear size-class effect was found. The fact that in 1999 an overall higher percentage of '*enterprises not perceiving any advantage or disadvantage*' was found, is therefore clearly caused by the fact that the sample in 1997 contained only enterprises with at least one employee, whereas in 1999 enterprises without employees were also covered. Leaving out the enterprises without employees shows that the 1997 and 1999 results are very similar.

¹¹ ENSR, The European Observatory for SMEs, Fifth Annual Report, Zoetermeer, 1997, Tables 12.1 and 12.2.

¹² The percentages of enterprises seeing no major advantages and no major disadvantage are almost equal, and have been re-presented by one figure in Table 11.1. This is not to say that these are all the same enterprises. Only about two-thirds are the same; i.e. these enterprises see neither major advantages nor major disadvantages. See also Section 11.2.2.

How consistent are SMEs in not reporting major direct effects of the Single Market on their enterprise? In-depth analysis shows that:

- Of SMEs seeing the Single Market on balance as positive for their enterprise, only 19 % see no major advantages versus 49 % seeing no major disadvantages;
- Of SMEs seeing the Single Market on balance as negative, as much as 73 % see no major advantages versus only 11 % who see no major disadvantages;
- Of SMEs stating that on balance they are not much affected by the Single Market, 69 % see no major disadvantages and 77 % no major advantages.

Summarising this in one figure: almost 30 % of all SMEs state consistently that they perceive no (direct) effect for their enterprise, either when asked about advantages, or when asked about disadvantages, or when asked to give a balanced opinion. In other words: Of those 50 % of SMEs that - when asked to give a balanced opinion - perceive not to be affected, over 60 % reported neither any major advantage nor any major disadvantage.

11.3 The change-over to the euro

Monitoring of the process of European integration, more in particular the creation and further development of the Single Market, has been the focus of the various Annual Reports of The European Observatory for SMEs. As the Fifth Annual Report was produced in the course of 1997, the present edition is the first one to deal with the introduction of the euro. Before results of the ENSR Enterprise Survey 1999 are analysed to disclose the perception and the preparations for the change-over to the euro at enterprise level, the list below summarises some major dates related to the introduction of the euro¹³:

- 1990 Stage I of EMU
- May 1998 Selection EMU participants and decision to introduce the euro in: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain¹⁴
- 1 January 1999 Introduction of the euro
- January 2002 Introduction of euro coins and banknotes.

11.3.1 Awareness and information provided

Awareness

As expected, the awareness and preparations for the use of the euro in commercial transactions is very much related to size class. Of all medium-sized enterprises 76 % have already considered the consequences of the introduction of the euro for their business at the time of surveying (mid-1999). The smaller the enterprise the later the management plans to consider these consequences seriously. Many enterprises report an intention to wait until 2001 before they will really consider

¹³ National Forum for the Introduction of the euro, The euro: the questions most frequently asked by businesses, The Hague, May 1999.

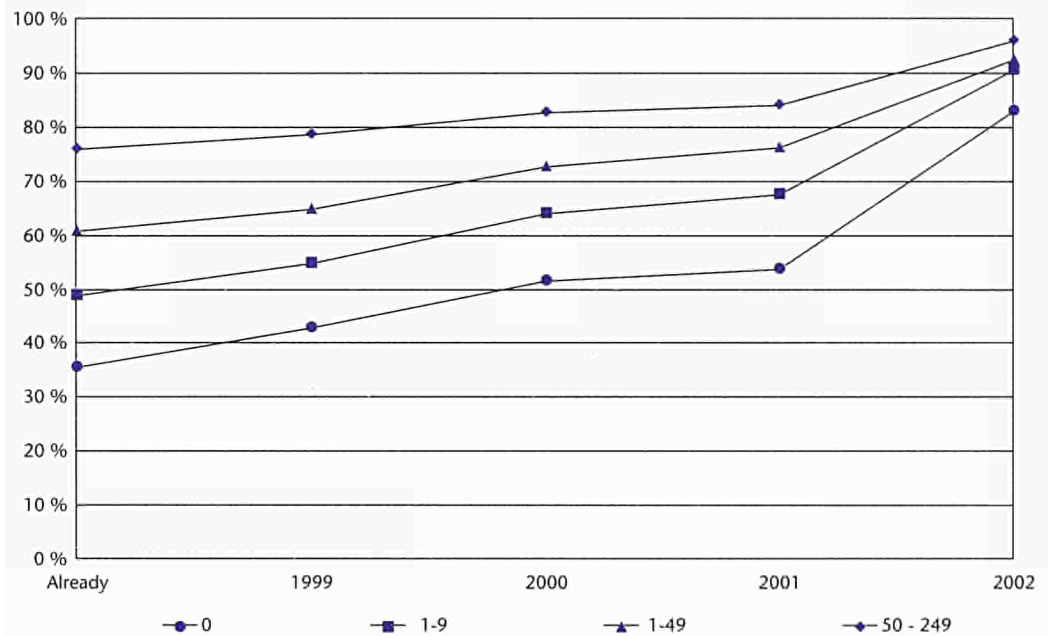
¹⁴ 2 088th Council Meeting, Council of the European Union, meeting in the composition of Heads of State or government, Brussels, 2/3 May 1998 (<http://www.europa.eu.int/euro/html/dossiers/00140/00140-en.pdf>, situation on 27 September 1999).

the consequences, resulting in a 'jump' from 2001 to 2002 as shown in Figure 11.5. Thirteen percent of all enterprises have no concrete plans at all to consider the consequences¹⁵, ranging from 1 out of 7 for enterprises without employees to 1 out of 25 for medium-sized enterprises.

Ranking industries by the percentage of SMEs that have already considered the consequences of the change-over to the euro in the summer of 1999 brings out the following differences:

- More than two-thirds of all enterprises in banking, finance and insurance;
- About half of all enterprises in wholesale trade, retail trade, manufacturing industry, transport and communications and business services;
- Roughly one third of all enterprises in hotels and catering, construction, other service industries and repair.

Figure 11.5 Time when consequences of euro will be considered, cumulative percentage of enterprises by enterprise size



Source: ENSR Enterprise Survey 1999.

One of the main determinants is of course the international orientation of the SMEs:

- Of all exporters, 64 % have already considered the consequences versus only 39 % of non-exporters.
- Enterprises which are exposed to increasing competition from foreign enterprises, either from within or from outside Europe, did consider the consequences more than enterprises perceiving a decrease in international competition (53 % vs. 30 %).
- Enterprises that report having more international contacts are also more likely to have looked into the euro issue than other enterprises (roughly 60 % versus 37 %).

¹⁵ Answers classified under this heading are: no answer, don't know, never, not likely to do so.

Also an association with the balanced opinion on the Single Market does exist: 54 % of the SMEs seeing the Single Market as being advantageous for their business already considered the consequences of the euro compared to only 37 % of the SMEs with a negative judgement or stating that they are not much affected.

Finally, results were analysed by country groups. To this end, the nineteen countries have been classified in three groups as follows:

1. Euro countries, i.e. 11 EMU members using euro from start (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain);
2. EU countries not using the euro from the start (Denmark, Greece, Sweden and the United Kingdom);
3. Non-EU countries (Iceland, Liechtenstein, Norway and Switzerland).

It comes as no surprise that more enterprises in the euro countries have considered the consequences of the change-over than those in the other two groups (48 %, 29 % and 25 %, respectively).

Information providers

The respondents were asked from which organisation their own enterprise received sufficient information on the introduction of the euro. Six categories of organisations have been distinguished. Figure 11.6 shows that the relative score of all institutions is very similar for all size classes.

The overall conclusion is that satisfaction about the information provided by the six institutional categories increased with size of enterprise. The major exception is national governments, which are relatively successful in reaching the enterprises without employees. The organisations may be divided into three groups, considering their success in directly reaching the business community with information on the conversion to the euro:

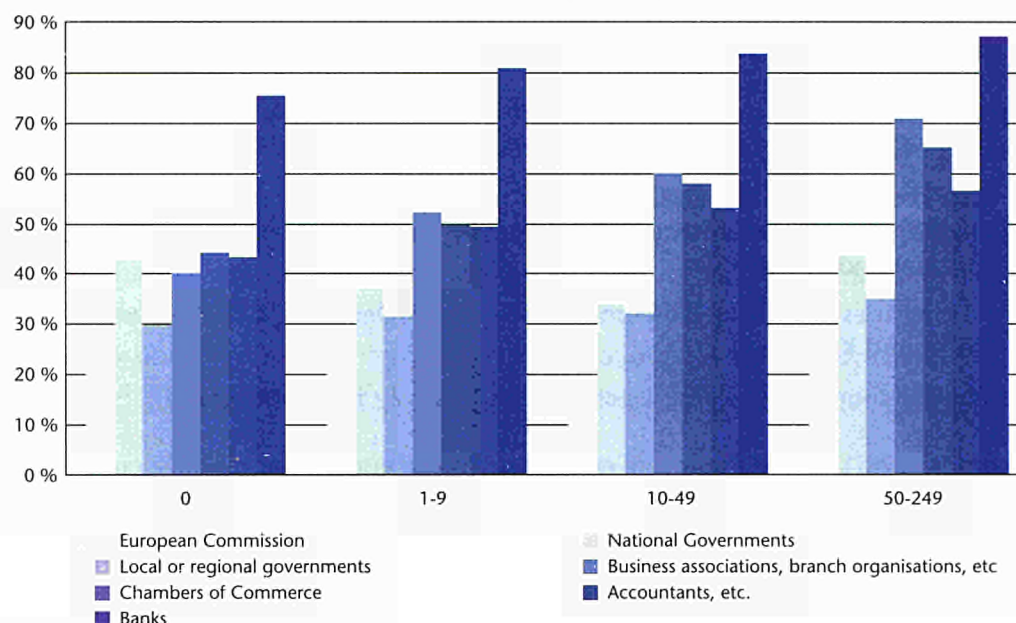
- Very successful: banks;
- Quite successful: business associations, chambers of commerce, accountants;
- Less successful: regional and national governments, the European Commission.

One should however realise that the Commission as well as governments have made considerable efforts to inform individual enterprises by supporting other (private) organisations to reach out to SMEs.

Analysis by sector shows that there is not much difference between the sectors:

- Banks score highest (twice the score of other institutions) in all sectors.
- Business associations are strongest in manufacturing, construction and retail trade, whereas Chambers of Commerce perform relatively well in wholesale and business services, and slightly less so in construction.
- For accountants only the construction sector shows somewhat less satisfaction.
- The score of the European Commission is weakest for manufacturing and highest for transport and communication; whereas national governments perform relatively well in construction and have more problems reaching SMEs in the wholesale sector.

Figure 11.6 Percentage of SMEs that feel organisations provide sufficient information on the introduction of the euro, by enterprise size



Source: ENSR Enterprise Survey 1999.

Studying the three country groups introduced above, a consistent pattern with regard to all six institutions is found:

- Enterprises in euro countries are most satisfied, i.e. ranging from 23 % for the European Commission to 80 % for banks.
- Non-EU countries occupy an intermediate position: the share of satisfied enterprises ranging from about 20 % for local or regional governments and the Commission to 65 % for banks.
- Enterprises from EU countries which do not participate in the euro are the least satisfied: 12 % for local or regional governments and the Commission to 35 % for banks.

So the information on the euro from the local and national governments and the European Commission reaches relatively more enterprises in non-EU countries (20 %), than enterprises in EU Member States that do not participate in the euro (12 %). One should however keep in mind that the opinion of entrepreneurs on 'whether any specific institution provides sufficient information to them', will not only be influenced by the quantity and quality of the information distributed, but also by the expectations with regard to that specific institution and the ability of the entrepreneur to use the information for his own enterprise.

11.3.2 Dealing with the consequences

In Section 11.3.1 it was shown that 42 % of all enterprises had already considered the consequences of the change-over to the euro. After this first step, enterprises should ideally proceed with:

- Making a detailed analysis of the impact of the change-over to the euro;
- Designing a detailed strategy to deal with the consequences;

- Obtaining checklists or other tools for action to deal with the change-over to the euro.

These three issues are analysed in the following section.

Analysis

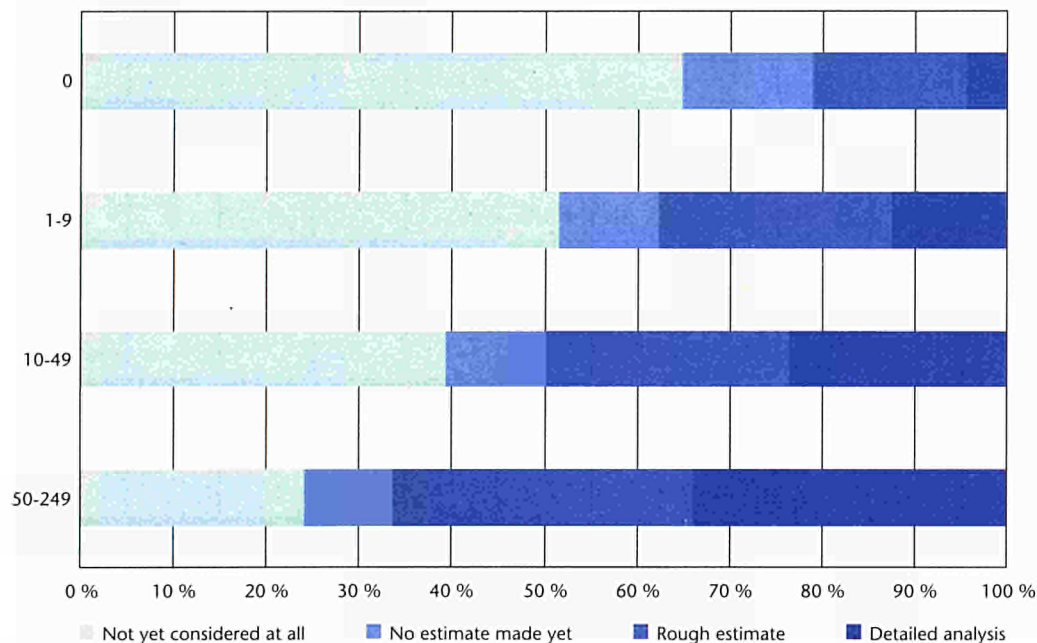
Have SMEs made a detailed analysis to estimate the impact of the change-over to the euro? About 20 % had indeed made a detailed analysis¹⁶.

Not only the awareness about the euro, but also the extent to which those 'aware' enterprises are ready to deal with the consequences increased sharply with size of enterprise: from 12 % of micro enterprises to 44 % of medium-sized enterprises that had made a detailed analysis. Across all size classes, almost half of all enterprises just made a rough analysis. Almost 40 % of enterprises without employees that are aware, and around 20 % of micro and small enterprises have not yet made any estimate of the impact. For medium-sized enterprises this is only 13 %.

Figure 11.7 shows the combined effect of 'awareness' and 'type of analysis' made. The figure indicates that only 4 % of the enterprises without employees made a detailed analysis of the impact of the change-over¹⁷.

Focusing only on the SMEs that already did consider the consequences of the change-over to the euro, it was found that overall about 70 % made an analysis of

Figure 11.7 Type of estimate made of impact of euro on business by enterprise size (percentage of SMEs)



Source: ENSR Enterprise Survey 1999.

¹⁶ One should realise that this implies that only 9 % (20 % of 42 %) of all enterprises actually made such a detailed analysis.

¹⁷ Combined effect: 12 % of the 36 % of enterprises without employees that are aware made a detailed analysis, this is 4 %.

the expected consequences. This figure is considerably lower for the EU Member States not participating in the euro; however, enterprises in the non-EU countries, made a serious effort to prepare themselves (40 % made a detailed analysis, whereas even in the euro countries this is only 23 %).

Strategy

After the estimate of the expected impact has been made, enterprises need a strategy to deal with the consequences. Enterprises are for example advised to compile an inventory of the adjustments needed for the conversion to the euro and to draft a procedural plan. Issues to be covered include staff training, adapting salary and accounting systems, software, price lists and other documents, point-of-sale systems, management information, etc.¹⁸.

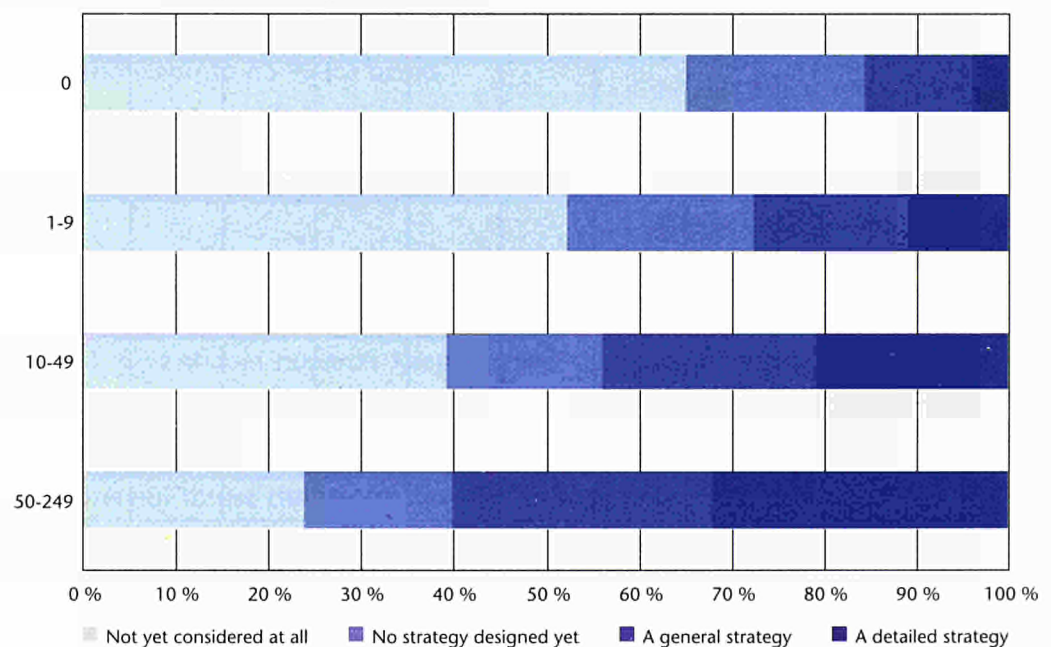
Figure 11.8 shows that with regard to designing a strategy; the larger enterprises also are presently already much better prepared than the smaller ones.

Finally, focusing again only on those enterprises which had already considered the consequences of the euro, it is shown that respondents from non-EU countries designed a detailed strategy in relatively large numbers (i.e. a similar pattern as found above with 'analysis').

Checklists

It was found that 43 % of the enterprises that had already considered the change-over to the euro do have checklists or other tools for action to deal with this

Figure 11.8 Strategy designed to deal with the change-over to the euro by enterprise size (percentage of SMEs)



Source: ENSR Enterprise Survey 1999.

¹⁸ National Forum for the Introduction of the euro: The euro: the questions most frequently asked by businesses, The Hague, May 1999.

change-over. This implies that 17 % of the total enterprise population possess these types of tools. Also this percentage increases with firm size:

- Enterprises without employees 11 %
- Micro 21 %
- Small 36 %
- Medium-sized 52 %.

Focusing once more only on those enterprises which have already considered the consequences of the euro, it is shown that within that group, also with regard to the availability of a checklist, the SMEs from non-EU countries score relatively well. As many as 52 % report to possess these instruments versus only 43 % in euro countries and only 19 % in EU countries not participating in the euro.

Internationally exposed enterprises

In Section 11.3.1 it was stated that - across the various size classes and sectors - internationally exposed¹⁹ enterprises are more aware of the consequences of the change-over to the euro. These enterprises are also better prepared for the introduction of the euro than non-exposed enterprises. Within the group of 'euro-aware' enterprises, all internationally more exposed enterprises score higher with regard to all three preparatory actions distinguished in this section, as shown in Table 11.6.

Table 11.6 Preparation for euro by internationally exposed SMEs (percentage of enterprises)

<i>Type of enterprises</i>	<i>Having made a detailed analysis</i>	<i>Having a detailed strategy</i>	<i>Having checklists or other tools for action</i>
Export			
- exporters	32 %	27 %	49 %
- non-exporters	17 %	16 %	37 %
Increase in international business contacts			
- yes	28 %	25 %	50 %
- no	17 %	15 %	33 %
Change in international competition			
- increase	39 %	35 %	54 %
- decrease	33 %	24 %	49 %
- stable	28 %	17 %	40 %

Source: ENSR Enterprise Survey 1999.

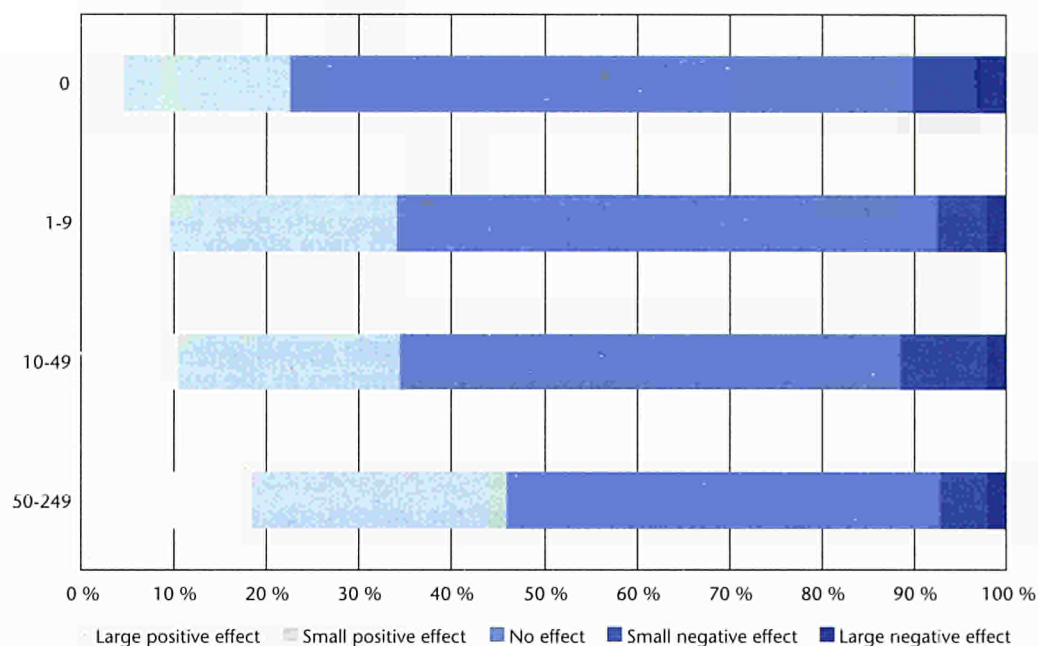
Effect of euro on competitive position of SMEs

Respondents were asked what effect they expect from the introduction of the euro on their competitive position. Excluding the enterprises which did not provide an answer²⁰, Figure 11.9 shows that the larger the enterprise the more likely it is to expect positive effects of the euro. The share ranges from 22 % for enterprises

¹⁹ As measured by either exporting, facing international competition or having more international business contacts.

²⁰ Eight percent of respondents answer 'don't know'.

Figure 11.9 Anticipated effect of euro on business competitive position, by enterprise size (percentage of SMEs)



Source: ENSR Enterprise Survey 1999.

without employees to 46 % for medium-sized enterprises. In all size classes most enterprises do not anticipate any effect: from 46 % for medium-sized enterprises to 60 % for enterprises without employees.

Exporting enterprises are more likely to expect positive effects than other enterprises. Many more exporters anticipate positive effects (42 %) than negative effects (7 %), whereas for non-exporters these figures are 23 % and 9 %, respectively.

Enterprises which experienced an increase in international competition over the last five years, are slightly more negative about the consequences of the euro than enterprises reporting a decrease in competition.

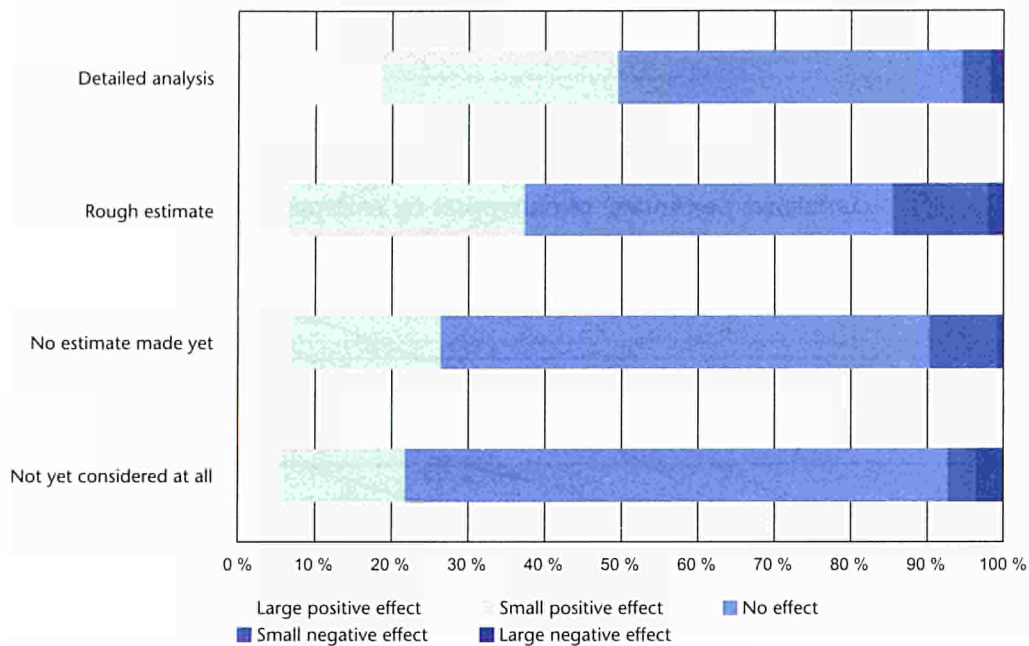
Enterprises having more international business contacts over the last five years are substantially more optimistic about the effect of the euro on their competitive position than other enterprises.

Is the degree to which enterprises expect positive or negative consequences of the change-over to the euro related to the type of analysis they performed? Figure 11.10 shows that there is indeed such a positive association: enterprises which made a detailed analysis have more often concluded that the euro will have a positive effect on their business²¹. More detailed analysis has revealed that this relation holds within each size class.

Focusing once again only on those enterprises which have already considered the consequences of the euro, it shows that about two-thirds of enterprises from

²¹ The analysis does not allow a firm conclusion as to the direction of the cause-effect relationship: enterprises anticipating positive effects might be more likely to perform a more detailed analysis, or enterprises performing a more detailed analysis may find that effects are more positive than anticipated before the analysis was performed.

Figure 11.10 Anticipated effects on business by type of analysis performed (percentage of enterprises)



Source: ENSR Enterprise Survey 1999.

non-euro countries (both within and outside the EU) anticipate no impact on their competitive position. In all three country groups the number of enterprises expecting positive effects is two to four times larger than the number of enterprises expecting negative effects (in euro countries 30 % vs. 9 %, in EU countries not participating in the euro 13 % vs. 6 % and in non-EU countries 23 % vs. 6 %²²).

11.3.3 Moment when SMEs plan to be euro-compatible

Enterprises in euro countries and in non-euro countries

Figures 11.11 and 11.12 show for euro and non-euro countries, the percentage of SMEs that are planning to be fully ready for the euro by a given date²³.

Consistently the somewhat larger enterprises are in a more advanced position. Especially for the non-euro countries the gap between medium-sized enterprises and smaller enterprises is large. A possible explanation is that internationally oriented enterprises have to be prepared for the euro, whether they are from euro- or non-euro countries.

Exporting and non-exporting enterprises

As suggested above, Figures 11.13 and 11.14 show that exporting enterprises are planning to be euro-compatible well before non-exporters do²⁴. The figures show that:

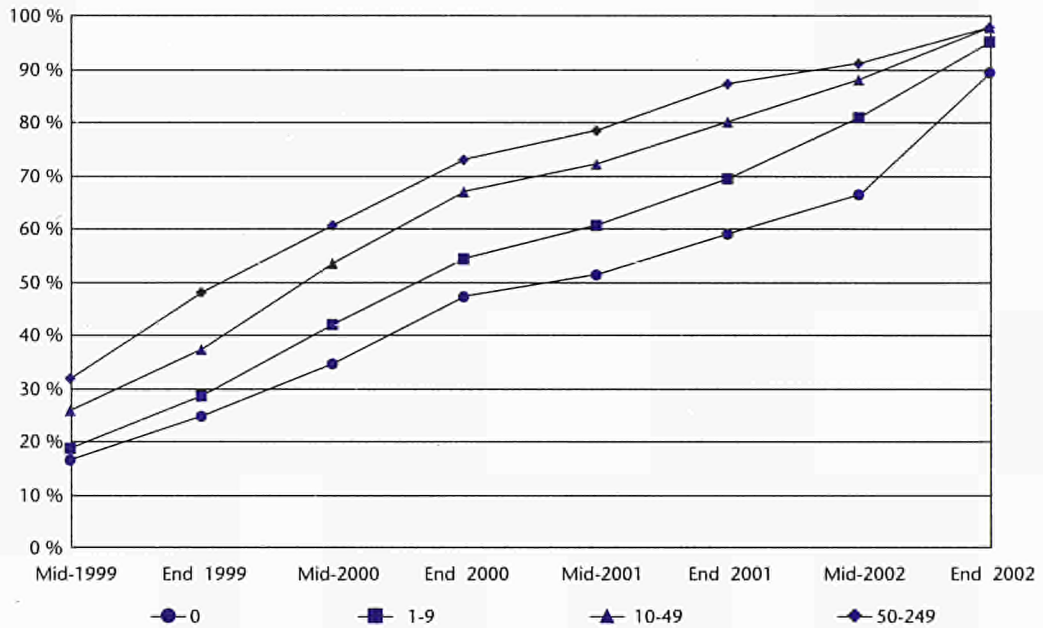
²² In addition there are up to 13 % of SMEs not providing an answer (don't know).

²³ The percentage does not reach 100 by the end of 2002 as almost one quarter of all enterprises indicate 'don't know' or 'never'.

²⁴ This is the case for enterprises from both euro- and non-euro countries.

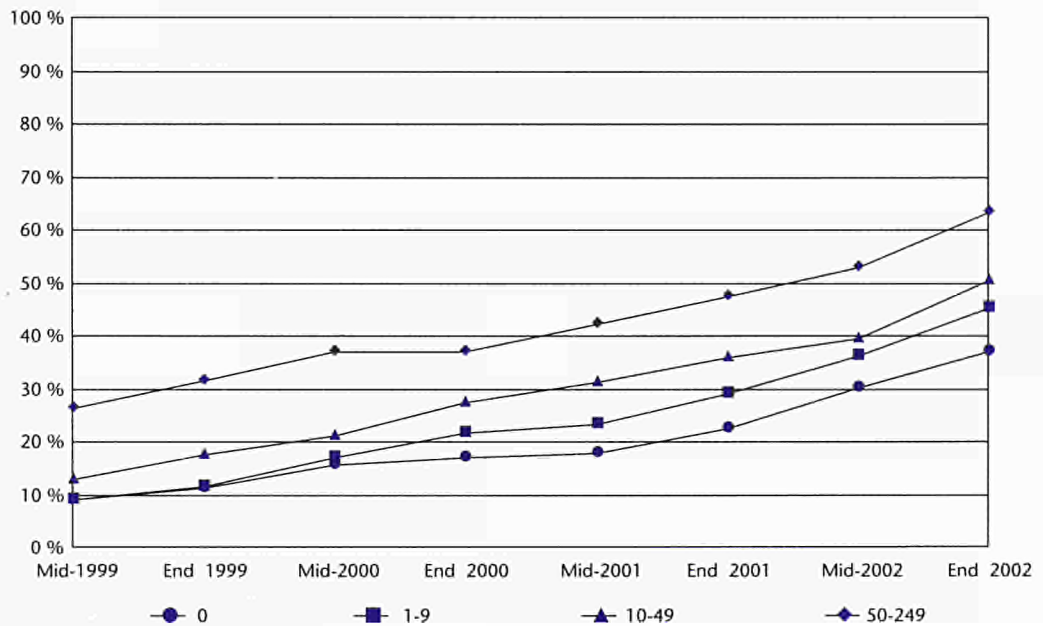
- During the year 2000 more than 50 % of all exporters - in all size classes - plan to become fully euro compatible;
- For non-exporters this situation will be achieved only during the course of 2002.

Figure 11.11 Time when SMEs plan to be euro-compatible (euro-countries), cumulative percentage of enterprises by enterprise size



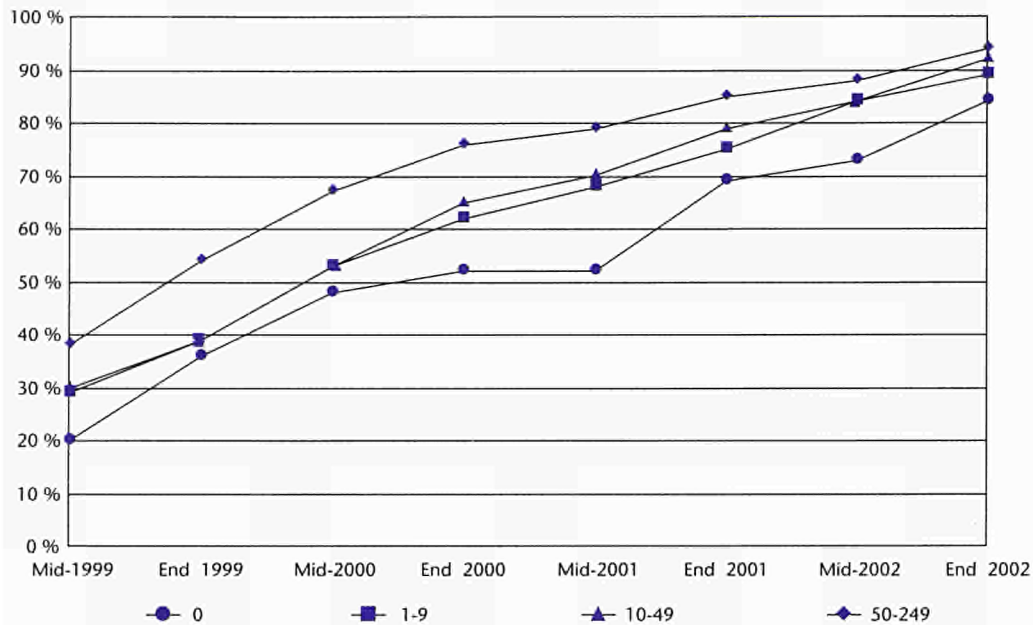
Source: ENSR Enterprise Survey 1999.

Figure 11.12 Time when SMEs plan to be euro-compatible, (non-euro-countries), cumulative percentage of enterprises by enterprise size



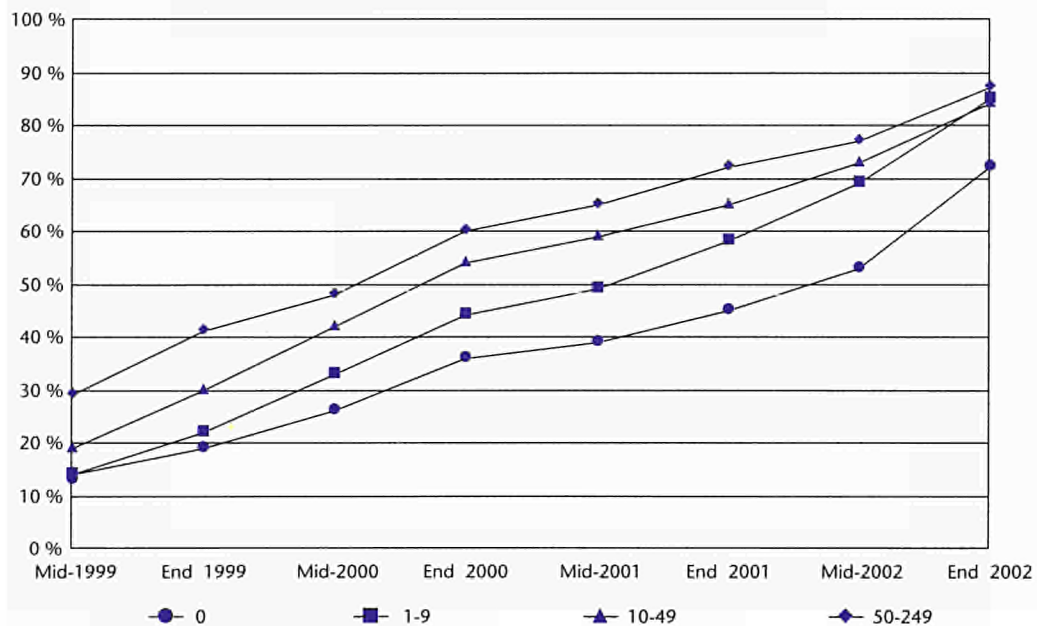
Source: ENSR Enterprise Survey 1999.

Figure 11.13 Time when SMEs plan to be euro-compatible (exporters Europe-19), Cumulative percentage of enterprises by enterprise size



Source: ENSR Enterprise Survey 1999.

Figure 11.14 Time when SMEs plan to be euro-compatible (non-exporters Europe-19), cumulative percentage of enterprises by size class



Source: ENSR Enterprise Survey 1999.

11.4 International Trade and Competition

The distinction between intra-EU export flows (international trade from one EU Member State to another) and extra-EU export flows (international trade from EU

Member States to other parts of the world) provides insight into the development of trade within the Single Market and trade from the Single Market to other parts of the world.

These developments are major elements in the international business environment in which enterprises operate. It is therefore useful to consider these developments when analysing enterprise characteristics and perceptions of entrepreneurs on the Single Market. As an illustration only, Table 11.7 shows the distribution of total export of the EU-15 over four main regions for 1998 and the nominal growth 1997/98 (%). This data refers to goods only, data on service sectors is not available from Eurostat.

Table 11.7 Export of goods from EU-15 to four world regions 1998 and growth 1997/98

<i>Exports to:</i>	<i>Exports 1998 EUR 1 000 million</i>	<i>Share in %</i>	<i>Annual nominal export growth 1997/98 (%)</i>
- European Union itself (intra-EU trade)	1 238	63 %	6 %
- Other west European countries	84	4 %	7 %
- Central and eastern Europe	127	6 %	5 %
- Other continents	519	26 %	-1 %
Total	1 967	100 %	4 %

Source: Eurostat: Intra- and extra-EU trade, Suppl. 2, 1997, No. 4 1999, No. 5 1999 (CD-ROM), Luxembourg.

Regional distribution of exporters within Single Market

In Table 11.7 the distribution over four export markets of goods at a macro level is given. In Figure 11.15 a similar distribution is given for SMEs from each of the nineteen countries based on the ENSR survey. The countries are ranked by the share of exports within the European Union. In addition, averages for EU, non-EU and Europe-19 are shown.

It shows that the survey results resemble rather well the macro-economic picture²⁵. However, as the survey results only refer to SMEs²⁶, it is obvious that the concentration on EU markets is somewhat higher and the focus on other continents substantially lower (SMEs in survey 20 %, Eurostat data 26 %). There is not much difference between EU Member States and other countries as a group.

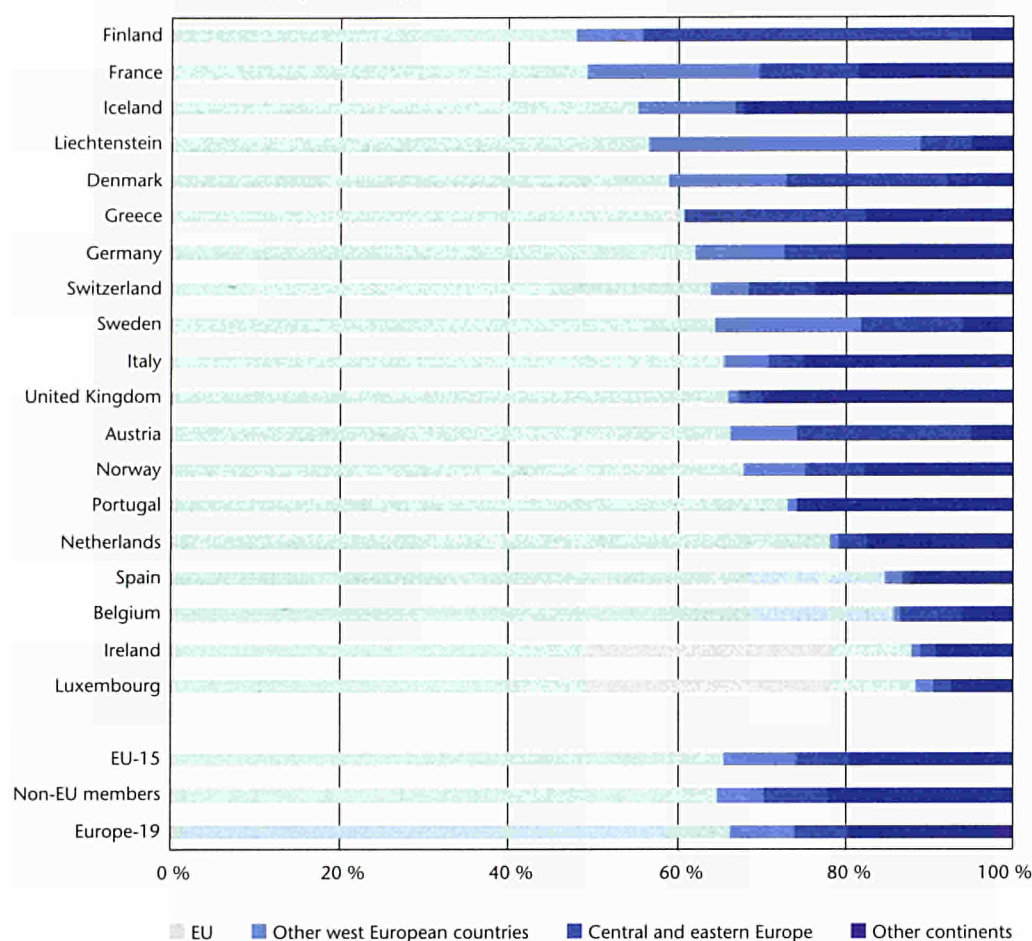
Individual countries show substantial differences, for example:

- Small, open economies, e.g.: Ireland, Luxembourg, Belgium and the Netherlands, have an even higher share of intra-EU exports, whereas some of

²⁵ The macro figures relate to goods only, whereas the survey results concern all enterprises (i.e. including service sectors).

²⁶ In addition, the regional distribution of exports regards percentage share in total export at enterprise level. This data has only been weighted by number of enterprises by class, sector and country, i.e. not by export values.

Figure 11.15 Percentage distribution of export turnover of SMEs to four export markets, by country



Source: ENSR Enterprise Survey 1999.

the larger economies (e.g. France, Germany)²⁷ have a relatively small share of intra-EU exports.

- For some countries their specific geographical and historical situation is clearly shown, especially in the distribution of the non-EU export, e.g. Austrian, Danish, Greek and Finnish SMEs export relatively more to central and eastern Europe.

²⁷ That is to say: in relative terms, i.e. as percentage of total export. One should realise that the figures concern the share of different export markets within total exports. There could also be a denominator effect. Or in other words: the figures do not indicate necessarily that enterprises from those small economies export for example little (in terms of their GDP) to central and eastern Europe. It might also be the case that their intra-EU exports are relatively large. For Belgium and the Netherlands this effect has been well-documented already several years ago. Over and over again, public debate and policy discussions focused on the relatively small *share* (compared to other EU Member States) of Belgium and Dutch exports to emerging markets in Asia and central and eastern Europe. More detailed data analysis shows however that these - small countries - do not export little (in terms of share in GDP) to these new emerging markets, but that they export relatively more to near-by markets See: Grauwe, P. de, 'Exporteren Belgische en Nederlandse ondernemingen te weinig naar verre landen' (Do enterprises from Belgium and the Netherlands export too little to far off markets?), in: ESB, Rotterdam, 16 January 1982.

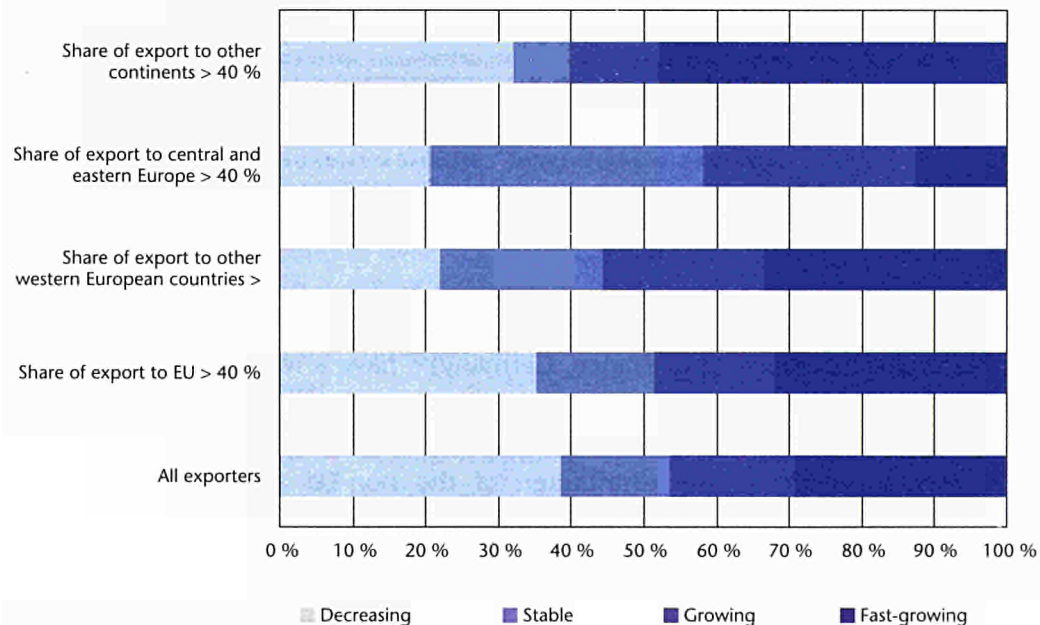
The macro figures in Table 11.7 reveal that the growth of international exports over 1997/98 was about 4 %. However for export to 'other continents' a decrease was recorded.

To what extent are similar regional differences found for individual SMEs in the survey as well? To answer this question, the SMEs have been classified in four groups, each group containing only enterprises which export more than 40 % of their export turnover to one of the four export markets distinguished:

- EU countries;
- Other western European countries;
- Central and eastern Europe;
- Other continents.

Figure 11.16 shows for each of these groups the distribution among four growth classes of total export turnover: decreasing, stable, growing and fast-growing.²⁸ The chart suggests that the export turnover of SMEs focusing on other continents has relatively higher fluctuation²⁹. Given the macro-economic data described above, the share of SMEs focusing on 'other continents', which have fast-growing exports, is surprisingly high³⁰.

Figure 11.16 Growth of total export of SMEs by regional focus (percentage of enterprises)



Source: ENSR Enterprise Survey 1999.

²⁸ A „Birch-adjusted growth rate has been used to create these four classes using information on the export turnover in 1997 and 1998. See also the last section of Annex I to this report.

²⁹ A high percentage of enterprises with fast-growing exports, but also a relatively high percentage with decreasing exports, whereas the share of enterprises reporting a stable export turnover is extremely small at 8 %.

³⁰ One should however realise that the regional export figures, even at macro level, show a very unstable picture. Calculations using the same Eurostat data result in a growth figure of 15 % for exports to other continents over 1996/97, whereas the 1997/98 figure is -1 %.

The SMEs focusing on central and eastern Europe show an opposite picture: many enterprises with a rather stable export turnover and a very low percentage of fast-growing enterprises.

International business contacts

Of the entire sample, 25 % of SMEs have stated that they have more international business contacts than 5 years ago. In 1997, i.e. over the period 1992-97, the initial period of the functioning of the Internal Market, this was as high as 40 %. As in 1997, results are very much size-class specific (see Table 11.8).

Table 11.8 Increase in international business contacts in last 5 years, by enterprise size

Size class	Percentage of enterprises
0 employees	19 %
1-9 employees	29 %
10-49 employees	41 %
50-249 employees	57 %
Total	25 %

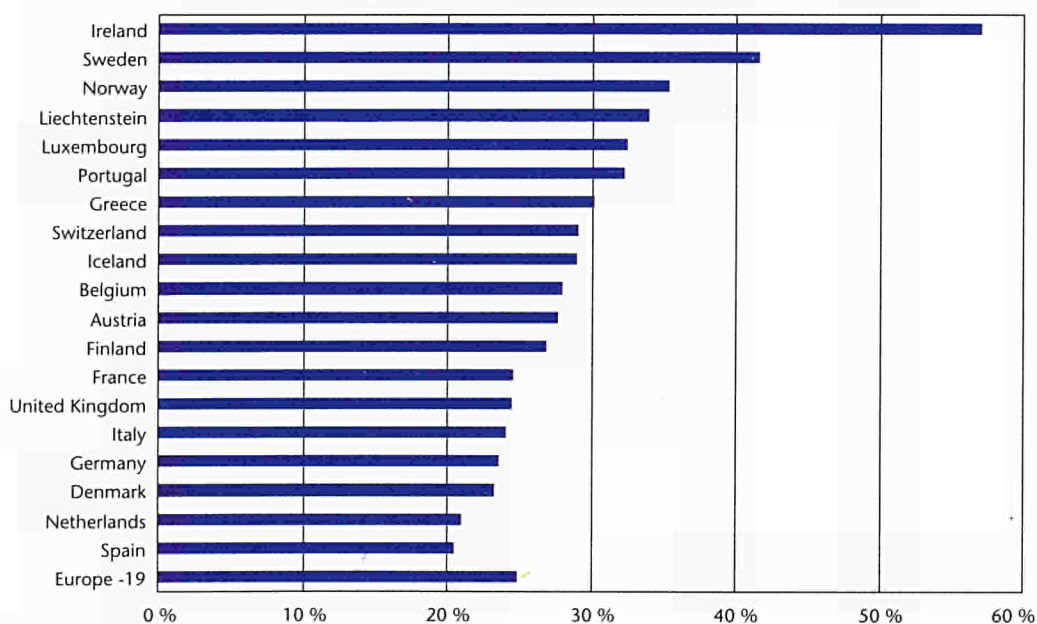
Source: ENSR Enterprise Survey 1999.

The differences between 1997 and 1999 are therefore partly explained by the fact that the 1997 survey did not include enterprises without employees. For 1999 the figure increases from 25 % to 31 % if enterprises without employees are excluded.

Focusing on differences by country, the following findings can be derived from Figure 11.17:

- The original six Member States of the Union show diverging scores, i.e. the Netherlands very low, Luxembourg rather high.

Figure 11.17 Percentage of enterprises with increasing international business contacts in last 5 years, by country



Source: ENSR Enterprise Survey 1999.

- The same holds for the southern Member States who joined later: Portugal relatively high, Spain very low.
- The more recent Member States (Sweden, Austria and Finland) as well as the non-EU members (Iceland, Liechtenstein, Norway and Switzerland) all score above the average for Europe-19.

Change in competition over time

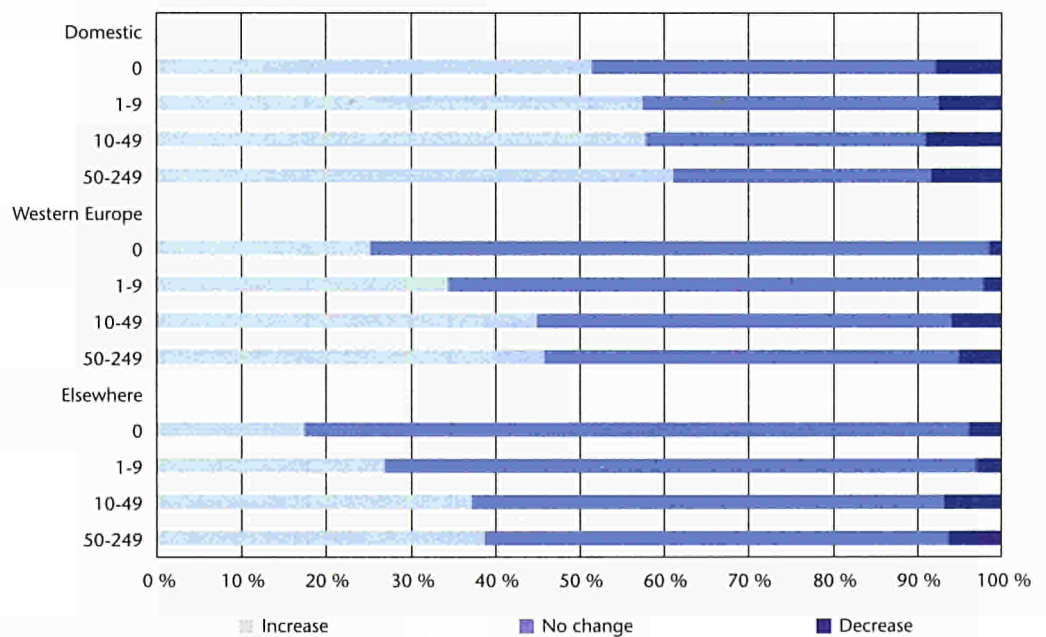
SMEs were asked whether the competition they experience from (i) domestic enterprises, (ii) enterprises from other countries within western Europe, i.e. Europe-19, or (iii) enterprises from elsewhere, has changed over the last five years (i.e. 1994-1999).

This question is not relevant for all enterprises. Enterprises which serve a local market, such as hairdressers, are not really exposed to international competition. So 35 % to 45 % of the enterprises did not provide an answer on change in international competition.

This section focuses on the remaining enterprises who could make an assessment. Figure 11.18 shows that for all size classes domestic competition within the Single Market has been increasing in the perception of entrepreneurs to a much greater extent than international competition.

Focusing on the size-class dimension, Figure 11.18 also clearly shows that with regard to each of the three types of competition the same pattern exists: the larger the enterprise the more likely it is to have experienced increasing competition during the last five years.

Figure 11.18 Change in competition from domestic enterprises, enterprises from other west European countries and elsewhere by enterprises size (percentage of enterprises)



Source: ENSR Enterprise Survey 1999.

'Competition from foreign enterprises' is a rather broad concept, for non-exporters it will mainly relate to the competition by foreign enterprises in their home markets. More detailed analysis has indeed revealed that non-exporters report relatively often to be affected by competition from enterprises within their own country, but they also report an increase in competition from foreign enterprises albeit to a lesser degree than exporting SMEs.

11.5 Performance of enterprises in the Single Market

In this section the survey results are used to analyse the relation between entrepreneurs' perception of the Single Market and the economic performance of the small and medium-sized enterprises.

To be able to analyse differences between SMEs showing different rates of performance in terms of sales growth, the sample is divided into five classes:

1. Fast-shrinking enterprises;
2. Shrinking enterprises;
3. Stable enterprises;
4. Growing enterprises, and
5. Fast-growing enterprises.

The performance of individual SMEs is compared to other SMEs in the same country in order to focus on enterprise characteristics and not on country characteristics³¹. Although differences between countries with regard to the business cycle are eliminated as much as possible by following this approach, results should be treated with caution as growth of turnover refers to one year only (1997-1998).

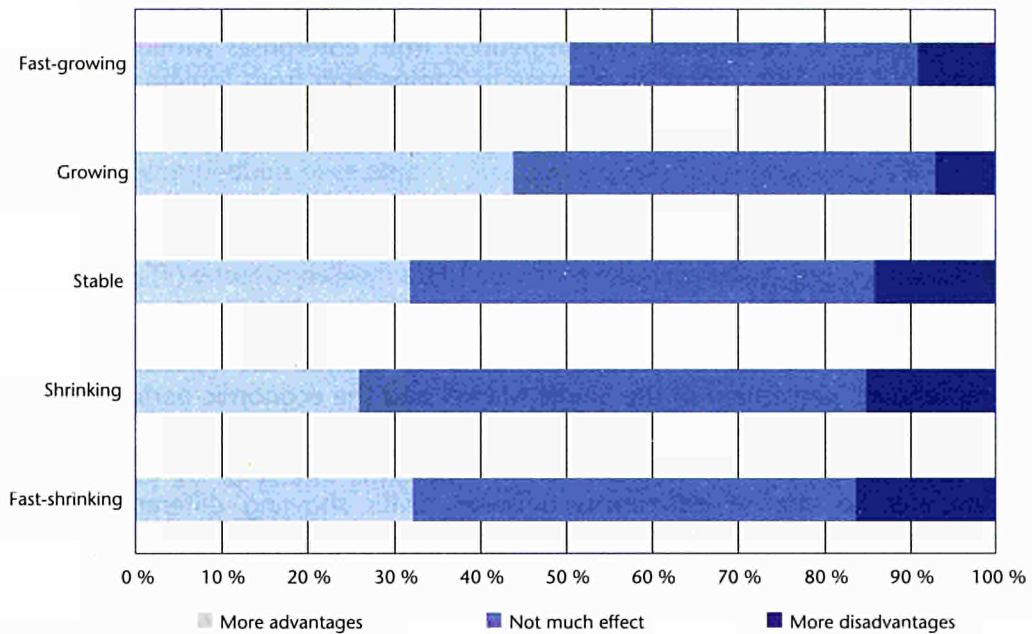
11.5.1 Linking enterprise performance to enterprise characteristics

Perception of the Single Market

Figure 11.19 shows the relation between the enterprise's perception of the Single Market Programme (will it, on balance, be advantageous or disadvantageous for their business) and the growth rate of that enterprise. The figure shows that growing and fast-growing enterprises have a more positive opinion of the Internal Market: on balance a larger share perceive advantages, and a smaller share perceive disadvantages. Even the shrinking and fast-shrinking enterprises see, on balance, more advantages than disadvantages.

³¹ Enterprises are ranked by growth of sales in five classes, each of which contains 20 % of the respondents after weighing (quintiles). Birch growth rates have been used. See Annex I for more details.

Figure 11.19 Opinion of SMEs about the Internal Market by class of sales growth 1997-1998



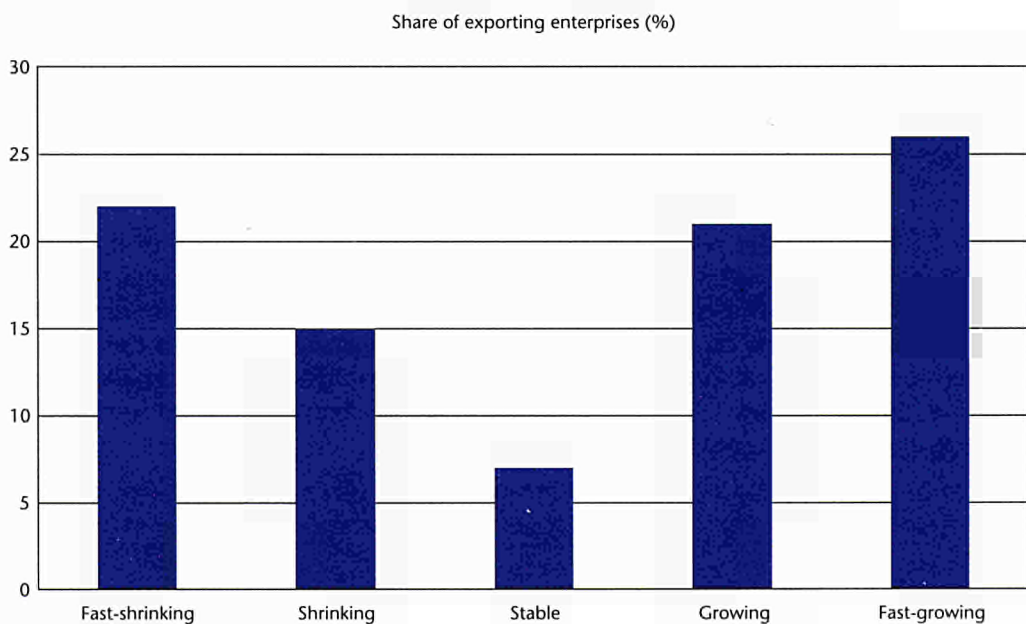
Source: ENSR Enterprise Survey 1999.

Exports

Figure 11.20 studies the share of exporting enterprises by turnover-growth class.

Whereas stable sales are found mainly by enterprises active in national markets only, exporting seems to be related to a much more fluctuating sales pattern over

Figure 11.20 Percentage of exporters by class of sales growth 1997-1998



Source: ENSR Enterprise Survey 1999.

the years. In the group with stable sales only 7 % of the enterprises export, whereas in the group with fast-shrinking and fast-growing enterprises 22 % and 26 %, respectively export.

11.5.2 A more formal approach: regression analysis

In the previous section cross tabulations on the relation between enterprise performance and various other characteristics have been presented. They give some indications that enterprise performance and the attitude towards the Single Market are correlated. However, enterprise performance also differs between, for example, size and age classes. Regression analyses on the growth rates of turnover, export turnover and employment could untangle these effects.

Therefore, a number of regressions was run, to test whether the growth rates of turnover and employment depend on the overall assessment of the Single Market, taking account of differences between countries and sectors, and controlling for enterprise characteristics such as size, age and main focus of the enterprise policy.

Export turnover

For exporting enterprises a positive relation has been found between the overall assessment of the Single Market and the growth rate of their export turnover. Further examination shows that this relation is mainly caused by some specific advantages: enterprises that identify larger selling markets and/or lower costs as an advantage of the Single Market have higher growth rates.

Employment growth

Only for enterprises with 10-49 employees has a significant positive relation been found between employment growth and the assessment of the Single Market. The regression results suggest that this relation is caused both by specific advantages and disadvantages:

- A higher employment growth rate can be found for small enterprises that see cost advantages of the Single Market.
- A lower employment-growth rate can be found with small enterprises that perceive increased competition and regulations as disadvantages.

12 The European SME Tally

Introduction

This section of the report contains a series of quantitative indicators describing characteristics of SMEs, and their business environment, in the EEA and Switzerland.

The quantitative information presented in this section is based on two sources:

- Section A is based on Eurostat statistics, see Chapter 1 of this report for a detailed description and full references.
- From B onwards results are based on the ENSR Enterprise Survey 1999, which was implemented in all nineteen countries covered by this report between May and July 1999 covering almost 8 000 enterprises with between zero and 249 employees. See Annex I for a description of the set-up of the ENSR Enterprise Survey 1999.

Data presented

An effort has been made to give a concise picture of the issues discussed in the various chapters of this report. In selecting data three guidelines have been applied:

- Present as much data as possible, which has not been included in the other chapters;
- Present data which is understandable without any explanatory text;
- Aim at an identical lay-out of the Sections B till J. Each section presents a table on the issues at hand at Europe-19 level, mostly by enterprise size, and a chart providing similar information by country.

A SME sector¹

Table A.1 Percentage share of enterprise numbers in 1998 by enterprise size and country

	<i>micro</i>	<i>small</i>	<i>medium-sized</i>	<i>SME</i>	<i>LSE</i>	<i>total</i>
Austria	87	10	2	100	0	100
Belgium	95	4	1	100	0	100
Denmark	88	10	2	100	0	100
Finland	94	5	1	100	0	100
France	93	6	1	100	0	100
Germany	88	10	1	100	0	100
Greece	97	3	0	100	0	100
Ireland	90	8	2	99	1	100
Italy	95	4	0	100	0	100
Luxembourg	84	12	3	100	0	100
Netherlands	88	10	2	99	1	100
Portugal	93	6	1	100	0	100
Spain	95	4	1	100	0	100
Sweden	93	6	1	100	0	100
United Kingdom	95	4	1	100	0	100
EU-15	93	6	1	100	0	100
Iceland	95	4	1	100	0	100
Norway	92	7	1	100	0	100
Switzerland (incl. Liechtenstein)	84	13	2	100	0	100
non-EU	88	10	2	100	0	100
Europe-19	93	6	1	100	0	100

Source: Estimated by EIM Small Business Research and Consultancy, adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

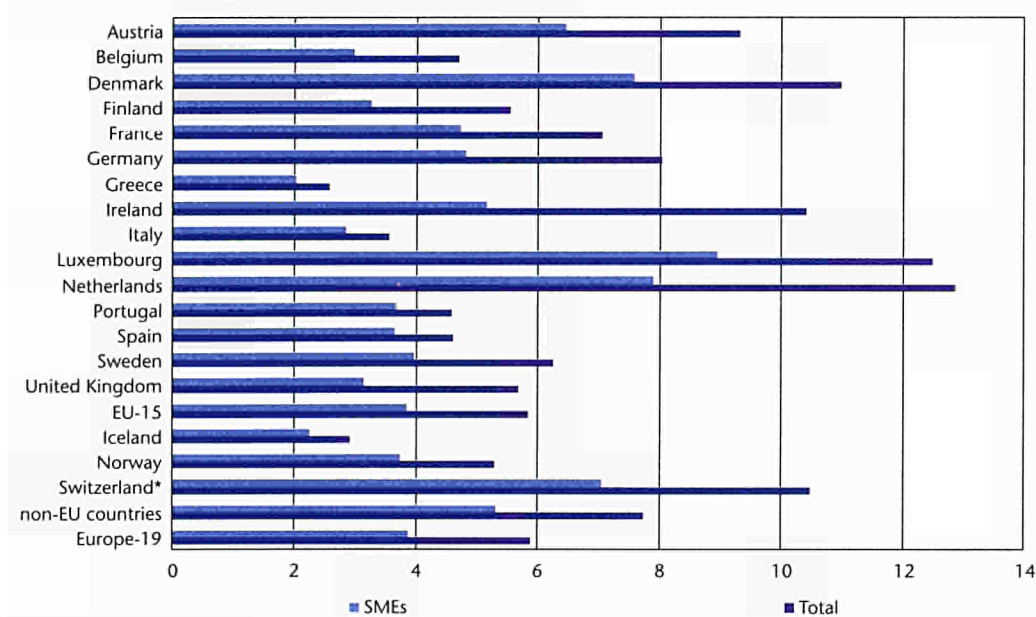
¹ See also Chapter 1 of this report.

Table A.2 Employment share in 1998 by enterprise size and country

	<i>micro</i>	<i>small</i>	<i>medium-sized</i>	<i>SME</i>	<i>LSE</i>	<i>total</i>
Austria	27	21	21	69	31	100
Belgium	32	20	12	64	36	100
Denmark	28	23	18	69	31	100
Finland	26	17	16	59	41	100
France	34	19	14	67	33	100
Germany	29	20	11	60	40	100
Greece	47	17	14	78	22	100
Ireland	18	16	15	49	51	100
Italy	48	21	11	80	20	100
Luxembourg	19	24	28	71	29	100
Netherlands	23	18	19	61	39	100
Portugal	39	23	18	80	20	100
Spain	46	20	13	79	21	100
Sweden	32	17	15	63	37	100
United Kingdom	29	15	12	55	45	100
EU-15	34	19	13	66	34	100
Iceland	34	22	21	77	23	100
Norway	32	21	18	71	29	100
Switzerland (incl. Liechtenstein)	23	22	22	67	33	100
non-EU countries	26	22	20	68	32	100
Europe-19	34	19	13	66	34	100

Source: Estimated by EIM Small Business Research and Consultancy, adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

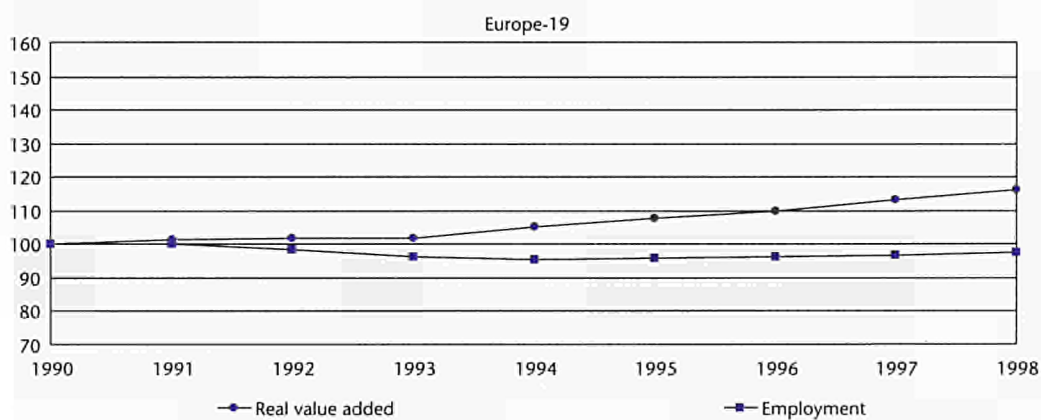
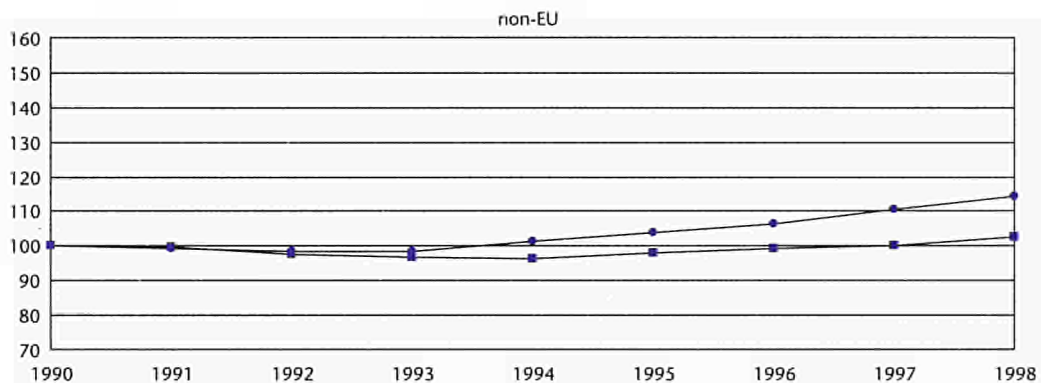
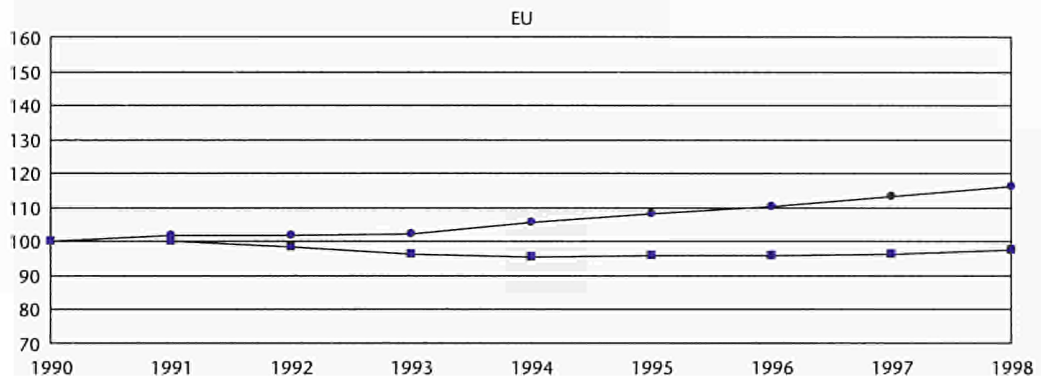
Figure A.1 Average enterprise size, by employee numbers, in 1998, SMEs and total by country



* Including Liechtenstein.

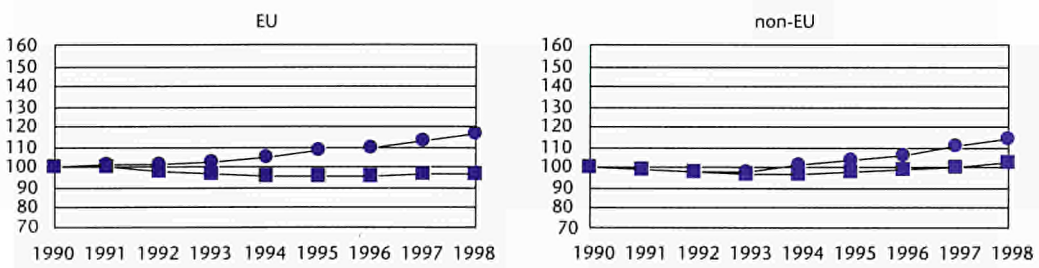
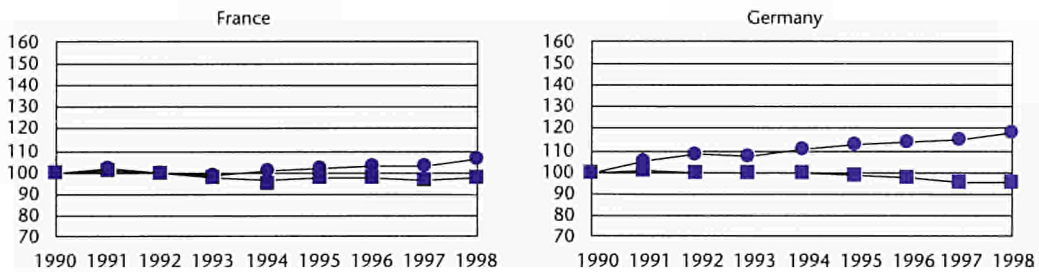
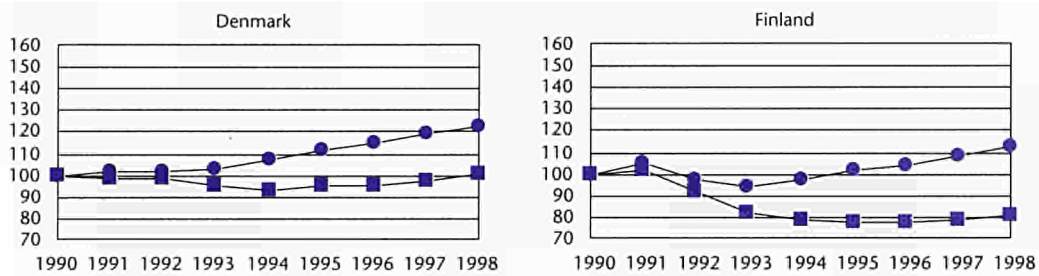
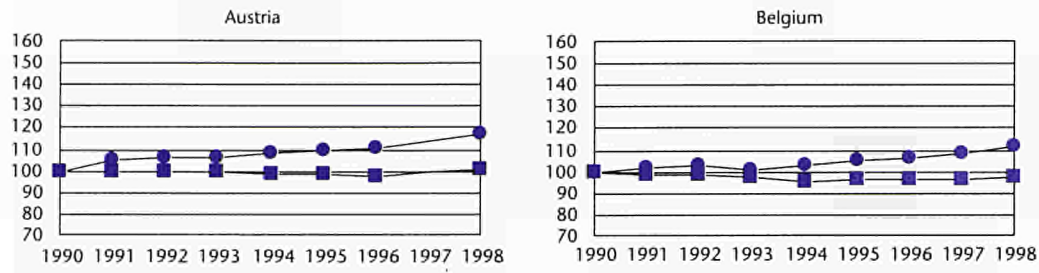
Source: Estimated by EIM Small Business Research and Consultancy, adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

Figure A.2a Development of real value added and employment in SMEs, 1990-1998 (1990=100)



Source: Estimated by EIM Small Business Research and Consultancy, adapted from Eurostat/DG Enterprise: Enterprises in Europe, Sixth Report. Also based on European Economy, Supplement A, June 1999, and OECD: Economic Outlook, No. 65, June 1999.

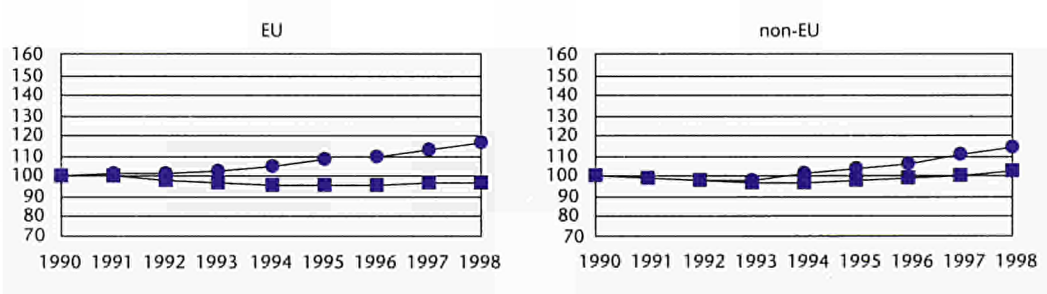
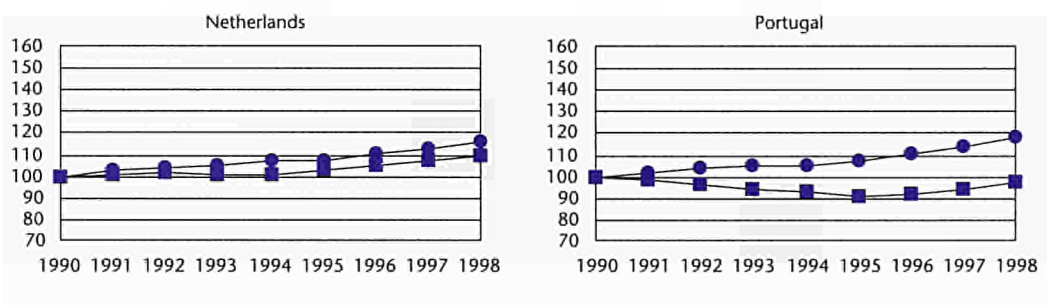
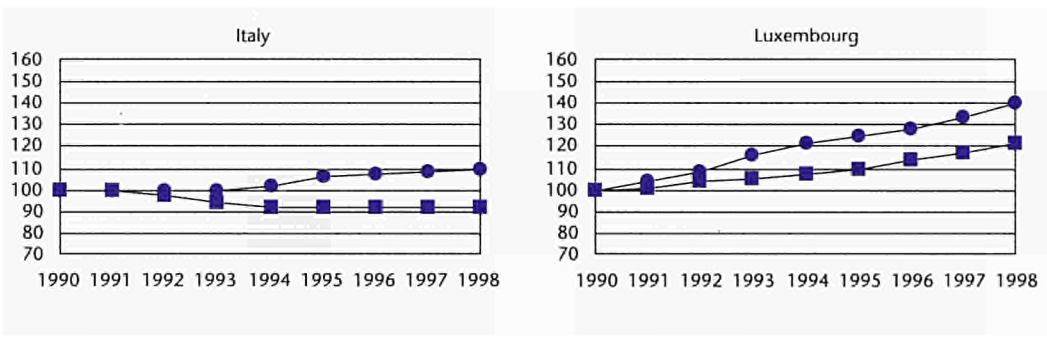
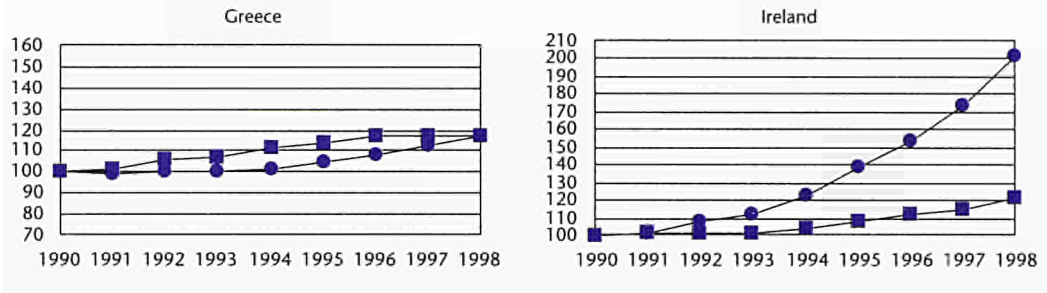
Figure A.2b Development of real value added and employment in SMEs, 1990-1998 (1990=100)



—■— Employment

—●— Real value added

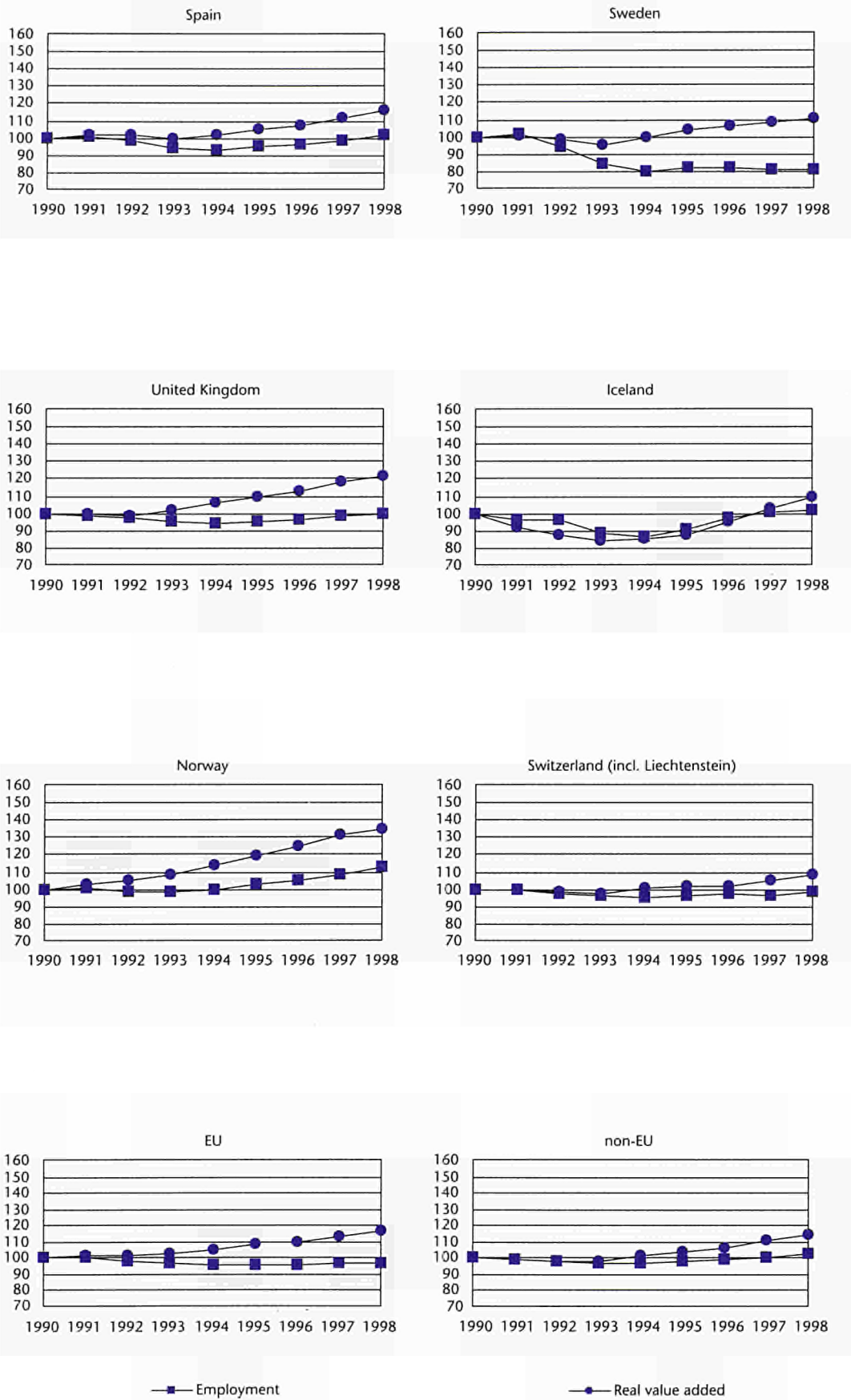
Figure A.2c Development of real value added and employment in SMEs, 1990-1998 (1990=100)



■ Employment

● Real value added

Figure A.2d Development of real value added and employment in SMEs, 1990-1998 (1990=100)



B Age of enterprises

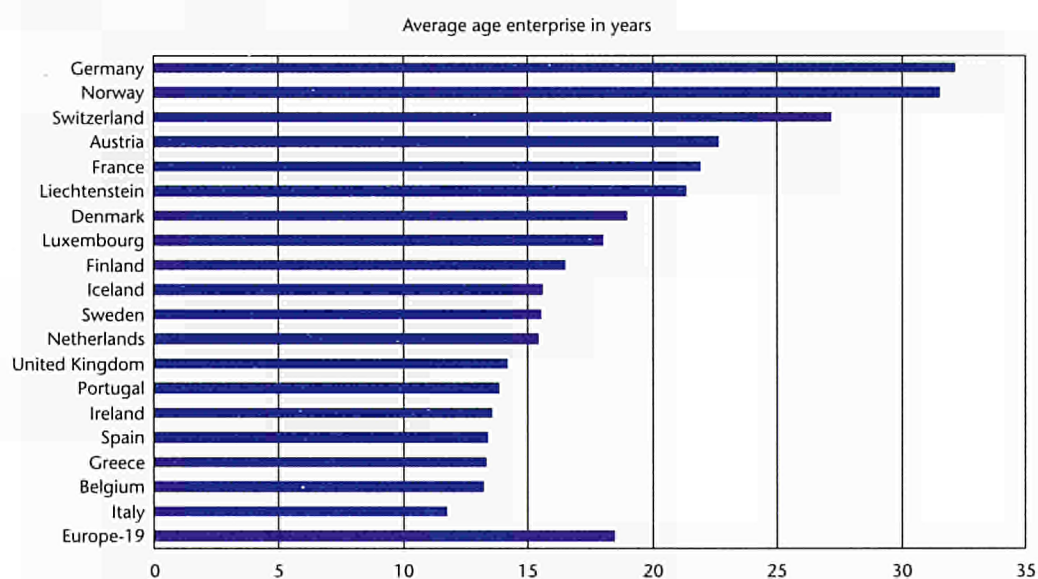
In this section information on the age of the enterprises is presented. It is not only a characteristic of individual enterprises, it is also related to business dynamics.

Table B.1 Age of SMEs by enterprise size in Europe-19 (percentage of SMEs and average age in years)

	Number of employees				Total
	0	1-9	10-49	50-249	
<2 years	5 %	4 %	0 %	1 %	4 %
2-5 years	27 %	18 %	10 %	5 %	22 %
6-10 years	19 %	17 %	13 %	8 %	18 %
>10 years	49 %	62 %	77 %	86 %	56 %
Total	100 %	100 %	100 %	100 %	100 %
Average age (years)	15	21	33	46	18

Source: ENSR Enterprise Survey 1999.

Figure B.1 Average age of SMEs by country in years



Source: ENSR Enterprise Survey 1999.

C Gender

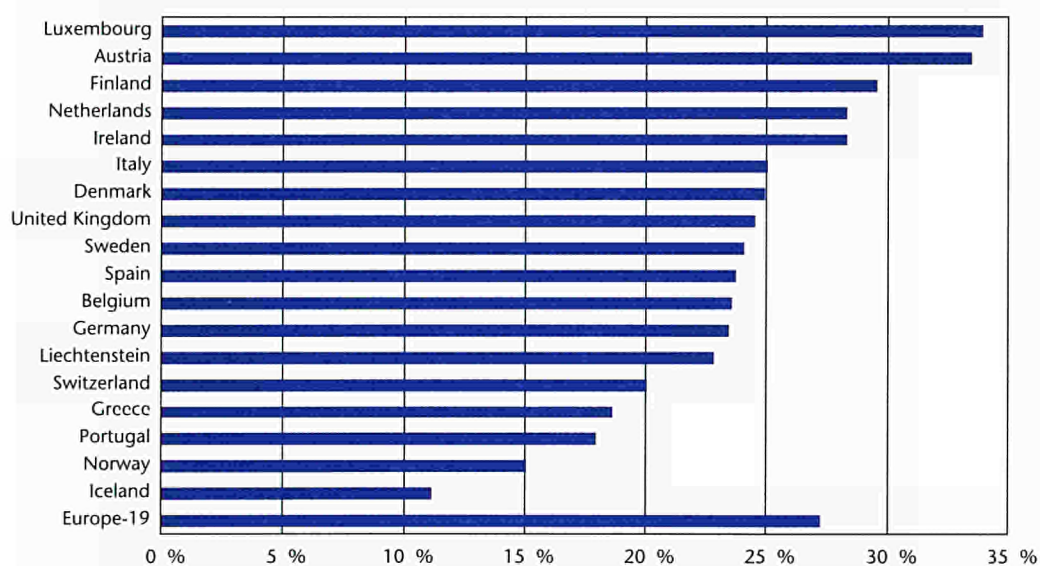
In the survey, the gender of the responding entrepreneur has been registered. Results should be interpreted carefully. In some sectors for example, one has more chance to talk to the female partner 'running the office' in small family-run enterprises, whilst the male partner is out on the job.

Table C.1 Gender of entrepreneurs by enterprise size in Europe-19 (percentage of SMEs)

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Male	73 %	73 %	72 %	79 %	73 %
Female	27 %	27 %	28 %	21 %	27 %
Total	100 %	100 %	100 %	100 %	100 %

Source: ENSR Enterprise Survey 1999.

Figure C.1 Percentage of female entrepreneurs within SMEs by country



Note: No figures for France available.

Source: ENSR Enterprise Survey 1999.

D Major constraints on business performance

The major constraints on the business performance by enterprise size are presented in Table 3.1 in this report. The table shown here focuses on the sector and on the age of the enterprise.

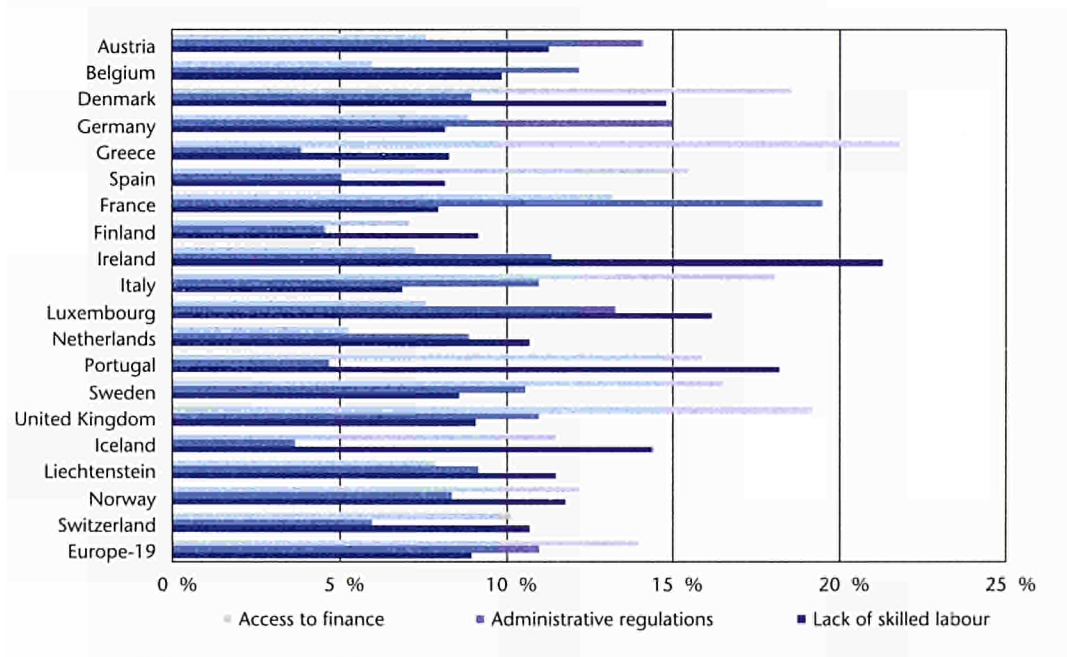
Table D.1 The major constraints on business performance by age of enterprise and sector, Europe-19 (percentage of enterprises)

	Age of enterprise		Sector of activity*			
	less than 5 years	5 years or more	Manufacturing	Trade	Services	Total
Access to finance	21 %	12 %	20 %	13 %	13 %	14 %
Administrative regulations	8 %	13 %	14 %	9 %	11 %	11 %
Lack of skilled labour	9 %	9 %	15 %	7 %	7 %	9 %
Implementing new technology	4 %	4 %	2 %	5 %	5 %	4 %
Infrastructure	3 %	4 %	3 %	4 %	3 %	3 %
Quality assurance	2 %	2 %	2 %	2 %	1 %	2 %
Changing organisation of production	2 %	1 %	1 %	1 %	2 %	1 %
Introduction of euro	1 %	1 %	1 %	1 %	1 %	1 %
None of these factors	27 %	31 %	26 %	35 %	28 %	30 %
No constraint at all	24 %	23 %	14 %	23 %	28 %	23 %
Don't know/no answer	1 %	1 %	2 %	2 %	1 %	1 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

* Manufacturing includes construction, and services includes transport and communication

Source: ENSR Enterprise Survey 1999.

Figure D.1 Three major constraints, percentage of SMEs by country



Source: ENSR Enterprise Survey 1999.

E Advantages and disadvantages of the Single Market

What advantages and disadvantages does the European Single Market offer to SMEs? For a limited number of factors it has been established to which extent the entrepreneurs perceive these as important to their enterprise. Only after this had been considered, were the respondents asked to give their overall, balanced opinion. These have been discussed at length in Chapter 11, here detailed information on specific advantages and disadvantages is presented by sector.

Table E.1 Single Market Advantages by sector (percentage of SMEs), Europe-19

	<i>Manufac- turing</i>	<i>Construc- tion</i>	<i>Whole- sale</i>	<i>Retail</i>	<i>Transport/ communi- cations</i>	<i>Business services</i>	<i>Personal services</i>	<i>Total</i>
Larger selling market	32 %	12 %	27 %	9 %	21 %	15 %	17 %	17 %
Simplified international collaboration	15 %	9 %	29 %	9 %	16 %	18 %	14 %	14 %
The euro	16 %	6 %	21 %	13 %	15 %	14 %	12 %	13 %
Larger markets for inputs	13 %	12 %	24 %	15 %	6 %	8 %	12 %	13 %
Lower transaction costs	14 %	6 %	25 %	11 %	15 %	8 %	7 %	10 %
Larger labour market	4 %	8 %	14 %	2 %	4 %	6 %	5 %	5 %
Lower transportation costs	6 %	2 %	17 %	4 %	8 %	3 %	4 %	5 %
Lower production costs	6 %	6 %	7 %	4 %	2 %	2 %	4 %	4 %
Other opportunities	0 %	1 %	4 %	0 %	4 %	1 %	3 %	1 %
No advantages	44 %	69 %	33 %	62 %	46 %	59 %	55 %	56 %
Don't know/no answer	2 %	2 %	2 %	3 %	3 %	2 %	3 %	2 %

Note: More answers possible, hence figures do not total to 100 %.

Source: ENSR Enterprise Survey 1999.

Table E.2 Disadvantages of the Single Market by sector (percentage of SMEs), Europe-19

	<i>Manufac- turing</i>	<i>Construc- tion</i>	<i>Whole- sale</i>	<i>Retail</i>	<i>Transport/ communi- cations</i>	<i>Business services</i>	<i>Personal services</i>	<i>Total</i>
Greater competition	32 %	27 %	32 %	29 %	32 %	22 %	22 %	27 %
Increased regulation	21 %	19 %	16 %	13 %	23 %	17 %	13 %	17 %
Costs of the euro	7 %	5 %	5 %	13 %	10 %	5 %	4 %	7 %
Higher production cost	6 %	11 %	5 %	5 %	15 %	6 %	2 %	6 %
Other disadvantages	1 %	1 %	4 %	4 %	1 %	0 %	2 %	3 %
No disadvantages	45 %	56 %	44 %	46 %	41 %	56 %	61 %	52 %
Don't know/no answer	2 %	2 %	4 %	6 %	3 %	6 %	3 %	4 %

Note: More answers possible, hence figures do not add up to 100 %

Source: ENSR Enterprise Survey 1999.

F Labour market issues

Labour market issues are discussed at length in Chapter 3 of this report.

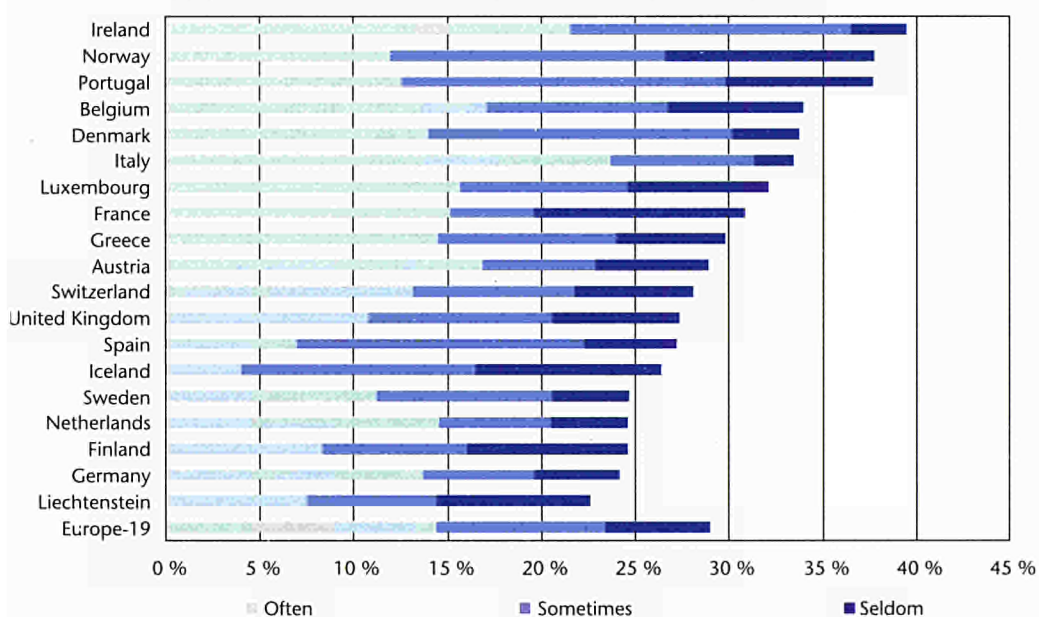
Table F.1 Number of times SMEs face problems with filling vacancies due to the short supply of labour with the required skills, by sector in Europe-19

	Sector*			Total
	Manufacturing	Trade	Services	
Often	21 %	14 %	12 %	15 %
Sometimes	14 %	5 %	10 %	9 %
Seldom	9 %	5 %	5 %	6 %
Never	56 %	77 %	73 %	70 %
Total	100 %	100 %	100 %	100 %

* Manufacturing includes construction, and services includes transport and communication

Source: ENSR Enterprise Survey 1999.

Figure F.1 Percentage of SMEs facing problems with filling vacancies due to short supply of labour with the required skills by country*



* Countries are ranked by the percentage of SMEs that indicate lack of skilled labour as a problem, i.e. the sum of seldom, sometimes and often.

Source: ENSR Enterprise Survey 1999.

G Use of the Internet

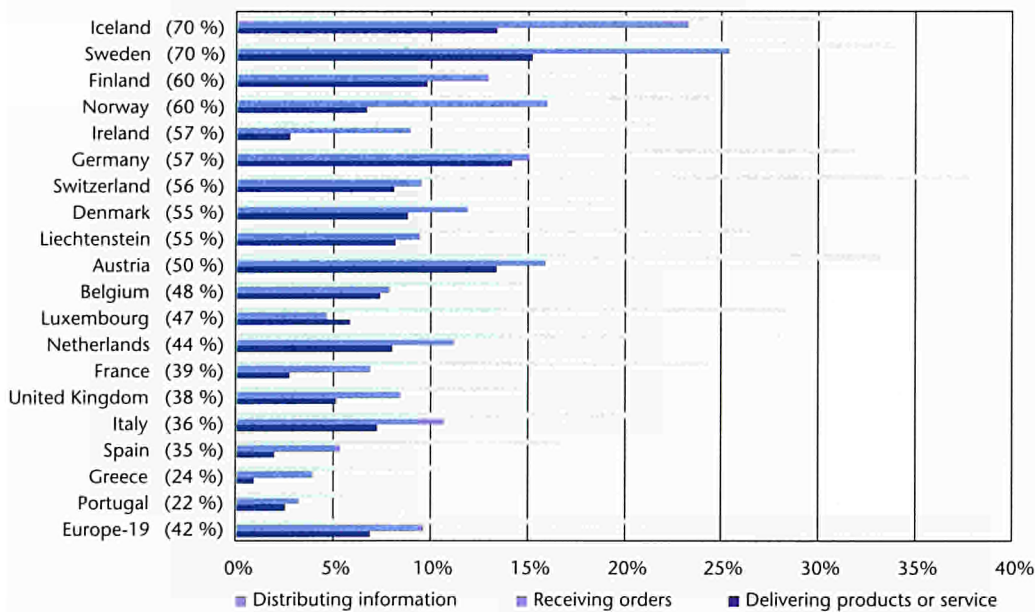
The Internet, more in particular the use of e-commerce, is the topic analysed in Chapter 5 of this report.

Table G.1 Use of the Internet, by enterprise size in Europe-19 (percentage of SMEs)

	Number of employees				
	0	1-9	10-49	50-249	Total
Having access to Internet	33 %	49 %	67 %	86 %	42 %
Used for:					
- Distribution of information on products or services	14 %	27 %	42 %	60 %	21 %
- Jointly offering products with other enterprises	9 %	13 %	19 %	29 %	12 %
- Receiving orders	8 %	10 %	15 %	20 %	10 %
- Order confirmation	6 %	9 %	12 %	16 %	7 %
- Delivering products and services	6 %	7 %	9 %	13 %	7 %
- Making payments	4 %	5 %	8 %	9 %	4 %
- Receiving payments	3 %	4 %	4 %	6 %	3 %

Source: ENSR Enterprise Survey 1999.

Figure G.1 Three major uses made of the Internet by country*



* Countries are ranked by the percentage of SMEs having access to the Internet (% written with country names).

Source: ENSR Enterprise Survey 1999.

H Support programmes

Support programmes are discussed in Chapter 6 of this report. Data provided here has to be interpreted with care as the knowledge of enterprises about who actually finances the programme they participate in might be limited.

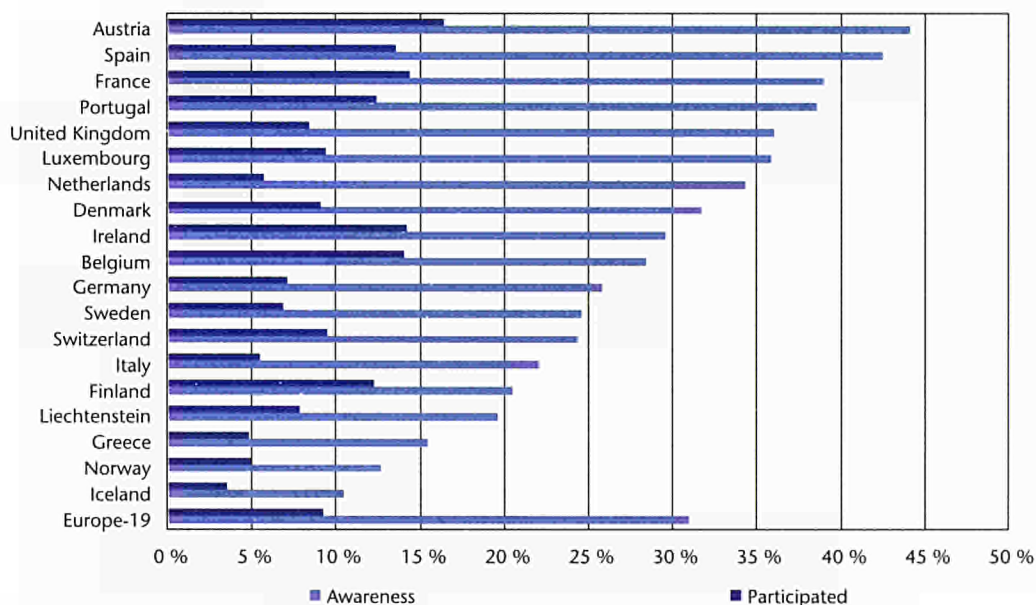
Table H.1 Percentage of SMEs that are aware of and participated in support programmes of regional, national or European Community programmes, by enterprise size in Europe-19

	Number of employees				
	0	1-9	10-49	50-249	Total
Aware of support programmes	28 %	33 %	44 %	55 %	31 %
Participated in programmes	6 %	11 %	23 %	32 %	9 %
Financed* by:					
- Regional government	5 %	7 %	14 %	20 %	6 %
- National government	1 %	3 %	6 %	10 %	2 %
- European Commission	1 %	1 %	6 %	8 %	1 %

* More answers allowed, so total may exceed percentage of enterprises that participated

Source: ENSR Enterprise Survey 1999.

Figure H.1 Awareness of and participation in enterprise support programmes by either regional, national or European governments, percentage of SMEs by country*.



* Countries are ranked by the percentage of SMEs that are aware.

Source: ENSR Enterprise Survey 1999.

I Continuing vocational training

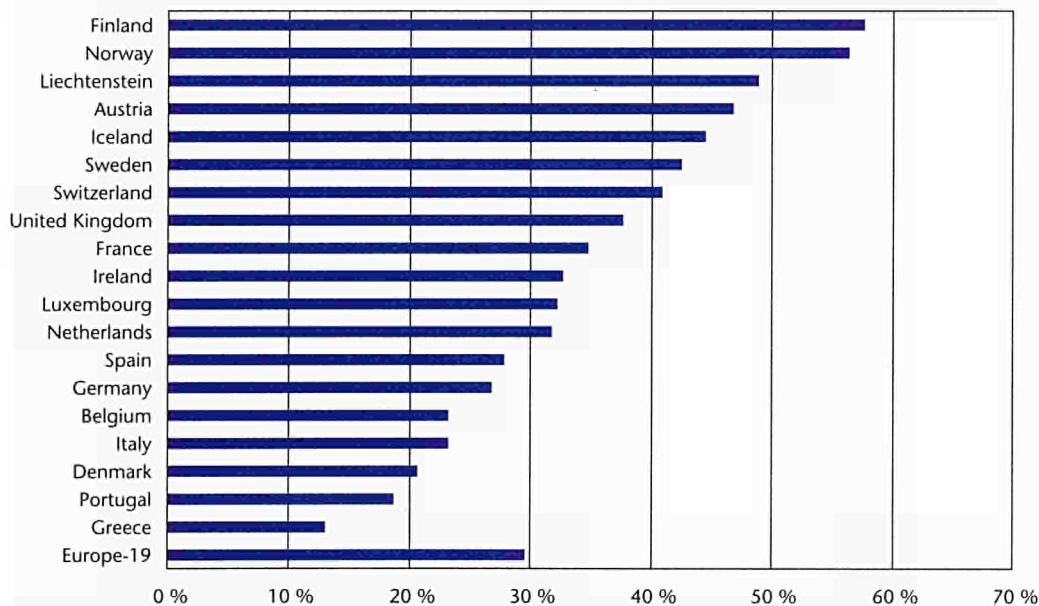
Chapter 9 of this report focuses on vocational training provided by SMEs to their staff. Figure I.1 shows large differences by country. One should realise however that size-class effects explain part of the differences, e.g. relatively there are many small enterprises in Greece.

Table I.1 Percentage of SMEs that have arranged training for their personnel, and the tools used, by enterprise size in Europe-19

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Offered training	19 %	37 %	63 %	80 %	30 %
Tools used:					
- Internet	4 %	8 %	17 %	19 %	6 %
- CD-ROM	4 %	9 %	19 %	27 %	8 %
- Video	3 %	10 %	21 %	32 %	7 %
- Written materials and books	12 %	25 %	42 %	54 %	20 %

Source: ENSR Enterprise Survey 1999.

Figure I.1 Percentage of SMEs having arranged training for their personnel, ranked by country*



* The percentage for Denmark is well below the European average, this result is not confirmed by Eurostat's CVT Survey which shows that Danish SME are particularly active.

Source: ENSR Enterprise Survey 1999.

J New services

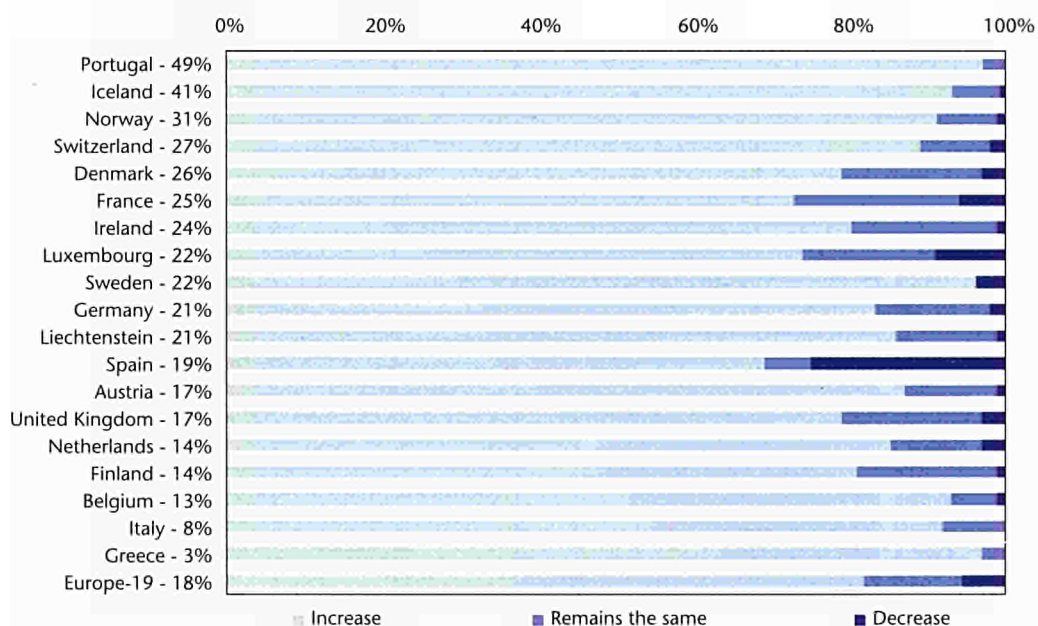
This last section presents information on new services, discussed at length in Chapter 10 of this report. New services are defined as services presently available on a market basis in a form which SME had never heard of 5 years ago.

Table J.1 Percentage of SMEs using new services and their expectation for the next three years, by enterprise size, Europe-19

	Number of employees				
	0	1-9	10-49	50-249	Total
Using new services	13 %	22 %	31 %	44 %	18 %
Expectation about purchase of new services over the next three years					
- Increase	11 %	17 %	25 %	35 %	14 %
- Stable	2 %	3 %	3 %	5 %	2 %
- Decrease	0 %	2 %	1 %	2 %	1 %

Source: ENSR Enterprise Survey 1999.

Figure J.1 Expectations of SMEs using new services about volume of purchasing over the next three years, by country*



* Countries have been ranked according to the percentage of SMEs using new services mid-1999 (percentages written with country names).

Source: ENSR Enterprise Survey 1999.

13 Policy recommendations

Co-ordinated by EIM Small Business Research and Consultancy

Introduction

At the end of the millennium, economic growth in the EEA and Switzerland is rather good and the prospects for the coming years are even better.

International trade in Europe has developed more favourable than domestic demand over the last half of this decade; the intra-European trade especially grew fast. With this revival, emergence of the Asian economies and the consequently increasing world trade, the European growth is expected to continue and become even more export-led.

Other positive influences for this continuing growth in Europe are the thorough policies of the EU countries to reduce their government budget deficits to reach the criteria for the European Monetary Union. The government debt in the EU as a whole is below the Maastricht criterion of 3 % of GDP now.

With the moderate wage increases and the continuous intensification of labour market policies many jobs have been created as well, leading to a decrease of the unemployment rate.

In such an environment, SMEs prosper. Consumption growth and expansion of trade to countries which are close (not only in geographical terms), stimulate SMEs, but SMEs also contribute to this process of growth: many new firms have been established all over Europe creating a substantial part of all new jobs. Existing SMEs could strengthen their position and are consequently strengthening the business structure in Europe. Altogether, SMEs are creating proportionally more jobs than large-scale enterprises do.

The intensification of SME policies and entrepreneurship policies all over Europe gave additional stimuli to this process. More than in the past, attention is paid to issues which are specifically relevant to SMEs, such as administrative simplification, access to finance, internationalisation, promotion of technological innovation and dissemination of enterprise culture. Interestingly, in many countries enterprise knowledge and culture is now being promoted in the school system.

It is of great importance that the strength of SMEs established in this 'hausse' period is increased in order to create a structurally more competitive business sector. In the near future, the business sector will be even more exposed to an increasingly competitive world. It is urgently required for policies to be established that will guarantee an SME sector that will perform better in delivering high-quality products and services and that may act as top-supplier to larger enterprises, competing world-wide.

The following policy recommendations are aimed at strengthening the entrepreneurial culture and the performance of the SME sector, and ultimately at

increasing European welfare. This should be realised by creating favourable conditions and an environment conducive for SMEs by taking away hindrances for their further development.

This also holds for the associations and foundations in the social economy, and for SMEs developing new services, both studied in this Sixth Report of The European Observatory for SMEs. These organisations and SMEs, usually operating on a small scale, are influenced by the liberalisation and privatisation policies of governments. The organisations that are dependent on public budgets might have suffered from restrictive budget policies. They need more attention, in particular financially, to realise the social European economy.

Concerning the trade liberalisation within the Single Market, the entrepreneurs are mainly positive. The following advantages are especially mentioned: a larger selling market, simplified international co-operation, introduction of the euro and larger markets for inputs.

With this liberalisation of the European market, the competition on markets received a strong incentive and most countries followed a policy to increase competition, focusing on increasing transparency and taking away distortions in many markets. Other policy actions applied were e.g. privatisation and price deregulations. The present study shows that more attention should be given to side effects of the liberalisation process. Negative effects should be avoided or taken away to realise a real welfare increase. In principle, SMEs are in the arena where advantages and disadvantages are at cross-roads: on one side SMEs are contributing to more competition, on the other side they have to cope with it.

In the policy recommendations, attention is paid to the functioning of markets as well as to other aspects of the environment in which SMEs have to operate effectively, being:

- The available human resources; both the labour market developments from the supply and demand side and the continuing vocational training (CVT) get special attention;
- Capital markets: in particular the access to finance by SMEs;
- Technological developments; in this domain E-commerce has been investigated;
- The access to Community Programmes: attention is not only paid to the way it influences the market position of SMEs but also to the participation in the different programmes concerning the business environment, e.g. human resources, financing and technology.

The new multiannual programme for Enterprise and Entrepreneurship will create the framework conditions for enterprises in the European Union, including SMEs. Additional policy development at national, regional and local level is also needed.

The following recommendations might contribute to the formulation of policies, both at the national and supranational level. Moreover, they might contribute to the social dialogue with employers' organisations and trade unions.

These research-based recommendations together with the implementation of the recommendations of the BEST report could deliver fundamentals for the new multiannual programme for Enterprise and Entrepreneurship.

First, policy recommendations aiming at improving the business environment for the SME sector, including the craft sector, are presented. Secondly, attention is paid to the associations and foundations as part of the social economy and to new services. Within each of the following sections, the concrete policy recommendations, as drafted by the consultant, are presented as bullet points indicated by ⇒.

This chapter is a synthesis and elaboration of the sections on policy issues presented in the various other chapters in this report.

Functioning of markets for products and services

Improving the functioning of markets for products and services can be realised especially by increasing the transparency of markets for the different players and by taking away distortions both from the demand and the supply side of the market. In studying regulatory reform, two specific cases of regulation and deregulation have been studied in this report: the opening-up of the markets for public procurement and the change of opening hours of shops.

Attention is paid to:

- a) Regulatory reform aimed at improving the functioning of markets for products and services, but that may have, as a consequence for individual SMEs:
 - less flexibility;
 - greater administrative burden;
 - stronger competition by less qualified enterprises entering the market, and;
 - stronger competition due to mergers and alliances.

As market liberalisation is not always effective in realising a higher welfare, in particular higher growth and more employment, it is strongly recommended (as also acknowledged by the OECD):

- ⇒ To perform a higher quality Business or Regulatory Impact Analysis to investigate systematically the positive and negative effects of each new regulation and deregulation on the business sector and on SMEs in particular.
- b) The deregulation of the opening hours of shops is affecting the food retail sector considerably. Large shops profit most, whereas small shops suffer. The deregulation accelerates the diminishing market share of SMEs. In order to guarantee an acceptable service level and to safeguard entrepreneurship, the following policy suggestion for national policy makers, already brought into practice by a few countries, is made:
 - ⇒ To provide opportunities for positive discrimination in favour of very small food shops by allowing them wider opening hours than other shops or to develop other strategies to cope with the stronger competition.
 - c) Opening-up the market for public procurement: only one out of three SMEs is aware of the possibilities of public procurement procedures. The participation rate of SMEs in local and national tenders is far higher than in European tenders. The most apparent barrier is that the tendered projects are too large for the enterprises to handle.

Other important barriers are the lack of information on the system and the complications of submitting proposals. Certain actions have already been taken to fill the information gap, like the electronic diffusion of calls for tender, publication

of practical guides for both purchasers and suppliers, and providing training and advice to enterprises, but more needs to be done.

To help these enterprises to take the opportunities resulting from the open market, it is recommended to:

- ⇒ Provide more information on public procurement to SMEs by governments, intermediary or trade organisations;
- ⇒ Stimulate purchasers to divide large contracts into smaller lots;
- ⇒ Stimulate SMEs to tender with other enterprises in consortium, for example by integrating this co-operation in existing programmes such as the Joint European Venture programme, focusing on establishing transnational ventures;
- ⇒ Stimulate the simplification and standardisation of forms, procedures and certifications, as already started in a few countries, reducing the costs of preparing tenders and the administrative burdens, which are disproportionately high to SMEs.

Human Resources

Labour market issues

A situation with 18 million unemployed people in the European Economic Area and Switzerland, highlights the urgent need for implementing corrective actions in order to overcome recruitment problems and problems with skill shortages, reported by many SMEs.

Lack of skilled labour is the major constraint on business performance in almost 10 % of SMEs. Almost a quarter of the SMEs have in recent years often or from time to time found it difficult to fill vacancies. So although a continuing high production growth rate is anticipated, this constraint will lead to less deployment of the numerous unemployed than otherwise would have been possible. Many SMEs have consequently experienced a considerable limitation to their business activities. About a fifth of all SMEs facing recruitment problems give up filling vacancies. Difficulties in recruiting are increasing in proportion to the number of existing employees in the enterprises. Paradoxically, recruitment problems are worse for the larger SMEs; even though they are better equipped to overcome recruitment problems than smaller SMEs.

Specific characteristics in this respect are:

- Informing the Public Employment Services (PES) too late;
- Identifying staff shortages and recruitment problems as an ad hoc instead of a strategic action;
- Staffing policies being even more poorly developed in very small enterprises;
- Long-distance recruitment is seldom carried out;
- The recruitment by SMEs is often a closed system.

Although the introduction of a reduced VAT on labour-intensive services might create more job opportunities, it also aggravates the recruitment problems.

The European Commission, as well as national public bodies, is making many efforts to secure a well-functioning labour market. To exploit the potentials of the job-creating small business sector better and to reduce unemployment accordingly, more specific attention should be paid to recruitment and skill shortages in SMEs.

The following recommendations ought to be formulated. Among others, they should be taken into account in the development of projects under Objective 4 of the European Social Fund, which focuses on specific needs of SMEs in terms of human resource development and in the social dialogue:

- ⇒ To improve the system of anticipating skill shortages, the Public Employment Services (PES) should encourage SMEs to inform the PES earlier of their recruitment needs, thus providing a more solid foundation for implementing corrective actions in specific sectors and/or within specific qualifications.
- ⇒ Improving the dialogue between central and decentralised public bodies and the SMEs to stress the strategic importance of recruitment in line with e.g. investments in continuing vocational training.
- ⇒ Central and decentralised public bodies should encourage SMEs to use open recruitment channels (e.g. PES and Internet) in order to announce vacancies. SMEs should also be encouraged to use EURES in order to recruit at longer distances and to promote cross-border mobility.
- ⇒ In matching supply and demand, it should be taken into consideration that larger SMEs are having more recruitment problems, in spite of their better developed recruitment skills.
- ⇒ Job seekers, unemployed as well as employed, should be encouraged to contact enterprises themselves directly in the local/regional area to increase their chances of finding employment.
- ⇒ Appropriate promotion campaigns for specific professions among unemployed should be made in the trades selected for a reduced VAT rate.

Continuing vocational training

Apart from the general afore-mentioned problems in the labour market concerning the matching of supply and demand, continuing vocational training (CVT) is of crucial importance for staying 'up to date' but it is not directly focused on by smaller enterprises.

CVT for employees and for entrepreneurs in SMEs has to overcome quite a lot of obstacles. Both the statement of the need by SMEs and the matching of supply of training courses to the demand should be focused on.

SMEs do not fully benefit from the existing training support infrastructure in spite of the increasing attention of policy makers on CVT. More needs to be done in order to design successful SME-oriented CVT. This holds both for training of employees and entrepreneurs.

Among others, Objective 4 of the ESF, the Community ADAPT Initiative, and the Leonardo da Vinci Programme are in particular focusing on vocational training systems. For increasing CVT by SMEs the following elements should be taken into consideration or enhanced:

- ⇒ Public authorities have to make a major effort to improve the basic and generic skills that the general education system provides, since these skills are a cornerstone both for employment and further lifelong learning activities.
- ⇒ Relevant public and private policy-making bodies should encourage, amongst SMEs, the idea of training and education for employers and employees as a lifelong strategic tool within the management of the enterprise. The dual systems may be a good starting-point for lifelong learning.

- ⇒ SMEs' investments in skills and training development have to be specifically encouraged and stimulated since, as the research has shown, external aids are regarded as influential for carrying out CVT activities, especially amongst the smaller enterprises and for the less qualified personnel. This recommendation can be extended to those countries where training expenses are decided by the social agents at sector/branch level.
- ⇒ Continuing training should be treated by the public sector in fiscal terms in a similar way to material investment, so training might benefit from existing incentives (e.g. tax relief).
- ⇒ To comply with the greatest need of most SMEs, advice and counselling to identify and formulate their educational needs should be supported.
- ⇒ The creation of entrepreneurs' clubs and exchange fora should be supported, as they are a valuable method for training and for the exchange of experiences among entrepreneurs.
- ⇒ Public authorities should support the full exploitation of the possibilities opened up by Information and Communication Technology (ICT) for training purposes. For this purpose, special attention should be paid to the improvement of the existing ICT infrastructures, together with the upgrading of the computer skills amongst the population, and the lowering of equipment costs for schools.
- ⇒ Public bodies have to set up or improve methods for the evaluation of the existing CVT supply, e.g. certification and accreditation, in order to enable continuous quality improvement and adaptation to the real needs of enterprises.
- ⇒ Additionally, it is important to ensure the existence of strong incentives for training providers to apply, continuously, innovations in the training field and to stimulate training providers to adapt their training supply to the SMEs' characteristics;
- ⇒ Specific attention should be devoted to those groups that have special difficulties in their access to continuing training activities, e.g. persons with child care responsibilities, older workers or disabled employees.

Capital market: access to finance

In the capital market, SMEs still face serious problems, not only in general but also related to their specific circumstances. The following issues should be addressed:

- Requests for small amounts of funding are uninteresting for many banks due to the relatively high transaction costs.
- It is very difficult or even almost impossible to make an assessment of a newly created enterprise or of a new project of expanding enterprises because of the lack of a track record. This obstacle can be lifted if the investor has more insight into the enterprise and is closer to the management.
- In some instances, tax regimes discourage private persons such as relatives or Business Angels from providing informal capital to SMEs. Indeed one of the features of private investors is that they are close to the entrepreneurs and have therefore a better insight into the project. Some tax incentive may precipitate them to invest.
- The evaluation of enterprises or projects in the fields of high technology requires thorough understanding of both technical and financial matters. Because of very high costs of experts' evaluation, venture capital funds are

often specialised in a particular sector or technology. In that way they can acquire the necessary knowledge of the market and the technology, which allows them to make funding decisions. In that context, measures aimed at supporting the development of venture capital are important.

- Medium technology projects suffer particularly from shortage of finance. The reasons are: too risky for banks, the expected returns are not high enough for the financiers willing to take risk (i.e. venture capital funds specialised in high technology) and they are not glamorous enough for public authorities.

Given these aspects of the financing of SMEs, the following policy recommendations are formulated within the Objective B of the current Multiannual Programme for SMEs and the Joint European Venture programme, which aim at improving the financial environment for enterprises:

- ⇒ Public authorities and private banks should continue and intensify the development of new financial instruments to facilitate the access of smaller enterprises to external financing. Financial problems of specific business developments and segments should be addressed, like mergers, take-overs, start-ups, high-tech, medium-tech enterprises and enterprises in different stages of development (Early, Expanding and Mature stages). Benchmarking of these activities in the financial environment may be valuable. The access to finance for very small projects might also be important, because many of these projects originate from unemployed and access to 'a little' money may contribute to their success rate. This issue then relates to reduction of unemployment and developments within the social economy (see below).
- ⇒ In addition to already existing combined guarantee schemes and micro-lending programmes, where the bank costs are either reduced or taken over by the public sector, policy makers as well as financial institutions should look for specific solutions to the problems linked with the provision of small amounts.
- ⇒ Tax incentives that favour the development of private investors, such as Business Angels, to fund SMEs should be stimulated and fiscal or other disincentives should be removed. Concerning the treatment of training as a non-material investment, as mentioned before, it is extremely important to design better methods of valuing long-term, intangible assets, i.e. capabilities of staff developed by CVT and to have these intangibles taken into consideration by investors or financial agents appraising investment projects by SMEs.
- ⇒ The collaboration between technological and financial specialists should be stimulated to permit better assessment of business plans of new technology firms or products.
- ⇒ Policy makers should also address enterprises and projects located in the medium technology areas, or at least not exclude them from support measures.

Technology: Electronic commerce

In the domain of technological developments, only the increasing importance of electronic commerce and its effects on SMEs has been studied in this years' report. More than 20 % of the SMEs are already using the Internet for presenting information on their products and services. The development of electronic commerce may cause a considerable change in ordering/supplying and distributing systems and finally also in consumer-behaviour patterns. E-commerce might be a great vehicle for SMEs to trade internationally and in particular within Europe at lower cost than with traditional channels. Policy issues should enable

SMEs to face the fast penetration of E-commerce, its opportunities and threats and consequently potential changes in the market.

The rapid progress in E-commerce will bring forward a foreseeable shortage in ICT professionals, leading to high costs for SMEs to take part in the new electronic society.

Moreover, SMEs, in general, are facing a lack of knowledge to enter the on-line market and to establish transactions in products and services and payments. Language barriers constitute a critical failure factor.

The research findings lead to the following policy recommendations, taking the intentions of the White Paper on Commerce into consideration.

- ⇒ Encouraging the progress towards lower cost for connecting to and using the Internet for both producers and consumers;
- ⇒ Education and training of personnel in E-commerce should be stimulated to upgrade the existing quality and to avoid shortages in this segment of the labour market. Exchange of training programmes, e.g. of Computer Based Training, can be intensified on a European scale.
- ⇒ The public sector should mainly tender electronically and make tenders more accessible for SMEs.
- ⇒ Promoting further research on the impact of electronic commerce on the position and performance of SMEs;
- ⇒ Providing guidelines for SMEs to enter the on-line market based on models for different types of business;
- ⇒ Providing a facilitating legal framework to help countries that have not yet fully adapted their legal framework, to related directives concerning processing of personal data, and pursue harmonisation of consumer rights;
- ⇒ Initiatives both public and private should be developed to bridge the language gaps between the available software and the European users not familiar with English.
- ⇒ Through the network of Euro Info Centres (EICs) and as a result of the 3rd phase of Commerce 2000, campaigns for public awareness could be organised to stimulate SMEs to adjust their policies to the new electronic marketplace European-wide.

Access to Community Programmes

Obstacles that hamper SMEs from fully participating in European support schemes have been identified. Measures to improve the access of SMEs to Community Programmes should therefore be directed towards helping SMEs to overcome these barriers. The fact that the average size of enterprises participating in Community Programmes is high compared to the one in national or regional support schemes exemplifies the difficulties that smaller SMEs face in tackling these obstacles. This might be taken into account when considering certain measures, for example by addressing specifically micro or small enterprises. To summarise:

- Lack of awareness has proven to be the most significant barrier to SME participation in support programmes.
- Once awareness has been created, lack of information on how to participate has been identified as the major difficulty by participating as well as not-participating enterprises.

- Finally, the application procedures and administrative requirements constitute a serious barrier to using the Community Programmes.

To facilitate the access to and use by SMEs of Community Programmes, the following actions are recommended:

- ⇒ With regard to the creation of awareness, increased use should be made of media such as television, the Internet, brochures and existing networks of SME intermediaries (EICs, Chambers of Commerce, banks and trade associations).
- ⇒ Better personal relationships with managers of SMEs at the regional or local level should be formed as it has proved to be a very effective way for creating awareness in many Member States.
- ⇒ Extra budgets for advertising, marketing, etc. are needed for promoting awareness programmes.
- ⇒ The quality of information provided on Community Programmes should be upgraded and adapted to the target groups, taking into account the language of the addressee.
- ⇒ Preference might be given to one single representative at the regional or local level, who should be involved in all phases of a programme (definition, promotion, implementation and assessment), in order to increase the effectiveness of the information-provision process. This might be undertaken in the form of a partnership with those responsible for the programme.
- ⇒ In order to simplify administrative procedures, standardised forms on various media should be used. Shorter and more suitable forms would allow a greater number of SMEs to apply and reduce the time of administrative processing, as well as lead to a reduction in bureaucracy.
- ⇒ Permanent open calls to tender for projects and technical assistance might be helpful to SMEs not used to bureaucratic deadlines.
- ⇒ Reporting requirements should neither be too detailed nor require confidential information from businesses.

Social economy: associations and foundations

Associations and foundations can play a major role in the achievement of a real political and social Europe, which is the principle of a united Europe. If Europe is to become more than just a Single Market, associations and foundations should certainly be integrated, like political representatives, trade unions and employers' organisations, in the European policy debate. They are also important representatives of the 'ordinary' citizens. Their experience in fighting against poverty, racism, and social exclusion and in developing democracy and active citizenship should be better exploited on a European scale. This becomes even more important in the perspective of the enlargement of the European Union and certainly if the EU intends to play a role in international development.

Associations and foundations are, without any doubt, important economic, social and political actors. Nevertheless, although their economic role is increasingly acknowledged at both national level and Community level, the social and political importance is not yet fully appreciated.

In particular, the fact that associations and foundations develop social innovation should be recognised. This means that they cannot operate with the same efficiency criteria as 'ordinary' enterprises. Like innovative SMEs, their risk, and right of failure

should be taken into account because they need time to develop their projects. Some contradictions in the approach to them must also be solved. It is not coherent to require that they, for example, simultaneously develop non-profitable new services satisfying real human needs (see below) and contribute to solving unemployment, without being supplied with the relevant financial means. Neither can they be asked to improve the quality of their services and the level of 'profitability' and to create jobs for the most 'risky' groups of unemployed at the same time.

Taking this into consideration, it is recommended:

⇒ To develop a coherent European programme for associations and foundations in the domain of the social economy as soon as the Statute of the European Association is adopted, providing solutions for financial, legal and other problems of associations. This programme should in particular focus on the following aspects:

- the recognition of the importance of the social and political values of associations and foundations at the EU level;
- the integrated approach, involving the various services of the European Commission. A coherent policy and unique criteria for dealing with associations and foundations should be adopted as is the case within many countries, with regard to the various ministries;
- the facilitation of better access to finance and public funds, mainly by defining clear policies and schemes, taking into account the unique nature of the sector like the long duration of certain projects requiring longer-term finance;
- the promotion of voluntary work, in particular the development of systems to recognise the professional competencies acquired, should be encouraged;
- associations and foundations should get the resources to develop more cross-border projects and thus participate more actively in achieving one united Europe.

New services

At present, two main forces are at work in the service sector. Firstly, a technology-push element, mainly ICT-induced, with an increasing shift towards new, more knowledge-intensive services and secondly, a demand-pull element, mainly induced by economic and socio-cultural changes in the personal services sector.

The new services springing from privatisation of non-market public services, the increase of business-related services and the ICT-related services provide new opportunities, both for existing enterprises and start-ups but they also supply new functions to improve the overall functioning of the economy. These services are on the one hand labour-intensive and highly skilled, and may be hampered in their developments by the scarce labour market. On the other hand, they are strongly technology-dominated and virtual. Thus, legal and judicial questions easily arise as many of these new services may have a financial, legal and/or fiscal advantage in competition with traditionally provided services.

It is recommended:

⇒ To establish, on a European scale, a monitoring system or benchmark for businesses providing new services, in particular knowledge-intensive activities like multi-media, audiovisuals, telematics and E-commerce;

- ⇒ To encourage innovation and realise the welfare benefits and the cost savings obtainable from the evolution of services, asking for a public policy on education and training of entrepreneurs, the work force and consumers;
- ⇒ The education and vocational training systems should be more strongly geared to these new services. More flexibility, fostering new types of professions and new skills and new ways of qualifying for these professions are urgently needed. This relates to a wide scope of new occupations, varying from media experts and media engineers to fitness consultants.
- ⇒ Care must be taken that policies concerning technology, intellectual-property rights, standards and transfer of knowledge, do not inhibit the technological evolution of services. Thus, policies must strike a balance between protection of current service providers and consumers on the one hand and stimulation of service expansion, innovation and technological evolution on the other.
- ⇒ National employment policies concerning the promotion of local employment initiatives need to be updated together with the enhancement of training policies and of policies fostering the setting-up of businesses. Public policy at national level, especially in the larger European countries, has to move towards greater diversification of schemes, decentralisation of policy-making and, perhaps, also to partial contracting-out of the development and execution of policy instruments, programmes and projects.
- ⇒ Lowering labour costs to stimulate the creation of new personal services and thus employment should be considered.

ANNEXES TO THE REPORT

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ANNEX I The set-up and analyses of the ENSR Enterprise survey 1999

1.1 Introduction

The ENSR Enterprise Survey 1999 was designed to make uniform data on SMEs available from nineteen European countries. This enabled the European Observatory for SMEs, in addition to using Eurostat data, to make additional comparative analyses based on recent and comparable SME data.

The major improvement compared to the ENSR Enterprise Survey 1997 was the much larger number of enterprises interviewed. This allowed results to be presented for each of the 19 countries covered, i.e. the 18 Member States of the EEA and Switzerland.

To arrive at sufficiently reliable conclusions at the level of size classes within individual countries it was necessary to carry out a suitably large number of interviews at that level. More than 100 interviews for each size class-country combination were completed which implied in total almost 8 000 interviews.

Interviews were conducted by the CATI-system of Intomart¹. CATI stands for Computer Assisted Telephone Interviewing. The overall design and implementation of the stratification, the questionnaire and the fieldwork were done in close collaboration between staff from EIM Small Business Research and Consultancy in the Netherlands, partners in the ENSR network and Intomart.

In this Annex the approach and methodology of the ENSR Enterprise Survey 1999 is described in more detail to provide information on issues such as the questionnaire, the sample plan and the weighting scheme.

1.2 Questionnaire

The draft questionnaire was developed in close co-operation with the partners in the ENSR network responsible for the various chapters of this report and was agreed by the European Commission. Intomart was responsible for the final draft of the questionnaire, the translation into the required languages and the programming of the different questionnaires for CATI-usage. To minimise differences between the various language versions, each translation was re-checked by the ENSR partners of the country in question².

¹ Intomart Business Research in the Netherlands is the Dutch partner of GfK International.

² Not only for each of the 13 languages needed, but also for each country of application. E.g. the French version was checked not only by the French partner, but also by the Swiss and Belgian partners.

The questionnaire contained over 70 questions in ten main sections. Specific sections in the questionnaire related to the different topics covered by individual chapters in this report. Table A1 provides an overview of issues dealt with in each section.

Table A1 Structure of Questionnaire, and issues covered

Section 1	Filter questions	Size, sector, independent enterprise, respondent within enterprise
Section 2	General characteristics	Employment and turnover for 1997 and 1998, legal form, age of firm, major constraints, export
Section 3	Single Market	Advantages and disadvantages, balanced opinion, international competition, international business contacts
Section 4	Euro	Considered consequences, preparations made, information from institutions, effect on competitive position
Section 5	Tendering	Awareness, participation, barriers
Section 6	Labour	Difficulties in filling vacancies, effect of recruitment problems
Section 7	Finance	Financing start, role of banks, collateral required
Section 8	E-commerce	Access to Internet, type of use, major constraints
Section 9	EU programmes	Awareness, participation, barriers
Section 10	Vocational training	Organisation within enterprise, costs, type of staff trained, use of modern media
Section 11	New Services	Use and anticipated growth

1.3 Sample size and levels of confidence

The size of the sample was determined by considering the need to report on dichotomous variables at country- and size-class level, with reasonable accuracy and confidence. Statistical theory showed that if sample errors are not to exceed $\pm 10\%$, at a confidence level of 95% a total sample size of about 6 860 is needed. This applies to estimates at the country-size class level combined. As four size classes are distinguished in nineteen countries, there are $4 * 19 = 76$ groups of about 90 interviews each. Hence, a statement like '50% of medium-sized enterprises in France report exports', implies that it is 95% certain that the real value in the exporting population will be between 40 and 60%.

To make sure that these levels of accuracy would be obtained, the planning did not aim at $90 * 76$, or 6 840 interviews, but at nearly 8 000 completed interviews (so 105 enterprises in each of the 76 country-size class combinations instead of 90). Estimates at the country- or size-class level separately are of course *much more precise* at the same level of confidence, as each country refers to over 360 respondents and each size class to more than 1 700 respondents.

For variables of a different type (numerical variables), a similar reasoning applies. If estimates are presented, showing that the average size of enterprises in Austria within the size class 1-9 employees is 6 persons, this actually means - with 95% confidence - that the average will be between 5.4 and 6.6 persons.

1.4 Stratification

The need for stratification (and hence weighting) can be demonstrated in non-technical terms as follows.

The Fifth Annual Report of The European Observatory for SMEs specified that there were about 19 million enterprises in the nineteen countries concerned, of which over 17 million were employing 0-9 employees, and only 170 000 medium-sized enterprises (50-249 employees).

Would it have been possible to take a simple random sample of about 8 000 SMEs?

Interviewing 8 000 SMEs, meant covering about 0.04 % of all SMEs. A simple random sample would imply that in total only about 70 medium-sized enterprises (in over nineteen countries and 7 sectors) could be expected in the sample. Obviously, this would be insufficient to reach any valid conclusion about this group.

Therefore, a stratified sample was used, this meant interviewing less than a proportional number of smaller enterprises and more than a proportional number of larger enterprises³.

Hence, the ENSR Enterprise Survey 1999 is based on a random sample within strata defined by sector, size class and country (respectively 7 by 4 by 19, or 532 groups or strata).

Intomart had acquired gross samples of SME-addresses for each country. For each of the nineteen countries the addresses were classified according to seven sectors of activity (NACE groups) and four size classes (enterprises without employees; micro enterprises, 1-9 employees; small enterprises, 10-49 employees; and medium-sized enterprises, 50-249 employees). This resulted in a 7x4 matrix with 28 cells. Subsequently, for each country a random sample was taken from each of those 28 cells.⁴ The stratification plan used, is presented in Table A2.

1.5 Fieldwork, non-response and sample obtained

Preparations and fieldwork

Before the start of the fieldwork all interviewers received a briefing covering the objectives, questionnaire, sample and respondents within the enterprises to be interviewed. Subsequently, an extensive series of test interviews were run in four countries⁵ to fine-tune the questionnaire and the instructions for the interviewers.

The interviews were conducted in the period April-June 1999. The telephone interviews were carried out using a central CATI system⁶, which guided the

³ In addition, stratification by sector and country has been applied for similar reasons.

⁴ In a limited number of countries difficulties were encountered in filling the quota for individual strata (i.e. 'zero' enterprises). In those cases enterprises were replaced by others from the adjoining size class, but from within the same sector and the same country.

⁵ The UK, Ireland, the Netherlands and Belgium.

⁶ Fifteen countries were covered from the centrally controlled Call Centres of Intomart in the Netherlands. Iceland, Switzerland, Liechtenstein and Greece were implemented by local GfK affiliates.

Table A2 Sample stratification plan ENSR Enterprise Survey 1999, by country, enterprise size and sector

Country	Number of employees				Total for each sector	Total for all 7 sectors
	0	1-9	10-49	50-249		
Austria	15	15	15	15	60	421
Belgium	16	16	15	15	62	435
Denmark	15	15	15	15	60	421
Finland	15	15	15	15	60	421
France	16	16	16	15	63	442
Germany	16	16	16	15	63	442
Greece	16	16	15	15	62	435
Iceland	15	15	14	10	54	381
Ireland	15	15	15	15	60	421
Italy	16	16	16	15	63	442
Liechtenstein	14	15	10	4	43	304
Luxembourg	15	15	15	11	56	391
The Netherlands	16	16	15	15	62	435
Norway	15	16	15	15	61	428
Portugal	16	16	15	15	62	435
Spain	16	16	15	15	62	435
Sweden	16	16	15	15	62	435
Switzerland	16	15	15	15	61	428
United Kingdom	16	16	16	15	63	442
Total for each sector	296	297	284	265	1 143	8 000
Total for 7 sectors	2 074	2 078	1 989	1 858	8 000	8 000

Note: In Liechtenstein and Luxembourg this stratification plan should be considered as an approximation only; nearly all enterprises with more than 50 employees have to be approached. Due to rounding columns and rows do not total.

interviewer in his/hers own language through the questionnaire based on the answers received so far (automatic routing). During the interview, data was simultaneously entered into the data set (on-line) and continuous monitoring and checking took place. This increased the quality of the data set obtained.

Addresses used

The approach was based on the sample stratification plan as discussed in the previous section. Within the strata (i.e. cells determined by sector, size class and country), addresses had been drawn completely at random. Initially, six to seven times the required number of addresses in the net sample was ordered⁷. During the fieldwork it became clear that for 9 countries⁸ additional addresses had to be ordered for specific cells (sectors and size-class combinations). Especially in the smallest size class (enterprises without employees) it proved extremely difficult to realise the planned number of interviews, even to the extent that all addresses known to exist were used. In small economies such as Iceland, Liechtenstein and Luxembourg the same phenomenon occurred in the larger size classes (medium-sized enterprises with 59-249 employees). In total more than 50 000 addresses were processed.

⁷ The sources are either official statistical organisations or companies who are renowned (Direct Mail) address suppliers who strive for completeness of their address data bases.

⁸ Belgium, Denmark, France, Germany, Ireland, Netherlands, Spain, Sweden and Switzerland.

Non-response

A detailed account of the addresses processed⁹ during the fieldwork is shown in Table A3.

Table A3 Account of fieldwork

<i>Description</i>	<i>Number</i>	<i>Percentage</i>
Completed interview	7 858	26 %
Interview aborted (refusal)	1 133	4 %
Refusal	10 389	35 %
No interview possible within period of fieldwork	3 001	10 %
After several attempts still no contact/still open appointment	2 146	7 %
Enterprise (soon to be) liquidated	978	3 %
Telephone number incorrect (out of order, wrong address)	4 205	14 %
Total	29 710	100 %

Source: Fieldwork logs Intomart.

The non-response percentage, which can be derived from Table A3, using a rather wide definition of non-responses, is as high as 74 %. (i.e. 100 % - 26 %).

From an analytical point of view however, one is only concerned with non-response as a source of potential bias. A more insightful definition is developed below.

Focusing on the relevant sub-groups shown in Table A3, a better assessment of the quality of the fieldwork for the ENSR Enterprise Survey 1999 was made (see Table A4). The enterprises listed in Table A4, which had not been interviewed, were a potential source of bias. They were contacted, but no interview (appointment) could be made. This could be related to other characteristics of entrepreneur or enterprise, which subsequently differentiated them from the enterprises which had been interviewed.

Following the definition used in Table A4, a non-response rate of 68 % results¹⁰.

Table A4 Response rate ENSR Enterprise Survey 1999

<i>Description</i>	<i>Number of enterprises</i>	<i>Percentage</i>
Completed interview	7 858	32 %
Could not be reached	5 147	21 %
Refusal	11 522	47 %
Total	24 527	100 %

Source: Fieldwork log Intomart.

⁹ In addition to the almost 30 000 addresses shown in Table A3, another 20 000 addresses (so total 50 000 addresses) had to be processed to arrive at almost 8 000 interviews. This is firstly related to contacting over 7 000 enterprises which have been filtered out at the start of the interview, as one of their basic characteristics made them ineligible (sector, size, or not being an independent enterprise). Secondly, 13 000 interviews have not been made, as the enterprises concerned were classified in a stratum (cell defined by size, sector and country) for which the quota as established in the sample plan (see previous section) was already reached at that moment in time. This happened especially when enterprises without employees were being searched to fill those quota, whereas it became apparent during the interview that at the moment of interviewing employees were there. The figure of 50 000 addresses processed, indicates the major efforts which had to be made, but it does not interfere with the calculation of non-response rates as the enterprises concerned are not within the sample population.

¹⁰ It can be argued that the non-response rate of 68 % based on the definition used in Table A4, is too high. The enterprises that refused should not be seen in relation to the number of 7 858 completed interviews but rather in relation to the much larger number of enterprises that were ready to be interviewed (see previous footnote). Or in other words, a substantial part of the refusing enterprises would prove to be ineligible for interviewing (wrong sector, size class or not independent enterprise).

1.6 Sample available for analysis

Finally, 7 858 checked and approved interviews were available. The non-weighted distribution is shown in Table A5 by sector and size class, and in Table A6 by country and size class. Size class refers to the number of employed persons in 1998 as recorded during the interview.

Table A5 Number of enterprises interviewed by size and sector (not weighted)

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Manufacturing	127	442	320	257	1 146
Construction	147	412	305	218	1 082
Wholesale	156	430	292	203	1 081
Retail	209	392	241	159	1 001
Transport/communication	124	348	283	206	961
Business services	201	423	281	214	1 119
Personal services	272	514	361	320	1 467
Total	1 236	2 961	2 083	1 577	7 857

Table A6 Number of enterprises interviewed by country and size class (not weighted)

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Austria	96	127	113	97	433
Belgium	86	154	105	87	432
Denmark	77	145	105	93	420
Finland	65	150	95	99	409
France	13	148	119	82	362
Germany	35	173	132	98	438
Greece	93	160	104	77	434
Iceland	77	144	107	46	374
Ireland	32	170	137	97	436
Italy	71	163	109	96	439
Liechtenstein	80	152	59	15	306
Luxembourg	66	182	119	60	427
Netherlands	98	134	109	96	437
Norway	34	151	127	106	418
Portugal	66	161	100	101	428
Spain	43	163	112	94	412
Sweden	93	163	94	44	394
Switzerland	49	159	127	97	432
United Kingdom	62	163	110	92	427
Total	1 236	2 962	2 083	1 577	7 858

1.7 Weighting by sector, size class and country

Because of stratification (as described in Section 1.4), the sample by sector and size as shown above in Tables A5 and A6 did not reflect the structure of the

European enterprise sector. In this section the weighing procedure used to obtain a representative picture will be described briefly.

Individual enterprises (respondents) were weighted, to compensate for stratification, i.e. deliberately over- or under-sampling, e.g.:

- Micro enterprises got higher weights than medium-sized ones (because relatively too many medium-sized enterprises were sampled).
- Retail enterprises got higher weights than manufacturing ones (relatively too many manufacturers were sampled).
- UK Enterprises got higher weights than those from Liechtenstein (relatively too many enterprises from Liechtenstein were sampled).

All these weighting corrections occurred simultaneously. There was one set of weights which represented the ratio between the share of enterprises from the sample classified in each of the stratification cells (sector, size and country) and the share of enterprises in that cell within the European enterprise sector¹¹. As a consequence the relation in the sample between micro manufacturing enterprises from the UK versus medium-sized retail enterprises from Liechtenstein would be in order.

Only in this way would overall Europe-19 results be meaningful, not weighing by country would give enterprises from Liechtenstein almost the same 'weight' to arrive at the European-19 average as enterprises from the UK¹², whereas these two economies do differ much more in size (and number of enterprises).

EIM constructed such a weighting matrix to bring the data of the sample into line with the structure of the number of enterprises in the population using EUROBASE, the ENSR database on the size-class structure of European enterprises developed for the Observatory project on the basis of 'Enterprises in Europe' from Eurostat¹³.

All data from the ENSR Enterprise Survey 1999 given in this report is based on weighted results from the survey. Hence the percentages shown provide a representative image of all SMEs in the nineteen countries¹⁴.

Applying these weights, the weighted data set as used in this report results. The overall structure is shown in Table A7 by sector and size class, and in Table A8 by country and size class.

¹¹ In technical terms: the weights are inverted sample fractions. In addition the weights have been scaled in such a way that the average value of the weights over the entire sample is one. Hence the resulting, weighted database represents the structure of enterprises in Europe by sector, size and country, without being expanded to population dimensions.

¹² As the number of enterprises actually interviewed does not differ much: Liechtenstein 306, and UK 427.

¹³ Eurostat, *Enterprises in Europe, Fifth Report, Luxembourg, 1998*.

¹⁴ In this matrix covering all sectors, size classes and the nineteen countries, strata for the small economies such as Iceland or Luxembourg get extremely low weights. In some cases this would prevent arriving at country-specific conclusions. Therefore, also an alternative set of weights was developed which takes account of sector- and size class-distortions only. This enabled EIM to produce the data by country as presented in various tables and charts in this report. If results across countries are presented, care has been taken that data are properly weighted, i.e. results from large economies like France have more bearing on the average than results from smaller economies such as Norway.

Table A7 Number of enterprises, weighted sample by sector and enterprise size

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Manufacturing	338	408	141	31	918
Construction	513	369	78	8	968
Wholesale	241	251	47	6	545
Retail	971	799	62	5	1 837
Transport/communication	256	136	25	4	421
Business services	886	503	63	11	1 463
Personal services	910	713	73	10	1 706
Total	4 115	3 179	489	75	7 858

By comparing Table A5 with Table A7 it is clear that there are many more micro enterprises than medium-sized enterprises after weighing and many more retail enterprises than enterprises in manufacturing.

Table A8 Number of enterprises, weighted sample by country and enterprise size

	<i>Number of employees</i>				<i>Total</i>
	<i>0</i>	<i>1-9</i>	<i>10-49</i>	<i>50-249</i>	
Austria	35	54	10	2	101
Belgium	278	69	11	2	360
Denmark	71	30	6	1	108
Finland	46	30	4	1	81
France	377	378	54	10	819
Germany	514	732	146	23	1 415
Greece	134	104	6	1	245
Iceland	5	4	0	0	9
Ireland	18	9	3	0	30
Italy	687	688	74	7	1 456
Liechtenstein	1	1	0	0	2
Luxembourg	2	3	1	0	6
Netherlands	113	97	17	3	230
Norway	16	50	5	1	72
Portugal	142	124	15	3	284
Spain	539	381	44	6	970
Sweden	46	51	8	1	106
Switzerland	60	40	13	2	115
United Kingdom	1 030	335	72	13	1 450
Total	4 114	3 180	489	76	7 859

By comparing Table A6 with Table A8, it becomes clear that for example the weight of Liechtenstein versus UK is substantially reduced.

All results presented in the Chapters 2 through 11 in this report refer to weighted results as described above.

1.8 Birch growth rates

It is interesting to classify SMEs by growth rates of turnover or employment to see whether enterprise characteristics differ by rate of growth. But how should growth rates across enterprises of different size be compared? Should an enterprise growing from 4 to 5 employees, be classified in the same class as an enterprise growing from 160 to 200? Both are growing¹⁵ at a rate of 25 %, but it seems safe to assume that the larger firm had to overcome more obstacles to reach this growth rate than the smaller firm.

Birch has developed a formula to take such considerations into account¹⁶. In the Birch formula, the standard growth rate is multiplied by a 'correction factor'. The result is that a standard growth rate of 25 % will be valued 'higher' for larger enterprises than for smaller enterprises. The correction factor used by Birch is the absolute difference of the number of workers from year 1 to year 2.

So, if w_{98} = 'number of workers in 1998' and w_{97} = 'number of workers in 1997', the 'Birch rate of growth' is $(w_{98}-w_{97}) * ((w_{98}-w_{97}) / w_{97})$. Table A9 demonstrates the effect of the correction as suggested by Birch for six cases.

Table A9 Calculating Birch growth rates for 6 hypothetical cases

	(1)	(2)	(3)	(4)	(5)
	w97	w98	absolute growth (2 - 1)	standard growth rate (2 - 1) / (1)	Birch growth rate (3*4)
1	1	2	1	100 %	1
2	1	3	2	200 %	4
3	10	20	10	100 %	10
4	10	30	20	200 %	40
5	100	200	100	100 %	100
6	100	300	200	200 %	400

When ranking enterprises by growth rate, the method used matters. If fast-growing enterprises are distinguished on the basis of 'a standard growth rate of more than 150 %', enterprises 2, 4 and 6 will be selected. Using as criterion 'a Birch of 25 or more', enterprises 4, 5 and 6 would be selected. *Conclusion: small enterprises have to show a higher standard growth rate to be included in the group of fast growers as defined by the Birch rate.*

In this report 'Birch growth rates' have also been calculated for turnover growth. The Birch growth rate for turnover is defined slightly differently than the Birch growth rate for employment: the correction factor that is used in the Birch growth rate for turnover is the absolute difference in turnover between two years, *raised to the power 0.25*. This has been done to mitigate the otherwise extremely large effect of the correction factor.

¹⁵ (standard) growth rate = ((employment year 2) - (employment year 1)) / (employment year 1).

¹⁶ The Growth index was introduced in: Birch, David L., Job creation in America, The Free Press, New York, 1987 (Chapter 2: p. 36 and Fig. 2.4).

In Chapter 4 in this report 'Expanding enterprises' are identified, using Birch growth rates for both turnover and employment. An enterprise is classified as an 'Expanding enterprise' if it meets at least one of the following two criteria:

- Birch growth rate for employment ≥ 1
- Birch growth rate for turnover ≥ 1.5 .

For Chapter 11, all SMEs from the ENSR Enterprise Survey 1999 have been classified in five groups, each containing 20 % of the respondents after weighing (quintiles). SMEs that have a (fast-)decreasing or growing sales volume in relation to the average growth of turnover of enterprises in the same country are classified in one group. As a result the classification focuses on enterprises that perform relatively poorly or relatively well within their business environment/national economy.

This has been done to focus on characteristics of individual enterprises and not so much on differences between countries, such as the effect of being in different phases of the business cycle. The classification has been developed as follows:

- Growth of sales has been calculated using Birch growth rates.
- Within each country the median value for the Birch rate has been determined. For each individual enterprise the deviation from this median has been established (this to correct for differences between countries with regard to the business cycle, etc.).
- SMEs are ranked by this deviation from the country-specific median value.
- Finally, the classification has been made by dividing this 'list' in five equal parts.

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- EBC, European Builders Confederation, Paris
- ESBA, European Small Business Alliance of Small and Medium Independent Enterprises
- ETUC, Confédération Européenne des Syndicats
- EUMC, The European Union of Small and Medium-sized Companies
- EUROCHAMBRES, Association of European Chambers of Commerce and Industry
- European Commission, Enterprise Directorate-General (observer)
- EVCA, Europe's Venture Capital Association
- HOTREC, Confederation of National Associations of Hotels, Restaurants, Cafés and Similar Establishments
- ILO, International Labour Organization
- OECD, Organisation for Economic Co-operation and Development, Paris
- SEPLIS, European Secretariat for the Liberal Professions
- SME-Intergroup of the European Parliament
- UEAPME, European Association of Craft, Small and Medium-sized Enterprises
- UNICE, Union of Industrial and Employers' Confederations of Europe
- YES for Europe, European Confederation of Young Entrepreneurs

National organisations

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**The European Observatory for SMEs
Sixth report**

Luxembourg: Office for Official Publications of the European Communities

2000 — 432 pp. — 21 x 29.7 cm

ISBN 92-828-8614-X

Price (excluding VAT) in Luxembourg: EUR 53

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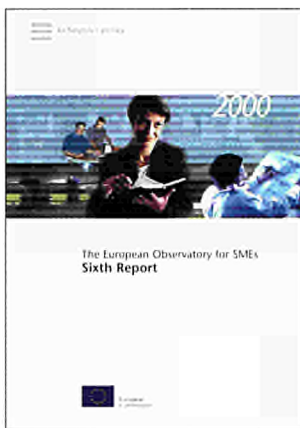
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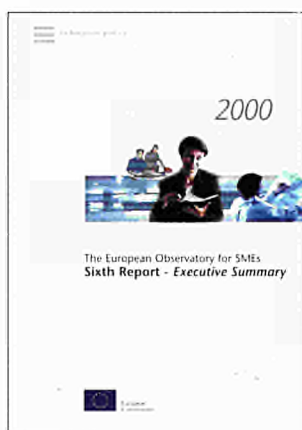
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