

Fifth Annual Report

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THE EUROPEAN OBSERVATORY FOR SMEs

Fifth Annual Report

Report submitted to Directorate-General XXIII (Enterprise Policy, Distributive Trades, Tourism and Co-operatives) of the Commission of the European Communities by:

ENSR - European Network for SME Research

and co-ordinated by:

EIM Small Business Research and Consultancy

October 1997

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ISBN 90-371-0643-9

Order number: S9703

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FOREWORD



by Christos Papoutsis

Member of the European Commission responsible for enterprise policy.

I would like to welcome the Fifth edition of the independent Report of the European Observatory for SMEs, which provides, like its predecessors, an overview of the current situation and perspectives of SMEs in all Member States of the European Economic Area and Switzerland.

Over the years since its establishment in 1992 the European Observatory for SMEs has proved to be a valuable reference tool to assess the performance and behaviour of SMEs in relation to their business environment. Its work is highly appreciated and recognized by economic and scientific circles. Given the extent of uncharted territory remaining in this sector, the need for better knowledge of the specific characteristics of SMEs and craft businesses is strong. The particular usefulness of the European Observatory lies in the systematic examination of the situation of SMEs by improving their statistical coverage and analysing their reaction to the Internal Market.

The Commission is continuing its efforts to encourage a favourable environment for the development of SMEs and to improve their competitiveness in the framework of the Third Multiannual Programme for SMEs. The present Report deals with many topics related to the performance of SMEs and craft trades: the business environment in which they operate, the new developments in enterprise policies, environment and tourism, and the impact of the Single Market Programme. It attaches particular importance to employment and labour conditions in SMEs and investigates why the very modest employment growth that Europe has experienced in the past three decades is falling substantially behind the employment growth rates of the US and Japan. The Report concludes that if there is going to be employment growth, it is likely to come from the smaller enterprises.

Environmental issues are another major discussion topic for policy makers and enterprises. Meeting high environmental requirements is a condition for the long term competitiveness of industry. The Report contains an in-depth thematic study focused on SMEs and environmental management and tries to produce a quantitative and qualitative evaluation of the advances that SMEs have made in coping with environmental problems.

The second in-depth thematic study focuses on tourism. Tourism is a very important economic activity in the European Union, with a clear SME dominance, representing 5.5% of total GDP and 6% of total employment in the EU. The Report analyses the existing rela-

tionship between tourism and the SME sector and assesses the main challenges that SMEs have to face in the next years in order to benefit fully from the new market opportunities.

The publication of this Report comes at a time when the Community and Member States, are increasing their efforts to implement an integrated and coherent employment strategy. In this context special attention will be given to initiatives concerning the job creating potential of SMEs, the backbone of our labour market. Better knowledge of SMEs, of their needs, their entrepreneurial potential, their response to internationalisation and the challenges of a competitive environment, is essential for the implementation of a comprehensive and effective employment policy.

EXECUTIVE SUMMARY

Introduction

This is the executive summary of the Fifth Annual Report of The European Observatory for SMEs. The project was established in 1992 by the Directorate-General XXIII (Enterprise Policy, Distributive Trades, Tourism and Co-operatives) of the Commission of the European Communities. The aim of the project is to prepare *an independent annual report* which provides a structured overview of European SMEs and the craft trades, in both quantitative and qualitative terms.

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

Part I Performance of SMEs and Craft Enterprises

Enterprise structure and key indicators at the European level in 1996

In 1996, the *number of enterprises* in the non-primary private sector grew to over 19 million. *Employment*, on the other hand, declined to 110 million persons. The vast majority of enterprises can be classified as SMEs. Even if all large enterprises are included, a European enterprise, provides on average employment for 6 workers only.

Table 1 Main indicators of non-primary private enterprise, Europe-19, 1996*

		SME					
		Very small	Small	Medium-sized	Total	LSE	Total
Number of enterprises (1,000)	EU	17,285	1,105	165	18,555	35	18,590
	Non-EU	410	45	10	460	1	460
	Total	17,695	1,150	170	19,015	40	19,050
Employment (1,000)	EU	37,000	21,110	15,070	73,180	38,220	111,410
	Non-EU	960	800	750	2,510	1,160	3,670
	Total	37,960	21,920	15,820	75,700	39,380	115,080
Average enterprise size	EU	2	20	90	4	1,035	6
	Non-EU	2	20	95	5	820	8
	Total	2	20	90	4	1,030	6
Turnover per enterprise (ECU mln.)	EU	0.2	3.0	16.0	0.5	175.0	0.8
	Non-EU	0.3	3.0	15.0	0.8	130.0	1.2
	Total	0.2	3.0	16.0	0.5	170.0	0.8
Value added per occupied person (ECU 1,000)	EU	30	40	50	35	55	40
	Non-EU	45	40	45	45	75	55
	Total	30	40	50	35	55	40
Share of labour costs in value added (%)	EU	38	63	60	52	53	53
	Non-EU	43	69	67	58	61	59
	Total	38	64	61	53	53	53

* Due to rounding, one can not derive average enterprise size from the data on employment and the number of enterprises.

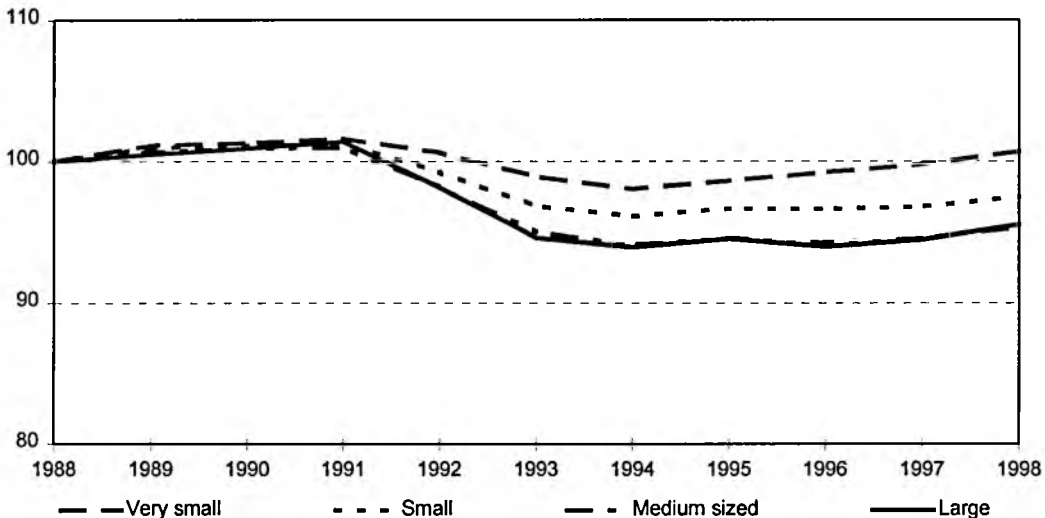
Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

The average European enterprise has a *turnover* of ECU 800,000. *Labour productivity* increases with enterprise size, varying between ECU 30,000 in very small enterprises and ECU 55,000 in large enterprises. *Profitability* is highest in LSEs and lowest in very small enterprises. These patterns are reflected in many countries as well as across various industrial sectors.

Trends regarding key indicators, 1988-1998

Figure 1 shows employment development, in non-primary private enterprises, over the 1988-1998 period. During the 1990-1993 recession, the decline in employment was greater in medium-sized and large enterprises. Post-recessionary recovery affected all enterprises in similar ways.

Figure 1 Employment by size-class, Europe-19 (index 1988= 100)



It can be concluded that employment in LSEs is more vulnerable to business cycle fluctuations than employment in SMEs. During recessionary periods, SMEs are able to mitigate the job losses in LSEs, while during recovery employment growth is concentrated in large enterprises.

Table 2 shows that, in general, labour productivity grows faster in LSEs than in SMEs; thus, productivity differentials between SMEs and LSEs tend to widen. Total labour productivity has grown at a constant rate throughout the 1988-1998 period. However, during the 1990-1993 recessionary period, productivity growth in LSEs was larger than in other periods. During the same period, and in order to retain overall competitiveness, large firms cut labour costs by shedding jobs. In the case of SMEs, productivity growth was lower during 1990-1993 than in other periods. In very small and small enterprises, a reduction in growth cannot easily be absorbed by shedding labour. It must instead be absorbed through a complex process of entry and exit, where new enterprises, which are better suited to the new market situations, replace stagnant and/or declining enterprises. Since this process is much more complicated, it takes longer for the small enterprise sector to adapt to the business cycle. This also explains why, after 1993, productivity accelerated in SMEs. This was mainly due to a lagged response to the prevailing recessionary circumstances of the 1990-1993 period.

As compared with LSEs, unit labour costs developed less favourably in SMEs. This was particularly true during the 1990-1993 recession, when unit labour costs differences between SMEs and LSEs amounted to 1.4%. In recent years, unit labour costs grew faster in SMEs than in LSEs.

Regarding profitability, however, the difference between SMEs and LSEs was negligible. Between 1988 and 1998, average profitability only increased by 0.4% per annum.

Table 2 Labour productivity, unit labour costs and profitability in non-primary private enterprise, Europe-19, 1988-1998

	1988-1990	1990-1993	1993-1998	1988-1998
Average annual change in %				
Labour productivity*				
• SMEs	2.1	2.0	2.1	2.1
• LSEs	2.4	3.2	2.6	2.8
• Total	2.2	2.4	2.3	2.4
Unit labour costs**				
• SMEs	3.6	3.9	1.2	2.5
• LSEs	3.5	2.5	0.6	1.7
• Total	3.6	3.4	1.0	2.2
Average annual change in %-points				
Profitability***				
• SMEs	0.2	0.2	0.6	0.4
• LSEs	0.1	0.3	0.6	0.4
• Total	0.2	0.3	0.6	0.4

* Real value added per occupied 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 XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

Craft trade trends in Europe

In Chapter 2, developments in the *number of craft enterprises and their employment* is analysed across 8 countries (Austria, Germany, France, Iceland, Italy, Luxembourg, the Netherlands and Spain). The data shows that the number of enterprises in 1995 as compared to 1991 has increased in almost all these countries (with the exception of France and Switzerland). The reported growth included a relatively high number of newly created craft enterprises. Conversely, however, the average size of craft enterprises decreased in most of the European countries. Craft employment develops unevenly across Europe: from 1991 to 1995 in Austria, Liechtenstein and Luxembourg, craft-related employment increased; in other countries, over the same period, craft employment declined.

Part II The business environment and behaviour of SMEs

Success factors relating to craft trades

For craft trades, both strategic market positioning and business strategy account for the most important determinants of success. Thus, market leaders and other enterprises which introduce new product market combinations exhibit a higher than average rate of employment growth. In contrast, craft-type enterprises in niche market positions tend to experience relatively low levels of performance. As far as business strategy is concerned, craft-type enterprises which focus on high quality and new technology perform relatively better in terms of employment.

The impact of the Single Market on craft trades

In terms of the Single Market, craft-type enterprises benefit from larger selling markets and simplified routes into international collaboration. The most important threat is increased competition. Specific measures, within the framework of the Internal Market project, affect craft-type versus non-craft SMEs in different ways. The introduction of EU-wide standards for products and production processes affected 29% of craft-type enterprises as compared to only 20% of non-craft enterprises.

Around 17% of craft-type enterprises perceived an impact related to the abolishment of customs documentation and delays, and 15% were affected by modifications in VAT procedures. In both cases there were no significant differences between craft and non-craft enterprises.

During the past 5 years, 37% of craft-type enterprises have encountered increased competition and 32% have expanded their international network of contacts. Nevertheless, the degree of internationalisation of craft-type enterprises is lower than that of non-craft enterprises, even if size effects are excluded (4% vs. 8%).

The results of the ENSR Enterprise Survey 1997 were used to analyse the impact of the Single Market upon SME turnover, employment and export growth. It appears that there were no significant effects upon the export and turnover performance of craft enterprises. *Employment growth*, however, was positively affected by the removal of technical barriers and - very small craft-type enterprises excepted - the abolishment of physical barriers. Additionally, increased cross-border co-operation stimulated the employment growth of European craft-type enterprises.

Transnational Co-operation

Most SMEs do not actively search for partners. Mostly, they make use of informal networks to identify a potential transnational partner. Links with known enterprises are the preferred form of transnational co-operation. A good personal relationship between partners plays an important role in securing the stability of transnational co-operation. The strategic market position of an enterprise impacts considerably upon the decision-making process that leads to transnational co-operation. Dissatisfaction with current market shares and the search for new products and markets can lead to increased transnational co-operation. Size of the enterprise, sector of activity and educational

achievement of the entrepreneur were found not to have a significant impact on transnational co-operation.

Transnational co-operation between SMEs is usually aimed at strengthening the competitive position of enterprises by sharing marketing knowledge amongst partners. Conversely, reasons not to co-operate include: no perceived need, inability to increase competitiveness, unwillingness to lose independence and a fear that one party may be judged as inadequate. The main problems SMEs encounter with transnational co-operation include: finding and evaluating a partner, unequal commitment, lack of resources and communication difficulties between partners.

Table 3 summarises differences in the domain of co-operation by enterprise size, sector and country group. Concerning differences by size, only equity participation and franchising show significant differences. Franchise-related co-operation scores the highest in medium-sized enterprises. Regarding differences by sector, construction and transport SMEs are most involved in different co-operation types. Co-operation also ranks highly in the service sector. Finally, some co-operation types differ by country groups.

Table 3 Significant differences in the domains of transnational co-operation by size, sector and country group

Co-operation type	Size	Sector	Country group
Supply/contracting-out	-	Hotel/catering, manufacturing industry, services to enterprises, construction and transport	European Centre and Northern Periphery
Dealership	-	Repair, other services, construction, retail trade, wholesale trade and services to enterprises	Non EU countries
Marketing/distribution	-	Banking/insurance, services to enterprises, transport and construction	Southern Periphery and Ireland
Joint purchasing	-	Wholesale trade, transport and construction	-
Licensing	-	-	-
Association	-	Banking/insurance, other services and retail trade	European Centre
Joint venture	-	Construction, transport and manufacturing industry	-
Joint R&D	-	Hotel/catering, construction and manufacturing industry	Northern Periphery
Equity participation	Large	-	-
Franchising	Medium-sized	Transport and services to enterprises	Southern Periphery and Ireland
European Economic Interest Grouping	-	-	-

Source: ENSR Enterprise Survey 1997.

External advice

Three main factors which affect the use of external advice can be discerned: enterprise-related factors (i.e. size of the enterprise, sector, age, degree of internationalisation, attitude towards the Internal Market), entrepreneur-related factors (i.e. his/her education, atti-

tudes) and, life cycle-related factors. External advice can be tentatively classified into three main groups, according to the life cycle of an enterprise:

- external advice related to the start-up phase;
- advice connected to growth and change;
- external advice linked to crisis.

In various phases of the business life cycle, the type of advice and the reasons for usage differ accordingly.

The effects of these factors are presented in Table 4.

Table 4 Profile of entrepreneurs and enterprises using external advice

Enterprise-related factors	Entrepreneur-related factors	Life-cycle phase-related factors
<ul style="list-style-type: none"> – <i>Size of the enterprise</i>: less use of external advice the smaller the enterprise is. Additionally, small enterprises mainly use advice related to finance, whereas large enterprise request advice on a wider scope of fields. – <i>Sector</i>: manufacturing enterprises make more use of external advice than their tertiary counterparts. – <i>Age of the enterprise</i>: With the exception of start-ups, external advice is more in demand in mature enterprises. – <i>Internationalisation</i> and international orientation of an enterprise increases the use of external advice – Enterprises 'challenged' by the <i>Internal Market</i> use more external advice than those not 'challenged'. 	<ul style="list-style-type: none"> – Highly <i>educated, growth-oriented</i> and <i>opportunistic</i> entrepreneurs use more external advice. 	<ul style="list-style-type: none"> – Start-up phase: search for advice relates to the development and screening of business ideas or to help over administrative problems. – Growth phase: active users of various external advice – Mature phase: selective users of external advice.

Source: ENSR Enterprise Survey 1997.

The main barriers that hamper the use of external advice by SMEs can be classified as follows:

- Barriers related to resources;
- Barriers related to content;
- Barriers related to availability of information;
- Barriers related to implementation.

The ENSR Enterprise Survey 1997 provides some insight into the importance of such barriers. The main barriers affecting the use of external advice by SMEs are resource-related (high cost of external advice, 40% of respondents), content-related (advice is not geared towards needs, 26% of respondents; nature of advice too general, 22% of respondents) and information-related (insufficient information on external advice, 17% of respondents). Interestingly, the ENSR Enterprise Survey 1997 shows that information-related barriers are more frequently quoted by very small and small enterprises and by enterprises in services, whereas manufacturing enterprises seem to be more affected by content-related barriers.

Economic Growth, Employment and the Role of SMEs

In Chapter 5, economic and employment growth in the European Union (EU), the United States (US) and Japan are studied. The employment rate, i.e. the share of employed persons in working-age population, is around 60% in the EU and above 70% in the US and Japan. The unemployment rate in the EU is around 10.8%, as compared to 5.4% in the US and 2.9% in Japan. The relative stagnation of employment since 1970 in the EU as opposed to employment growth in the US could, at least partially, be explained by the fact that real wages increased significantly in the EU while in the US it only increased slightly. The diverging growth of real wages is partially due to differences in labour market institutions and related policies.

SMEs are more labour intensive than large enterprises: in order to produce value of output, SMEs use more labour as input. The relationship between output and employment is remarkably stable for different countries, sectors and size classes. An increase of 1% in output, all other factors being constant, generates (in the long-run) an increase in employment of roughly 0.8%.

In most Western countries, the share of employment in SMEs has risen during the past two decades. This was mainly due to the restructuring and downsizing of large enterprises and the entry of new firms. SMEs create relatively more jobs than large enterprises, but also destroy more jobs. The net rate of employment growth is almost the same for enterprises of different size. Only in the case of very small enterprises, employment tends to grow faster than in larger enterprises.

Employment may be increased directly through labour market policies, such as wage moderation, reduction of payroll taxes and training programs for the unemployed. It may be increased indirectly, through stimulating competition, innovation and human resource management.

New enterprises play an important role in the creation of jobs. In the EU, about one million new enterprises are started each year. Employment growth in existing firms appears to roughly compensate for the employment loss caused by the exit of enterprises. The role of entrepreneurship in the creation of employment can be strengthened, among other things, by reducing the requirements for establishing a new enterprise, by lowering administrative burdens and by creating financial facilities.

SMEs in less favoured rural areas

Chapter 6 examines the specific difficulties which face SMEs in 'less favoured regions', i.e., peripheral regions in Europe that combine a weak economic position and a strong predominance of agricultural activities.

In some countries (e.g. Denmark and Ireland) the most important difficulties faced by SMEs are of a national nature, rather than specific to their location in a less favoured rural area. However, less favoured rural economies in general exhibit specific features that affect enterprises in different ways. Problems vary between the regions studied in this report, in accordance with specific regional characteristics.

SMEs in most of the study regions face special problems caused by a lack of *infrastructure* as well as remoteness from their main markets.

Poor access to *external information* on subsidies and/or supporting programmes and a lack of contact with R&D institutions/service firms constitutes a special problem faced by SMEs in some less favoured rural areas, in particular to those located in the Southern peripheries of Europe. These problems are accentuated by isolation from major urban centres and lack of educated and trained employees.

Restricted local *industrial environments* pose problems for the development of SMEs in several study regions, although different aspects of the environment should be distinguished. Generally, traditions of entrepreneurship and work ethic vary considerably from one place to another. In some regions, self employment and entrepreneurship are values recognised and encouraged by society. Thus, some less favoured rural areas belong to the most dynamic areas within countries and are more successful in generating new jobs than the national averages.

Problems associated with recruiting *qualified workers* and/or executives represent an important difficulty for SMEs in seven of the studied regions. Generally, residents of less favoured rural regions tend to have considerably lower educational levels than individuals living in urbanised regions.

To summarise, SMEs in less favoured rural areas face a range of specific difficulties. SMEs in rural locations, however, benefit from some advantages also. These may include: comparatively low workforce turnover rates, lower payroll and premises costs, more space for expansion and attractive living conditions for owners and other staff.

In relation to less favoured rural areas, two main policy strategies are suggested: the improvement of the infrastructure (transport and communication networks) and the enhancement of the local industrial environment. The second strategy includes not only financial assistance to SMEs and start-ups, but also increasing 'soft' investments in these regions. 'Soft' investments include the upgrading of local skills (through training and advice to entrepreneurs), the promotion of inter-firm co-operation and the enhancement of the technological capabilities of SMEs. In this sense, the limited industrial support structure that exists in most less favoured rural areas require the establishment of broker organisations to bring SMEs into contact with relevant institutions in other regions. A 'localisation approach' could present an endogenous development strategy for less favoured rural areas, where the vision is to create dynamic, learning industrial environments consisting of networking enterprises and local institutions. Such policy strategies would be in line with the main trends of regional policy within the EU.

Failures and bankruptcies

The Fourth Annual Report of the European Observatory for SME showed that the economic meaning of the term 'exit' is far from harmonised across the countries of Europe. As described in Chapter 7 of this report, the same holds for 'closure'. Despite these caveats, some statistical findings can be stated:

- 'Liquidations' represent only 15% to 20% of closures;
- The closure rate varies greatly across countries ranging from 13% in Germany to 1% in Portugal, Spain and Luxembourg. This 'finding' is artificial to a considerable extent: the broader the definition of 'closure' the greater the proportion of closures to the total enterprise population;
- High closure rates go along with high birth rates, mainly because national definitions are usually either rather broad or rather narrow.

Table 5 Insolvencies or liquidations by size class, 1993

	size class: number of employees					Unknown	Total
	0/1 to 9	10 to 49	50 to 99	>100	>200		
<i>Belgium</i> , insolvencies	5,637	431	43	24			6,135
% insolvencies in size class	92	7	1	0			100%
% enterprises in size class	96	3					
<i>Finland</i> , liquidations	5,738*	754	43	32			6,567
% insolvencies in size class	87	12	1	1			100%
% enterprises in size class	94	5					
<i>Italy</i> , insolvencies (1994)	13,352**	2,344	232***		88		16,016
% insolvencies in size class	83	15	2		1		100%
% enterprises in size class	94	5					
<i>Netherlands</i> , insolvencies	3,590	806	39			918	5,353
% insolvencies in size class	81	18	1				100%=4,435
% enterprises in size class	91	8					
<i>Sweden</i> , liquidations	17,457	1,137	89	41			18,724
% liquidations in size class	93	6	0	0			100%
% enterprises in size class	91	8					

* Finland: size class is 1 to 9 employees, self employed are excepted from liquidation statistics.

** Italy: size class is 1 to 9 employees, self employed are excepted from insolvency statistics.

*** Italy: size class is 50 to 199 employees.

Sources: Insolvency: Belgium: Graydon Belgium; Italy: Istat and Cerved Data; Netherlands: Centraal Bureau voor de Statistiek

Liquidation: Finland: Small Business Database/Small Business Institute and Federation of Finnish Enterprises; Sweden: Statistics Sweden.

Data on enterprises estimates by EIM Small Business Research and Consultancy, adapted from Eurostat (DG XXII). Enterprises in Europe, Fifth Report. Brussels/Luxembourg (forthcoming).

As shown in Table 5, very small enterprises represent the bulk of insolvency or liquidation. This does not mean, however, that very small enterprises are more likely to fail than those in other size classes. On the contrary, Table 5 also shows that the proportion of very small enterprises among insolvent and liquidated enterprises is consistently lower than their share in total enterprise population. Very small enterprises seem to be more resistant to insolvency than small enterprises.

The following populations may be considered particularly vulnerable:

- *Young enterprises.* Across the board, more than 50% of failed enterprises have been trading for less than 10 years whereas their surviving contemporaries probably account for less than 20% of the total number of active enterprises.
- *Enterprises in sectors and regions exposed to structural change.* Enterprises in sectors or industries under structural pressure are more exposed to a risk of failure than their counterparts in the rest of the economy.

Four groups of factors causing failures can be distinguished:

- **External factors:** These encompass changes in market or industry structure, inadequate product or production capacity and regulatory changes;
- **Financial problems** linked to an inability to absorb external shocks due to an inadequate capital base;
- **Bad management;**
- **Other factors.** These include legal and financial consequences of failure to the owner, bad luck, fraud, negligence on the part of agents involved with the enterprise and personal problems with key personnel.

Health and Safety conditions in SMEs

Over the last 30 years, the stated objectives of the European Commission's policy in the field of labour conditions and health and safety at work has been to continuously improve the overall work environment and to considerably reduce both accidents and occupational diseases. Despite substantial progress made over this period, the aggregate statistics on 'casualties' remain high, with about 6,000 fatalities occurring each year as a result of work accidents. A further 10 million workers incur injuries or suffer from occupational diseases.

Recorded accident and disease rates do not always have a systematic relation to enterprise size. In some countries (e.g. Sweden and Austria) both tend to rise with enterprise size, suggesting that 'small is beautiful'. In other countries (e.g. France, Italy and Spain) accident rates are declining with size. Apart from size, sector, gender, age and employment, the nature and length of employment contract also need to be taken into account when interpreting disease and accident rates.

In Chapter 8, a study of the EC Framework Directive, implemented in 1989 is included. The purpose of the Risk Assessment was to identify and counteract health and safety risks at work. The ENSR Enterprise Survey 1997 indicates that between one quarter and one third of enterprises have done a risk assessment. However, in those enterprises that have not, the failure to do so was not through lack of information, which was regarded as adequate. Large enterprises are three times as likely to have undertaken a risk assessment than very small enterprises. They are also more likely to have viewed the information required as adequate. The most important reasons for not doing an assessment was the misperception that the Directive was 'not applicable' to the enterprise or they felt that they were 'not obliged' to undertake an assessment. Less than 10% claimed that cost was the reason for not complying.

Part III Enterprise policies affecting SMEs and craft enterprises

New developments in national SME Policy

Table 6 provides an overview of actual/planned new developments in enterprise policies by fields and countries for the July 1996 to April 1997 period. New measures or schemes should be viewed as extensions to existing SME policy frameworks. In some countries, such as *Liechtenstein, Switzerland, Iceland* and to a certain degree *the United Kingdom*, SME-related policies can be viewed as components of general economic policy rather than selective or focused policy-making. In other countries, such as *Belgium* or *Germany*, the federal structure empowers regional authorities to pursue selective policies in favour of SMEs. Due to the complexity and diversity of regional SME policies, the new developments presented below are restricted mainly to national and federal policies.

Table 6 Implemented and planned national actions by fields and countries, 1996-1997

Country	Business environment	Financial environment		Internationalisation & Information		Labour, training & Innovation	
	Administrative Burdens	Late payment	Finance	Internationalisation	Information	Labour	Innovation
	AT	X		X	X		X
B	X		X	X		X	
D	X		X	X	X		X
DK	X		X	X	X	X	X
FIN	X		X	X	X	X	X
F	X	X	X	X	X	X	X
GR			X	X	X	X	X
IS			X	X		X	
IRL	X	X	X	X	X	X	X
I	X	X	X	X	X	X	X
FL	Only general economic policies; no direct support measures for SMEs						
L	X		X	X		X	X
NL	X		X	X	X		X
N			X		X	X	X
P	X		X	X	X	X	X
E	X		X	X	X	X	X
S	X			X	X	X	X
CH	X		X	X		X	X
UK	X	X			X	X	X

Source: ENSR, 1997. Note: X indicates implemented or planned action.

Business Environment

New developments in policy geared towards improving the business environment mainly aim to simplify administrative procedures. These developments include the modification, reduction or abolishment of existing business-related administrative procedures (statutory audits, accountancy and statistical requirements), the merger of outlets and the concentration of contacts in one address (i.e. 'one-stop shops') and several reforms/modifications of the tax system (i.e., tax rate reductions favouring SMEs or simplification of related tax reporting).

Financial Environment: Late payment and finance for start-ups

Only a few countries have taken measures to correct problems related to late payment, an issue that affects SMEs in particular. Actions include late payment by public authorities, interest charges on outstanding amounts, and accelerated legal action for fast-track debt recovery. As far as finance for start-ups is concerned, a number of countries have widened their portfolio of support, mainly through new credit lines, subsidised loans and related allowances and reductions in social security contributions.

Other Financial Assistance

Apart from financial start-up support, various other new measures have been implemented to foster financial assistance to SMEs. These are most commonly linked to specific sectors or business activities and therefore are not accessible to all SMEs. New instruments available to SMEs include allowances, grants and loan guarantees. Additionally, considerable effort has been made to improve SMEs' access to risk and venture capital.

Innovation and R&D

New measures geared towards enhancing innovation and R&D in SMEs include various kinds of financial support (i.e. establishment of new lines of risk capital or participation funds), tax allowances and wage subsidies for recruiting staff engaged in R&D personnel (mainly graduates and post-doctoral staff), stimulation of co-operation with research centres, universities and other enterprises, specialised training for innovative entrepreneurs and diffusion of new technologies.

Internationalisation

Practically all countries have implemented several new measures intended to foster the internationalisation of their SMEs mainly via export promotions, paying special attention to several emerging markets in Latin America and Eastern Europe. Actions include financial assistance through guarantees, short-term loans and specific training and consultancy.

Information

Most European governments have implemented policy initiatives intended to ease SME overall access to information. New measures are geared mainly towards centralising information sources through one-stop-shops, either physically, at local level, or via Internet.

Labour

Most of the European countries have implemented additional measures to stimulate job creation in SMEs. Applied instruments were focused on flexibility options in labour market regulations, tax redemption on recruitment, reduced social security contributions (SSC) and training courses for special groups.

Part IV In-depth thematic studies

SMEs in Tourism

Europe is the world leader within the tourist industry, not only in terms of international arrivals and receipts (59% and 51% of the world share, respectively), but also in terms of the share of tourism to third countries. Tourist activities currently account for 5.5% of the total EU GDP, employing around 9 million people (indirect employment is not taken into account) or 6% of total EU employment. Tourism is currently seen as an effective tool for economic development and employment generation, as well as a remarkable factor affecting social and economic cohesion in Europe.

Despite these impressive figures, however, the economic importance of tourism as an industrial sector has not been fully recognised. Moreover, Europe's leading position is being challenged by the emergence of competitors in other parts of the world.

Supply side

From a supply side perspective, the European tourist industry can be characterised as an SME dominated sector: around 99.95% of the existing 1.41 million European HORECA enterprises employ less than 250 employees (see Table 7). Furthermore, up to 94.0% of total enterprises can be characterised as very small (employing less than 10 employees). Interestingly, the Europe-19 SMEs' share in total HORECA employment and turnover amounts to 85.9% and 85.6%, respectively. The SME dominance is corroborated by the enterprise size in this sector: the average HORECA enterprise provides jobs for 5 people, well below the European average for all non-primary sectors. Nevertheless, important differences can be detected amongst different European countries.

Table 7 Main indicators of HORECA enterprises, Europe-19, 1996

		Very small	Small	Medium-sized	Large	Total
Number of enterprises (1,000)	EU	1,291	73	6	1	1,370
	Non-EU	30	5	0	0	36
	Total	1,321	78	6	1	1,405
Employment (1,000)	EU	3,373	1,353	508	877	6,111
	Non-EU	106	91	39	24	260
	Total	3,479	1,444	547	901	6,371
Average enterprise size	EU	3	19	92	1,166	4
	Non-EU	4	18	92	476	7
	Total	3	19	92	1,122	5
Turnover per enterprise (1,000 ECU)	EU	136	982	5,287	62,725	236
	Non-EU	164	940	6,541	27,440	391
	Total	136	979	5,376	60,484	240

Source: Estimations prepared by EIM Small Business Research and Consultancy and based on Eurostat XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg, 1997.

New challenges

European tourist SMEs are currently affected by a whole set of challenges generally labelled as the 'New Age of Tourism'. These includes: new demands related to individual expression and differentiation, an emphasis on value-for-money, higher standards of quality required, technological advances, globalisation of market, deregulation and liberalisation of some tourism sectors (i.e. airlines) and environmental pressures.

In order to respond to these challenges, some of the European tourist SMEs have adopted several new strategies. The most important ones included: differentiation and segmentation of well defined target markets, increased speed and flexibility of reaction to market changes, co-operation and association with other SMEs, integration and co-ordination with other economic agents engaged (directly or indirectly) in Tourism, adaptation and increased use of new technology and an emphasis on human resources development.

Barriers and disadvantages

European tourist SMEs suffer from several internal barriers and disadvantages vis-à-vis large enterprises (i.e. commercialisation, promotion, introduction of new technology, access to capital, inter-firm co-operation, management, etc.). These problems are mainly a consequence of the small size of most tourist SMEs and manifest themselves primarily in terms of lower productivity and profitability levels (as compared to larger counterparts).

SMEs and the Environment

Generally speaking, a strategy of sustainable development requires an integration of environmental constraints into SME strategies. Examples of this type of integration include energy and raw materials savings, reductions in SME pollution, the use of environmentally-friendly materials and the development of recyclable products. Indeed, environmental issues are increasingly part of the management process in SMEs. Environmental constraints present not only risks (some sectors might be endangered, high costs related to adaptations to new environmental norms and standards) but also opportunities for SMEs (cost reductions derived from savings of intermediate products, opportunities derived from new markets and products, etc.).

Generally speaking, environmental consciousness is dependant on enterprise size. Evidence from several European countries shows that the larger the enterprise, the more it invests in environmental protection and management systems (i.e. the ISO 14001 or EMAS - Eco-Management and Audit Scheme). These results were also confirmed by the ENSR Enterprise Survey 1997 (see Table 8). This survey shows that the share of enterprises which modified their products and processes due to environmental legislation in the 1992-1997 period was particularly relevant in the industrial sector.

Table 8 Percentage of enterprises stating that environmental legislation resulted in modifications of their products or processes in the 5 last years Europe-19 distribution by sector of activity and size-class

	Number of workers				Total
	0-9	10-49	50-249	250+	
Manufacturing & Construction	40.2	47.2	59.4	63.1	43.6
Trades	27.6	41.2	32.0	48.7	30.6
Services	29.4	32.7	22.0	12.2	29.4
Total	31.7	40.4	37.9	38.1	34.3

Source: ENSR Enterprise Survey, 1997.

The activities of SMEs in the environmental field are affected by a number of barriers and incentives. In comparison with their larger counterparts, SMEs show lower awareness and knowledge of environmental issues, lack of availability of qualified personnel, lack of top management involvement, high compliance costs and scarce financial resources. SMEs seem to be 'pushed' by public authorities and regulations, although the incentive role played by other actors, such as competitors, employees, owners/shareholders and customers in particular, has become increasingly important in recent years.

Eco-industry

The Eco-industry is particularly important in Austria, Germany and the Netherlands, whereas Belgium, Ireland, Luxembourg and the Southern Countries are at the bottom of the list. The situation is a reflection of the maturity of domestic environmental markets and the levels of national demand related to environmental policies and regulations. The role that SMEs play in the European eco-industry varies significantly across sectors and countries. Thus, waste and water treatment activities are generally dominated by LSEs whereas the role of SMEs is particularly important in the air pollution control and environmental monitoring sectors as well as other, more general niche markets. LSEs are particularly well represented in France, Germany and the Netherlands, whereas SMEs dominate the eco-industrial sector in Austria, Scandinavian countries, Liechtenstein and Switzerland. Meanwhile, the Southern Mediterranean countries' market structures are dominated by large foreign enterprises. European SMEs active in the eco-industry are subject to important barriers that could considerably affect their future development, amongst which access to finance and information are the most important.

In terms of employment, new environmental or 'green' jobs are currently expected to compensate for the small loses that resulted from environmental constraints in other sectors. Additionally, environmental policies may also have a distinctive impact on employment, in terms of eco-taxes being used to decrease labour charges and boost overall employment.

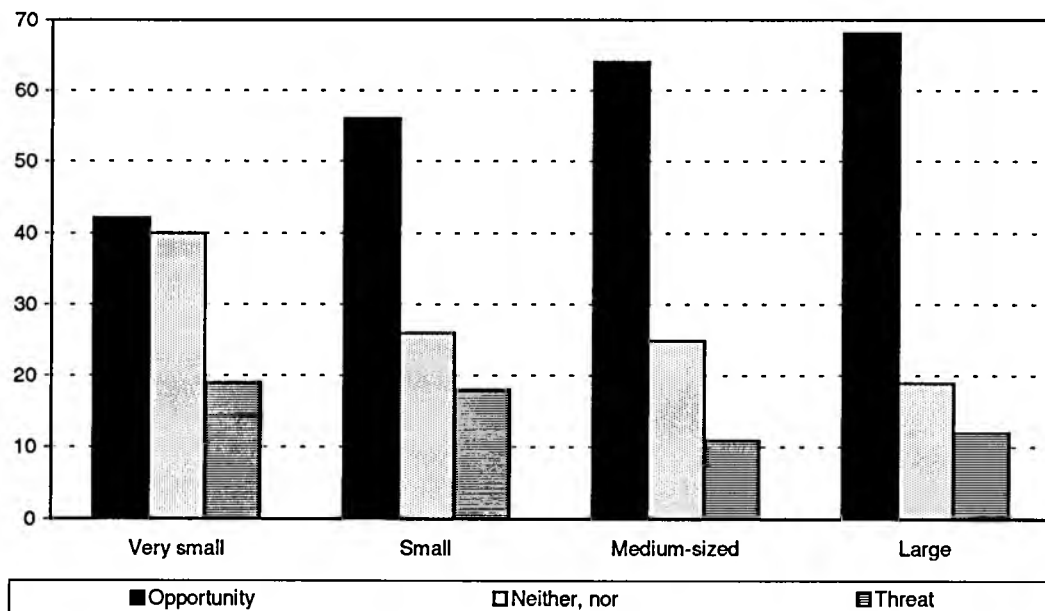
Part V Monitoring in the Internal Market

Opportunities and threats of the Single Market

Enterprises were asked to make a final assessment: do they see the European Single Market on balance as an opportunity or as a threat? On balance, 46% of all respondents regarded the European Single Market as an opportunity and 18% as a threat.

The differences between sectors were substantial. Manufacturing enterprises and those in the service sectors perceived more opportunities than enterprises in the distributive trades. As Figure 2 shows, perception of opportunities from the European Single Market increases with the size of the enterprise. The smaller the enterprise, the more threats were reported.

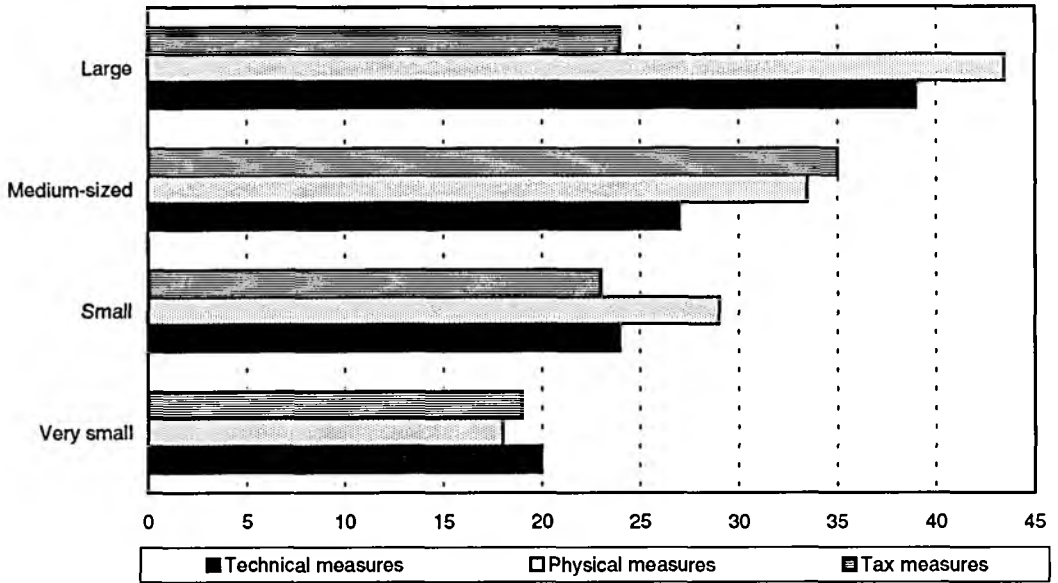
Figure 2 The European Single Market seen, on balance, as an opportunity or a threat, by size class (percentage of enterprises)



Source: ENSR Enterprise Survey 1997.

In the ENSR Enterprise Survey 1997, three specific groups of Single Market measures were evaluated. Figure 3 shows that the impact of the European Single Market programme increases with the size of the enterprise. This is especially the case with regard to technical and physical measures. It is remarkable to see that large enterprises are relatively little affected by fiscal measures.

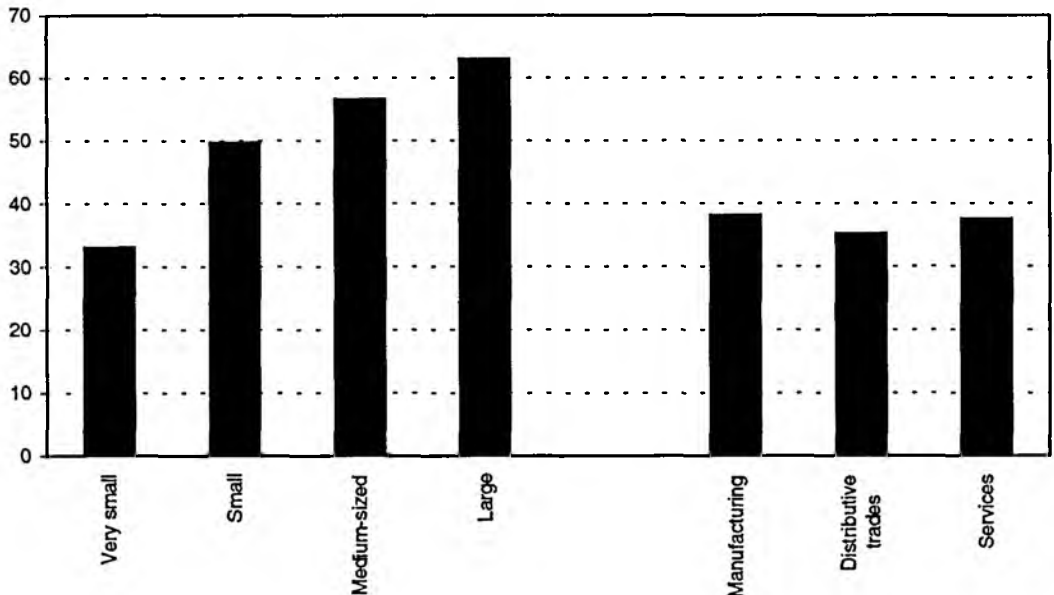
Figure 3 The impact of the European Single Market Programme on enterprises in Europe by size class



Source: ENSR Enterprise Survey 1997.

Figure 4 shows the growth of international business contacts by size class and sector. The larger an enterprise, the higher the increase in international contacts over the last 5 years. This suggests an increasing gap between small and large enterprises. The differences between sectors were moderate.

Figure 4 Increase in international business contacts in last 5 years, by size class and sector (percentage of firms)



Source: ENSR Enterprise Survey 1997.

Enterprises in the survey were classified into four country groups. Enterprises in Spain, Portugal, Greece and Ireland were found to differ from those in other countries in three specific ways:

1. they claimed to be more affected by the Single Market Programme;
2. during the last 5 years, they internationalised to a higher degree;
3. they exhibited higher levels of turnover and employment growth.

These countries had relative low levels of GDP per capita. The survey results appear to support the conclusion that within the framework of the European Single Market Programme, enterprise development in the European Union is contributing significantly to the process of economic convergence.

INTRODUCTION

GENERAL

This is the Fifth Annual Report of the European Observatory for SMEs. The project was established in 1992 by the Directorate-General XXIII (Enterprise Policy, Distributive Trades, Tourism and Co-operatives) of the Commission of the European Communities. A major objective of the Observatory is to provide the Commission with structured information for policy making activities in relation to SMEs, which includes the craft sector.

In 1992 hardly any data existed on SMEs at European level. There was only one publication, a combined initiative by DG XXIII and Eurostat ('Enterprises in the European Community, 1990'). The data presented in the report was not always comparable. As the European Community decided that an SME policy had to be developed at EC level, there was an urgent need to inform policy-makers about the role of SMEs in the process of employment generation and sustainable growth. Observatory reports have played an important role in informing policy-makers at all levels about this role. These days, the crucial importance of SMEs to the economy is widely acknowledged. Thus, DG XXIII's original initiative proved to be a very relevant and timely effort, which yielded considerable dividends in terms of knowledge and expertise derived from and focused upon a previously neglected sector of the economy. Importantly, this initiative was emulated in many countries. Policy-makers from all over the world have demonstrated their interest in this project. For example:

- The summary of the First Annual Report of the European Observatory for SMEs was translated in Russian, for the use of policy-makers in the Russian Federation;
- In several Central and Eastern European countries, the Observatory reports were used as an example of well documented and useful information by policy-makers whose aim was to stimulate the nascent private sector. Under the PHARE Programme of DG I, a feasibility study was conducted to establish whether the existing statistics in ten PHARE countries would allow to set up an SME Observatory for that part of Europe. Several countries are currently involved with 'national' SME Observatories (such as: Estonia, the Slovak Republic, the Czech Republic and Hungary);
- UNIDO's SME Branch in Vienna commissioned a feasibility study to investigate the possibility of setting up an SME Observatory for developing countries;
- In South Africa, the Ntsika Enterprise Promotion Agency (the SME agency of the Department of Trade and Industry) recently published a report on the state of small businesses, based on the concept of the European Observatory;
- The Inter-American Development Bank in Washington intends to evaluate the feasibility of establishing an SME Observatory for MERCOSUR countries;
- Governments in the Netherlands, Spain, Sweden and Finland have published reports on the state of the small business sector in their countries, based upon information provided by the European SME Observatory reports;
- The Japanese Small Business Institute has published, (with the permission of DG XXIII and EIM Small Business Research and Consultancy) the Fourth Annual Report of the European Observatory for SMEs in the Japanese language.

Does this mean that the Observatory project has played its role and may come to an end? On the contrary: both the European Commission and the Member States are convinced that a European SME policy is necessary. Given the high levels of unemployment

throughout Europe, SMEs will undoubtedly continue to play a vital role in stimulating economic recovery and enterprise policy is becoming increasingly important to the creation of new employment opportunities. Each and every policy maker must know the underlying facts and policies should be based upon independent data and figures, as well as upon proper insights into structures, processes and relations, all based, where possible, upon independent and scientific research. It is imperative that policy-makers responsible for SME-related or industrial policies in general, should be provided with an ongoing flow of independent and reliable information about SMEs, both at European and Member State level. Even the decision whether a policy instrument should be implemented at European Union or at national level should be based on such insights.

The remit of the project remains the same: to prepare *an independent annual report* which provides a structured overview of European SMEs and the craft trades (in quantitative and qualitative terms).

Over the years, the number of countries covered by the report has been expanded. The First (1993) and Second Annual Reports (1994) covered the then 12 Member States of the European Union and the Third Annual Report (1995) covered the 15 Member States and Norway. Both the Fourth Annual Report (1996) and this year's report cover all EU Member States plus Iceland, Liechtenstein and Norway (i.e. all countries of the European Economic Area) as well as Switzerland.

ORGANISATION

This report has been produced by the European Network for SME Research (ENSR) and was co-ordinated by the main contractor, EIM Small Business Research and Consultancy in the Netherlands. The ENSR is a network of leading organisations which specialise in SME research, covering all the Member States of the European Economic Area and Switzerland. Names and details of the partner organisations are listed in Annex II.

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.

As the main contractor, EIM Small Business Research and Consultancy takes full responsibility for the contents of this report, including the chapter on Policy Issues. Member organisations of the Reference Group are not responsible for the contents.

The project co-ordinators had frequent discussions with the European Commission. Mr. Reinhart Schulte-Braucks, Head of Unit at the Directorate-General XXIII, has put a great deal of effort in collecting valuable comments from experts in the Commission (both in the Directorate-General XXIII and in other Directorates-General) both for the chapter outlines and for the draft chapters. Far more than in any previous years, the project and the chapter co-ordinators have been in touch, bilaterally, with various specialists in the Commission. This 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 Mr. Schulte-Braucks. The co-operation with Mrs. Maria Spiliopoulou-Kaparia is also greatly appreciated.

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 I. The Reference Group met twice during the preparation of this report. Representatives of the European Commission (Directorate-General XXIII) attended, as observers, both of the Reference Group meetings. The project co-ordinators are especially grateful to the following members of the Reference Group, who have contributed useful input and comments for the report outline and the draft chapters: UEAPME, EUROPMI, UNICE, Eurochambres, YES for Europe, EUMC, the Economic Commission for Europe of the United Nations, OECD, APCM and the SME Intergroup of the European Parliament. The project co-ordinators would like to thank UEAPMEI, Eurochambres and APCM for their willingness to increase the dissemination of the Observatory Reports amongst their member organisations.

Dr. Harry Matlay and Dr. Robert Cressy from the SME Centre at Warwick University have assisted with the editing of the final English version of the report. This report is also available in French and German. The French partner (APRODI) and the German partner (IfM Bonn) in the ENSR were responsible, respectively, for the French and the German translation of the report. Their help is greatly appreciated.

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 rests 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 of Eurostat has been of great help.

We would also like to thank members of the European Parliament for their positive reaction to the Fourth Annual Report.¹

Similar to last year, the contribution of Switzerland has been financed by the 'Bundesamt für Industrie, Gewerbe and Arbeit'. 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 Network 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,

¹ See: European Parliament, Report about the Fourth Annual Report of the European Observatory for SMEs (1966) (C4-0292/97); Rapporteur José Manuel Torres Couto, 7 July 1997. European parliament, Minutes of the sitting of Thursday 18 September 1997, Part II, Texts adopted by the Parliament. Texts of the speeches of Members of the Parliament in the original languages, 18 September 1997.

ministries, national offices of statistics, universities, research organisations) for their efforts and willingness to co-operate.¹

A major difficulty encountered in fulfilling the objective of the project was the scarcity of up-to-date data/information on the behaviour and performance of SMEs. In order to overcome it, a telephone survey was carried out (the ENSR Enterprise Survey 1997) amongst SMEs in all the countries covered by this report. The data was collected during April and May by the EIM's Computer Assisted Telephone Interviewing (CATI) Department, using native speakers. We would like to thank all the SMEs for their participation in this survey.

Each year, Grant Thornton International publishes a valuable report² based upon a survey amongst enterprises in a large number of European countries. In previous reports, the results of these reports were used in the Observatory project. By the courtesy of Grant Thornton, this year we were able to get access to their database in London. The outcome of our analysis is presented in Chapter 13 'The European SME Scoreboard'. We are very grateful to Mrs. Sue Palmer, Marketing Director of Grant Thornton International, and to Business Strategies, for their willingness to co-operate.

THE CONTENTS OF THE FIFTH ANNUAL REPORT

Part I The Performance of SMEs and Craft Enterprises

Part I contains chapters on the performance of SMEs and craft enterprises

Chapter 1: SMEs in the EEA and Switzerland - an overview

Chapter 2: Position and development of the craft trades

Part II The business environment and behaviour of SMEs

Part II contains chapters on the business environment and behaviour of SMEs and craft enterprises

Chapter 3: Transnational co-operation between SMEs

Chapter 4: The use of external advice by SMEs in the different phases of the life cycle

Chapter 5: Economic growth, employment and the role of SMEs

Chapter 6: Regional development, SMEs in less favoured rural areas

Chapter 7: Failures and bankruptcies

Chapter 8: Health and Safety in SMEs

Part III Enterprise Policies

Chapter 9: Enterprise policies directed at SMEs and Craft

¹ The Austrian member of the ENSR (the Institute of Small Business Research, Vienna) is grateful to the following organisations who co-operated in the project: Department of Small Business Management, University of Vienna; Institute for Tourism and Leisure Studies, Vienna University of Economics and Business Administration; Interdisciplinary Institute of Environmental Economics and Management, University of Economics and Business Administration Vienna; Institute of Marketing, Department of Retailing.

² European Business Surveys

Part IV In-depth Thematic Studies

Just as in previous years, two theme studies have been carried out. One including a sector (tourism) and another involving an aspect (environment).

Chapter 10: SMEs in tourism

Chapter 11: SMEs and the environment

Part V Monitoring

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

Chapter 12: SMEs in the European Single Market

From the very beginning of this project, some users expressed the need for a comprehensive overview of the major data presented in the reports, with a special focus upon time series. The overview, it was suggested, should look like a 'tableau de bord' of European SMEs. Such an overview could only be provided if and when enough quantitative data was available to present the required time series. This year, the data collected is large enough for such an overview to be realised. It is presented as the 'The European SME Scoreboard' in Chapter 13. In order to improve future versions of the Scoreboard, the project co-ordinators would welcome any further suggestion from readers and users of the report.

Chapter 13: The European SME Scoreboard

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 year, the last chapter focuses upon 'competition', a topic which, as a comprehensive framework for SME-oriented policy, is also touched upon - to some degree - in all the other chapters of the Report.

Chapter 14: Policy Issues: a synthesis

Annex I: Members of the Reference Board

Annex II: Names and addresses of the ENSR partners

CONTINUITY IN THE PROJECT

In order to ensure the *continuity* of the project, the five Annual Reports of the European Observatory for SMEs address a set of recurrent themes which are revisited on a yearly basis. At the same time, over the course of the Observatory project, new themes have been included in order to ensure an *innovative* and *contemporary* approach. In Table 1 the major themes of the five Annual Reports are summarised.

Table 1 The themes* of the First, Second, Third and Fourth Annual Reports

	1 st Report	2 nd Report	3 rd Report	4 th Report	5 th Report
Performance SMEs	x	x	x	x	x
Business environment	x	x	x	x	x
Enterprise policies	x	x	x	x	x
Impact Internal Market	x	x	x	x	x
Business dynamics and entrepreneurship	x	x	x	x	x
Labour market and employment	x	x	x	x	x
Capital and finance	x	x	x	x	
Technology and innovation	x	x	x	x	
Policy issues	x	x	x	x	x
Regional aspects	x	x	x		x
Interdependency of large and small enterprises; co-operation of SMEs	x			x	x
Education and training			x		
Infrastructures			x	x	
Legal aspects			x		
Management in SMEs				x	
Transmission of SMEs				x	
Labour conditions			x		x
External information and advice					x
Failures and bankruptcies					x
Exports and internationalisation	•		x	x	x
Craft trades		•	x	x	x
Administrative burdens			•		
Producer services			•		
Women in SMEs				•	
Co-operatives, mutuals and non profit organisations				•	
Tourism					•
Environment					•

• = In-depth thematic study.

* These themes do not always match exactly with chapters in the report.

Note for readers.

Whenever possible, this report made use of data provided by the Eurostat publication 'Enterprises in Europe'. Eurostat data is the only source of harmonised data on enterprises by size-class in the 19 countries included in this report. Where Eurostat data was not fully comparable between countries - especially as a result of gaps in the data - additional estimates were made by EIM Small Business Research and Consultancy. For further details on these estimates, see Appendix 1 to Chapter 1. The use of harmonised data implies, however, that data published in this report may differ from that commonly used by individual countries. Discrepancies may stem from differences in the definition of enterprises, the way they are registered, and the treatment of establishments.

The harmonised approach has the considerable advantage of providing comparable data between countries, but the disadvantage that the reader may not always recognise the data as it applies to their country.

Since Eurostat continuously improves the data collection methodology in the framework of 'Enterprises in Europe', data presented in this report (which uses the Fifth Report of 'Enterprises in Europe') may differ from data presented in the Fourth Annual Report of the European Observatory for SMEs (which uses the Fourth Report of 'Enterprises in Europe'). Differences may be the result of:

- introduction of new basic sources;
- introduction of new (often small-scaled) industries;
- replacement of the NACE-1970 nomenclature by the NACE Rev.1 industrial classification.

This report is based on data available data up to October 28th, 1997.

**PART I THE PERFORMANCE OF SMEs AND CRAFT
ENTERPRISES**

1 SMEs IN THE EEA AND SWITZERLAND - AN OVERVIEW

Co-ordinated by EIM Small Business Research and Consultancy

MAIN POINTS

- In 1996, there were over 19 million enterprises in the EEA and Switzerland, providing employment for more than 110 million people. The vast majority of these were classed as SMEs.
- On average, a European enterprise provides employment for 6 persons (including the owner/manager and family workers). The average enterprise varies considerably in size: between 3-4 occupied persons in Greece, Iceland, Italy and Portugal, and 10 occupied persons or more in Austria, Ireland, Luxembourg, the Netherlands and Switzerland. On a broad sectoral level, the size of extraction and manufacturing SMEs is well above the European average. In the wholesale, transport and communication sectors, producer services and personal services, the size of SMEs is roughly in line with the European average, while in construction and retail distribution the average enterprise size is 4 persons.
- The average European enterprise has a turnover of ECU 800,000.
- Labour productivity increases with enterprise size, varying between ECU 30,000 in very small enterprises and ECU 55,000 in large enterprises. This pattern is reflected in several countries as well as across various industrial sectors. During the last decade, in real terms, the disparity amongst firms in terms of size-related labour productivity has increased.
- The correlation between profitability and enterprise size is positive: profitability is highest in LSEs and lowest in very small enterprises. This pattern is reflected in many countries as well as across various industrial sectors. During the last decade, size-related profitability patterns have remained virtually unchanged. Thus, output prices in SMEs have increased more than in LSEs.
- In general, SMEs sell 10% of total turnover abroad, while for LSEs, exports account for 20% of their turnover. Such differences, however, mainly relate to the manufacturing sector. The propensity to export is greater in SMEs operating in the extraction sector and the wholesale trade than in LSEs in these industries.
- From 1994 onwards, GDP in Europe-19 has been growing at an average annual rate of 2½%, providing a favourable business environment for both SMEs and LSEs. To a large extent this growth was export-led.
- The general reduction in inflation rates and the convergence between countries in Europe-19 have further contributed towards a largely favourable business climate.

continued

continued

- Since 1993, government borrowing has been decreasing. The forecast for 1998 estimates that the EU as a whole will be able to fulfil the EMU-criterion in this respect: government borrowing for EU as a whole should not exceed 2½% of GDP. However, this might not be achievable across all Member States.
- Between 1988 and 1998, real value-added growth and real turnover growth in non-primary private enterprise is expected to be slightly over 2%. However, there is a negative correlation between enterprise size and real value-added growth: it has been highest in LSEs and lowest in very small enterprises. It should be noted, however, that for most individual sales categories, turnover growth in SMEs was larger than that in LSEs. The observed size-related growth pattern is a reflection of the fact that exports represented the fastest growing demand category.
- With regard to employment, the reverse size-related pattern occurred: in very small enterprises, employment remained almost constant, while in the other size-bands - especially in medium-sized and large enterprises - employment decreased. To a large extent, this was the result of moderate growth in the labour productivity of smaller enterprises. The difference between very small and small enterprises on the one hand, and medium-sized and large enterprises on the other has been particularly acute in the 1990-1993 recession, when labour productivity increased sharply in LSEs, and only moderately in smaller enterprises.
- Even though export is not a very important sales category for SMEs, indirectly they are involved in such activities in their role of supplier of intermediate goods and services (the so-called 'intermediate exports'). Thus, policies aimed at the improvement of international competitiveness should also pay attention to non-exporting SMEs.
- The aggregate data used in this chapter suggest (as did the results of the ENSR Enterprise Survey) that European integration has favourably affected exports in SMEs.
- Between 1988 and 1998, the number of enterprises in Europe-19 has grown by over 15%. However, the number of very small enterprises stagnated during the 1990-1993 recession.

1.1 INTRODUCTION

This chapter provides an analysis of the structure and development of non-primary private enterprise in Europe-19, with a strong emphasis on size-class aspects. First, the structure of the non-primary private enterprise sector in 1996 will be presented, focusing on size-class aspects, countries and sectors of industry (Section 1.2). Section 1.3 presents an analysis of developments between 1988 and 1998. In both sections, the analysis starts with the presentation of general patterns at the Europe-19 level followed by country- and sector-specific data.

With regard to size-class differences highlighted in this chapter, it should be noted that there are no standardised or scientifically-based overall definitions of small and medium-sized enterprises (SMEs). In this study - as in previous Annual Reports of the European Observatory for SMEs - SMEs are defined by using the number of employees as the standard criterion. Within the non-primary private enterprise sector - that is, all private enterprises except those in agriculture, hunting, forestry and fishing - SMEs are defined as enterprises employing fewer than 250 employees¹. Within SMEs, the following size-classes are distinguished²:

- very small enterprises, which employ less than 10 employees. Enterprises without any employees, which only provide employment for the self employed, constitute a special category within this size-class;
- small enterprises are those employing between 10 and 49 employees;
- medium-sized enterprises are those which provide jobs between 50 and 249 employees.

Non-primary private enterprises employing 250 or more employees are regarded as large scale enterprises (LSEs).

This chapter focuses on enterprise number and performance. Performance is measured in various ways: employment and (net) job creation, turnover (with special attention to exports), value added and labour productivity, and labour costs and profitability. Profitability is defined in terms of the difference between labour costs and value added, as a percentage of value added³. However, especially in very small enterprises, the self employed make up a significant part of total employment, but the entrepreneurial effort is not taken into account in the wage bill. Therefore, for this type of enterprise the imputed wage of the self employed will be taken into account.

It should also be noted that a data-set is used which is harmonised over countries⁴. Use of common definitions for all countries, however, implies that data for the specific countries presented in this report will in general differ from national data sources according to current definitions. More precise definitions of concepts and variables are presented in Appendix 1 to this chapter.

Finally, the data presented in this chapter is the result of careful adaptation of the data to be published in the Fifth Report of 'Enterprises in Europe' by Eurostat (see Appendix I). Data extracted from the various Reports of 'Enterprises in Europe', however, are not fully

¹ In the 'Recommendation of the Commission' published in the Official Journal of the European Communities (Nr. L 107/6, 1996), SMEs are defined taking into account, next to the number of employees (less than 250):

- turnover (less than ECU 40 million) or balance-sheet total (less than ECU 27 million);
- economic independence.

These latter two aspects, however, can not be taken into account here because of lack of statistical information.

² In the 'Recommendation of the Commission' published in the Official Journal of the European Communities (Nr. L 107/6, 1996), distinguishes these size-bands are distinguished as well.

³ It should be noted that this measure of profitability is only very indirectly related to the concept of return on investment. Such a measure would be very interesting, but requires information on the working capital of enterprises, which unfortunately is not available on a comparable basis throughout all countries. See, however, Chapter 6 of the Second Annual Report for partial information on this subject.

⁴ See, e.g., Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg, to be published, which provides the statistical basis for the analysis in this chapter.

comparable as a result of the introduction of new sources of information. This incomparability is compounded by the introduction of the NACE Rev. 1 nomenclature in the most recent Report of 'Enterprises in Europe'. Therefore, one should not directly compare data presented in this Annual Report with data presented in earlier Annual Reports of the European Observatory for SMEs.

Note for readers.

Whenever possible, this report made use of data provided by the Eurostat publication 'Enterprises in Europe'. Eurostat data is the only source of harmonised data on enterprises by size-class in the 19 countries included in this report. Where Eurostat data was not fully comparable between countries - especially as a result of gaps in the data - additional estimates were made by EIM Small Business Research and Consultancy. For further details on these estimates, see Appendix 1 to Chapter 1. The use of harmonised data implies, however, that data published in this report may differ from that commonly used by individual countries. Discrepancies may stem from differences in the definition of enterprises, the way they are registered, and the treatment of establishments.

The harmonised approach has the considerable advantage of providing comparable data between countries, but the disadvantage that national experts may not always recognise the data as it applies to their country.

Since Eurostat continuously improves the data collection methodology in the framework of 'Enterprises in Europe', data presented in this report (which uses the Fifth Report of 'Enterprises in Europe') may differ from data presented in the Fourth Annual Report of the European Observatory for SMEs (which uses the Fourth Report of 'Enterprises in Europe'). Differences may be the result of:

- introduction of new basic sources;
- introduction of new (often small-scaled) industries;
- replacement of the NACE-1970 nomenclature by the NACE Rev.1 industrial classification.

This report is based on data available data up to October 28th, 1997.

1.2 THE STRUCTURE OF NON-PRIMARY PRIVATE ENTERPRISE IN EUROPE-19, 1996

1.2.1 Size and characteristics at the Europe-19 level

Table 1.1 summarises the available statistical data relating to the non-primary private enterprise sector in Europe-19 in 1996. According to the current data¹, there are over 19 million enterprises in Europe-19, providing employment for more than 110 million people. The vast majority of these enterprises employ less than 250 employees and thus are classed as SMEs. Almost 18 million of these SMEs employ less than 10 employees; among these, about one half have no employees.

¹ Data in Table 1.1 are derived from Eurostat data for 1993/1994 and estimated trends 1994-1996 (see Appendix 1). These trends have been estimated by EIM Small Business Research and Consultancy.

On average, a European enterprise provides employment for 6 occupied persons. Average enterprise size varies between 2 occupied persons, in very small enterprises, and over 1,000 in LSEs. On average, an SME provides jobs for 4 persons. There are considerable differences between various regions in Europe-19. Average enterprise size in EU countries is 6 persons, while in non-EU countries, it is 8 persons (see Table 1.1)¹.

Table 1.1 Main indicators of non-primary private enterprise, Europe-19, 1996*

		SME					
		Very small		Medium-sized		LSE	Total
		Small	Small	sized	Total		
Number of enterprises (1,000)	EU	17,285	1,105	165	18,555	35	18,590
	Non-EU	410	45	10	460	1	460
	Total	17,695	1,150	170	19,015	40	19,050
Employment (1,000)	EU	37,000	21,110	15,070	73,180	38,220	111,410
	Non-EU	960	800	750	2,510	1,160	3,670
	Total	37,960	21,920	15,820	75,700	39,380	115,080
Average enterprise size	EU	2	20	90	4	1,035	6
	Non-EU	2	20	95	5	820	8
	Total	2	20	90	4	1,030	6
Turnover per enterprise (ECU mln.)	EU	0.2	3.0	16.0	0.5	175.0	0.8
	Non-EU	0.3	3.0	15.0	0.8	130.0	1.2
	Total	0.2	3.0	16.0	0.5	170.0	0.8
Value added per occupied person (ECU 1,000)	EU	30	40	50	35	55	40
	Non-EU	45	40	45	45	75	55
	Total	30	40	50	35	55	40
Share of labour costs in value added (%)	EU	38	63	60	52	53	53
	Non-EU	43	69	67	58	61	59
	Total	38	64	61	53	53	53

* Due to rounding, one can not derive average enterprisesize from the data on employment and the number of enterprises.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

An average enterprise has a turnover of ECU 800,000. Since turnover per enterprise can also be used as a measure of enterprise size, considerable differences exist between various size-classes.

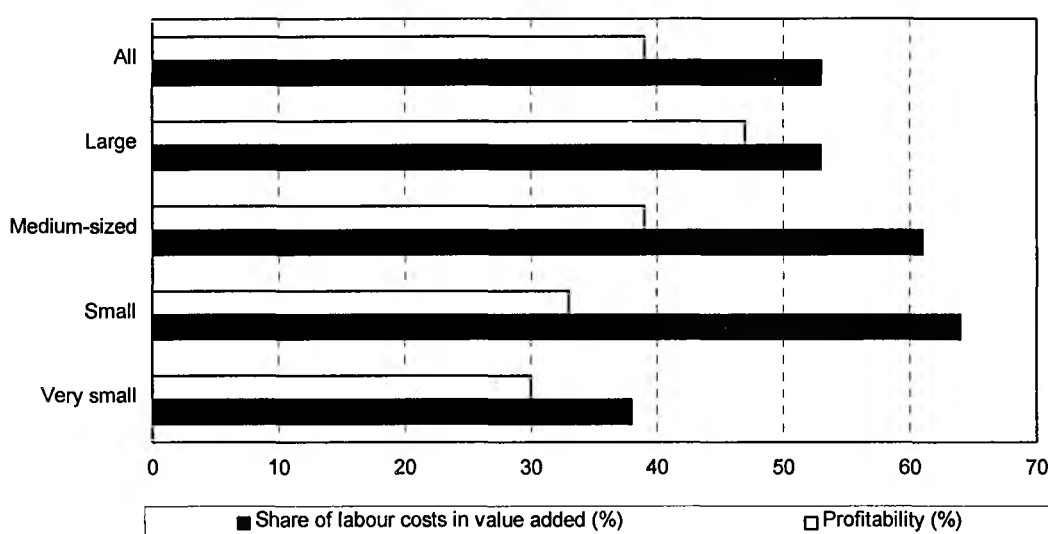
Labour productivity - defined as value added per employed person - increases with enterprise size. Thus, in very small enterprises, value added per employee is ECU 30,000, while in large enterprises, labour productivity is 80% higher at ECU 55,000.

¹ Differences between countries and sectors of industry will be dealt with below.

Within small, medium-sized and large enterprises, there is a negative correlation between enterprise size and the share of labour costs in value added: in small enterprises, this share is 63%, in medium-sized enterprises it is 60%, while in LSEs, labour costs make up only 53% of value added. A similar figure is representative of the total SME sector. This is because in very small enterprises - where a significant part of value added is created by the entrepreneur and his family, who are usually not on the pay-roll - labour costs amount to only 38% of value added. This is much lower than in LSEs. This type of size-related difference can be observed in both EU and non-EU countries.

The share of labour costs in value added is also depicted in Figure 1.1, together with information on profitability. Here, it can be seen that profitability is strongly correlated with enterprise size: it is highest in large enterprises and lowest in very small firms. Similar trends can be observed in relation to labour productivity.

Figure 1.1 Enterprise size, share of labour costs in value added, and profitability, Europe-19, 1996 (%)



1.2.2 Structure by country

Table 1.2 provides information on non-primary private enterprise separately for each country. Considerable size differences can be noted between enterprises in different countries. In Greece, Italy, Portugal, Spain and Iceland the average size of an enterprise is relatively low (3 to 4 occupied persons). Typically, enterprises are larger in Austria, Germany, Ireland, Luxembourg, the Netherlands and Switzerland where the average stands at 10 employees or more.

Another way to characterise countries with regard to the size structure of non-primary private enterprises is by means of 'size-class dominance'. A country is said to be very small, small, medium-sized or large scale dominated if either very small, small and medium-sized (taken together) or large enterprises have the largest share in employment. For example, Europe-19 is LSE dominated because LSEs have an employment share of 35%, while the employment shares of very small, small and medium-sized enterprises amount to 33% and 32%, respectively.

Five countries are very small dominated: Belgium, Greece, Italy, Spain and Liechtenstein. Seven are small and medium-sized dominated: Austria, Denmark, Iceland, Luxembourg, Norway, Portugal and Switzerland. Also the non-EU countries as a whole are to be considered as small and medium-sized dominated¹. The remaining countries (which all belong to the EU) as well as the EU as a whole, are LSE dominated.

Table 1.2 Size-class structure of non-primary private enterprise by country, 1996

	Enterprises (1,000)	Average		Relative labour productivity**		Relative profitability***	
		enterprise size	Size-class dominance*	SME	LSE	SME	LSE
Austria	220	11	SME	83	130	0	0
Belgium	800	5	Very small	82	148	0	0
Denmark	230	7	SME	84	138	-4	5
Finland	205	5	LSE	79	126	-87	69
France	2,085	7	LSE	79	141	-8	8
Germany	3,440	8	LSE	103	95	-7	11
Greece	580	3	Very small	78	181	17	-27
Ireland	80	11	LSE	68	131	1	0
Italy	3,345	4	Very small	79	184	-3	4
Luxembourg	15	12	SME	98	104	2	-4
Netherlands	530	10	LSE	85	124	-3	3
Portugal	690	4	SME	69	217	-23	28
Spain	2,335	5	Very small	66	230	-10	11
Sweden	285	7	LSE	82	126	-5	5
United Kingdom	3,760	5	LSE	87	120	-3	3
EU	18,590	6	LSE	84	130	-6	7
Iceland	25	3	SME	109	69	-14	72
Liechtenstein	3	6	Very small	89	133	0	0
Norway	185	6	SME	79	151	-14	18
Switzerland	245	10	SME	83	135	-2	3
non-EU	460	8	SME	82	139	-7	9
Europe-19	19,050	6	LSE	84	131	-6	7

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

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

*** Difference between value added and labour costs (including imputed wage of self employed) as percentage of value added; result per size-class compared with country average.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

¹ According to national Swiss data, there were 288,000 enterprises in Switzerland, on average providing a job to 10 persons. According to the same data, Switzerland is small and medium-sized dominated. (Source: P. Jeanneret: Die Stellung der KMU in der Schweizer Wirtschaft, in: Die Volkswirtschaft 96/97).

In Europe-19, labour productivity is lower in SMEs than in LSEs. From Table 1.2 it can be concluded that this holds true for most countries. This is particularly relevant to Finland, France, Greece, Ireland, Italy, Norway, Portugal and Spain, where SME labour productivity is 80% or less of these countries' average. In Germany and Luxembourg, labour productivity is quite close to the national average, while in Iceland, SME productivity is significantly greater than in LSEs.

1.2.3 Structure by industry, 1996

Structure of individual industries

Extraction (NACE C, E)

There are 55,000 enterprises in this sector of industry. Average enterprise size amounts to 33, which makes it the largest industry sector distinguished in this chapter. Most sub-sectors within the extraction sector are LSE dominated. The only exception to this is 'other mining and quarrying', which exhibits a relatively low average enterprise size. In the energy sub-sector, SME labour productivity and profitability tend to lag behind that of large enterprises. However, in the extraction of non energy producing materials, SME profitability is almost the same as that of LSEs.

Manufacturing (NACE D)

Manufacturing accounts for well over 2 million enterprises. The average enterprise size is 14. The manufacturing industry is LSE dominated. Of all the sub-sectors distinguished within the manufacturing sector, none has an average enterprise size of less than 6, which is the average for the total non-primary private sector; this could be viewed as indicative of the large scale nature of the manufacturing industry as a whole. Typically, SME labour productivity and profitability appear to lag behind that of LSEs.

It should be noted, however, that there is a lot of diversity within the manufacturing industry. Relatively small-scale industries can co-exist within the following manufacturing sub-sectors: food products and beverages, textile and textile products, leather and leather products, wood and wood products, printing and publishing and recycling. Conversely, manufacturing of tobacco products, pulp and paper, coke, refined petroleum, nuclear fuels, chemical and chemical products, man-made fibres, rubber and plastic products are relatively large-scale industries. Arguably, such differences could be the result of variances in the capital intensity of production.

Construction (NACE F)

There are over 2½ million enterprises in construction. On average, a construction enterprise provides work for 4 persons. Regarding labour productivity and profitability SMEs and LSEs do not differ significantly.

Wholesale trade (NACE 51)

Over 1¼ million enterprises in the wholesale trade provide work for approximately 8 million people. In this industry, the average enterprise size is 6 occupied persons. The industry is SME dominated. Labour productivity and profitability of wholesale made based

SMEs lag behind the industry's average to a similar extent as the total non-primary private enterprise.

Retail distribution (NACE 50, 52)

Within retail distribution, two distinct industries can be distinguished: sale and repair of motor vehicles and motorcycles, and retail trade and repair of consumer goods. In retail distribution, the average size of an enterprise stands at 4, retail distribution and construction emerging as two of the most small-scaled sectors within non-primary private enterprise. On the other hand, however, retail distribution is the largest sector with respect to the number of enterprises (which accounts for almost 4½ million units). Labour productivity and profitability of SMEs is almost equal to that of the industry's average.

Transport and communication (NACE I)

There are 1 million enterprises in this LSE-dominated industry. However, there are considerable differences within the transport and communication NACE-based section. For example, average enterprise size varies roughly between the 5-10 employees in land transport, water transport and support and auxiliary transport activities (which includes travel agents) and 110 individuals employed in air transport. In the post and telecommunication industry the average enterprise size stands at 56 employees.

There are large differences in SME labour productivity in relation to the industry average:

- in water and air transport, SME labour productivity is much higher than in LSEs. It seems that firms providing specialised services are indeed able to generate more value added.
- in the other industries, SME labour productivity is much lower than in LSEs.

Results regarding the relative profitability of SMEs are rather mixed and do not correlate with the data on labour productivity. For example, in air transport, SME labour productivity is higher than in LSEs, but profitability is lower. Probably, personnel costs in SMEs are much higher than in LSEs. On the other hand, the profitability of SMEs in post and telecommunications is higher than that of LSEs, while with respect to productivity, the opposite holds.

Producer services (NACE J, K)

Over 3½ million enterprises in producer services on average provide jobs for 5 people. However, a distinction should be made between financial services and real estate, renting and other business activities.

Within financial services, banking and insurance are large-scale activities. Partly, this is a result of minimum efficient scale, which might be rather great to secure the full reliability of the banking and insurance system. Global competition might also force enterprises to cooperate and amalgamate, which would suggest an increase in enterprise size. Activities auxiliary to banking and insurance, on the other hand, are dominated by very small enterprises.

Table 1.3 Size-class structure by industry, Europe-19, 1996

	Average Enterprises (1,000)	enterprise size	Size-class dominance*	Relative labour productivity of SMEs**	Relative profitability of SMEs***
<i>All enterprises</i>	19,050	6	LSE	84	-6
<i>Extraction (incl. energy)</i>	55	33	LSE	84	-7
• Extraction of energy producing materials	10	43	LSE	137	5
– Mining of coal, lignite, peat	5	62	LSE	148	-1
– Extraction of crude petroleum, natural gas	5	24	LSE	84	5
• Other extraction	25	13	SME	102	3
– Mining of metal ores	1	46	LSE	50	0
– Other mining and quarrying	20	12	SME	101	2
• Electricity, gas and water supply	25	48	LSE	81	-10
– Electricity, gas, steam and hot water	15	64	LSE	97	-6
– Collection, purification and distribution of water	10	29	LSE	85	-31
<i>Manufacturing</i>	2,265	14	LSE	88	-4
• Manuf. of food products, beverages and tobacco	310	13	SME	72	-7
– Manuf. of food products and beverages	310	12	SME	80	-3
– Manuf. of tobacco products	0	161	LSE	32	-10
• Manuf. of textile and textile products	290	10	SME	98	-2
– Manuf. of textiles	115	12	SME	99	0
– Manuf. of wearing apparel	170	8	SME	97	-4
• Manuf. of leather and leather products	50	11	SME	96	-2
• Manuf. of wood and wood products	180	6	SME	98	-2
• Manuf. of paper, paper products; publishing and printing	250	11	SME	90	-5
– Manuf. of pulp, paper and paper products	25	33	LSE	87	-3
– Publishing; printing; reproduction of recorded media	225	8	SME	90	-4
• Manuf. of coke, refined petroleum and nuclear fuel	5	60	LSE	113	5
• Manuf. of chemicals, chemical products, man-made fibres	40	46	LSE	94	-1
• Manuf. of rubber and plastic products	65	20	SME	94	0
• Manuf. of other non-metallic mineral products	100	14	SME	90	-4
• Manuf. of basic metals and fabricated metal products	360	12	SME	93	-3
– Manuf. of basic metals	20	54	LSE	86	-1
– Manuf. of fabricated metal products	340	9	SME	95	-2
• Manuf. of machinery and equipment n.e.c.	150	20	LSE	95	-2
• Manuf. of electrical and optical equipment	185	23	LSE	99	-2
– Manuf. of office machinery and computers	10	24	LSE	78	1
– Manuf. of electrical machinery	65	26	LSE	107	-1
– Manuf. of radio, TV and communication equipment	30	31	LSE	86	-5
– Manuf. of medical, precision and optical instruments	80	18	LSE	108	0
• Manuf. of transport equipment	50	51	LSE	81	-1
– Manuf. of motor vehicles, trailers and semi-trailers	25	69	LSE	74	-3
– Manuf. of other transport equipment	25	32	LSE	96	8

Table 1.3 Size-class structure by industry, Europe-19, 1996 (continued)

	Average			Relative labour	Relative
	Enterprises (1,000)	enterprise size	Size-class dominance*	productivity of SMEs**	profitability of SMEs***
• Manuf. n.e.c.	235	11	LSE	113	1
– Manuf. of furniture; manuf. n.e.c.	230	11	LSE	112	1
– Recycling	10	7	SME	98	-2
<i>Construction</i>	2,555	4	<i>Very small</i>	97	-1
<i>Wholesale trade</i>	1,295	6	<i>SME</i>	89	-5
<i>Retail distribution (incl. car and repair)</i>	4,380	4	<i>Very small</i>	95	-1
• Sale and repair of motor vehicles and motorcycles	720	4	Very small	98	-3
• Retail trade, repair of household goods	3,660	4	Very small	93	1
<i>Transport, communication</i>	995	9	<i>LSE</i>	72	-8
• Land transport; transport via pipelines	785	5	LSE	77	-1
• Water transport	20	10	LSE	117	10
• Air transport	5	114	LSE	128	2
• Supporting/auxiliary transport activities; travel agents	145	11	SME	86	-7
• Post and telecommunication	45	56	LSE	74	4
<i>Producer services</i>	3,580	5	<i>LSE</i>	78	-7
• Financial intermediation	375	14	LSE	93	-6
– Banking, financial leasing	70	49	LSE	117	-10
– Insurance and pension funding	20	55	LSE	157	7
– Activities auxiliary to financial intermediation	290	3	Very small	83	0
• Real estate, renting and business activities	3,205	4	Very small	101	3
– Real estate activities	760	2	Very small	96	-2
– Renting of machinery and equipment	120	4	Very small	102	-3
– Computer and related activities	215	6	SME	84	0
– Research and development	35	20	LSE	226	88
– Other business activities	2,070	5	Very small	98	1
<i>Personal services</i>	3,920	5	<i>Very small</i>	96	-2
• Hotels and restaurants	1,415	5	Very small	97	-2
• Health and social work	1,350	6	Very small	106	-1
• Other community, social and personal services	1,160	4	Very small	87	-3
– Sewage disposal, sanitation and similar services	20	18	SME	94	1
– Activities of membership organisations n.e.c.	3	7	SME	92	-3
– Recreational, cultural and sporting activities	465	4	Very small	80	-1
– Other service activities	675	3	Very small	100	0

* An industry is said to be very small, small and medium-sized, or LSE dominated, if either very small, 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 XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

Real estate, renting and business activities are, in general, small-scale industries. Only research and development¹ should be regarded as a large-scale activity, probably as a result of economies of scale and of scope. SMEs tend to outperform LSEs with respect to labour productivity and profitability.

Consumer services (NACE H, N, O)²

There are almost 4 million enterprises involved in the provision of consumer services. They represent HoReCa as well as community, social and personal services, which are, to a large extent, marketed to private consumers. Most of them are small-scale; only in sewage disposal, sanitation and similar activities, average enterprise size is quite large at 18 occupied persons, probably due to the fact that these activities are capital-intensive, and therefore can benefit from economies of scale.

Propensity to export³

In Figure 1.2, the share of export in total turnover is presented. For total non-primary private enterprises, exports make up 15% of total turnover. For SMEs, this figure equals 10%, while for LSEs, the share of exports stand at 20%. However, there are large differences between industries.

The propensity to export is highest in manufacturing: about one third of total turnover is sold abroad. However, the export share for LSEs is much higher than that of SMEs which are more oriented towards domestic markets.

Next to manufacturing, the propensity to export is high in the following industries: transport, wholesale trade and extraction (between 10% and 20%). In the latter two industries, the export share is higher in SMEs than in LSEs.

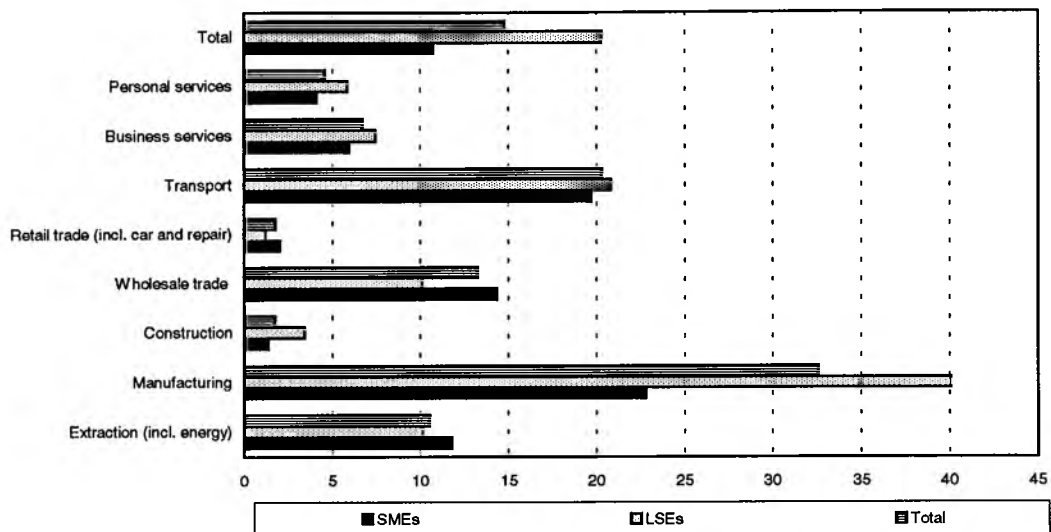
In other industries, exports have a minor share in total turnover (i.e., less than 10%).

¹ This is the first Annual Report in which - as a result of improved statistical methodology in Enterprises in Europe - research and development (NACE-division 73) could be distinguished as a separate industry.

² Due to statistical problems, health and social work (NACE-section N) and other community, social and personal services (Section O) could not be included in earlier Annual Reports of the European Observatory for SMEs.

³ Exports include intra European trade.

Figure 1.2 Share of exports in total turnover, Europe-19 (%), 1996



Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

1.3 DEVELOPMENT OF NON-PRIMARY PRIVATE ENTERPRISE IN EUROPE-19, 1988-1998¹

In this section, a discussion of the main development trends of non-primary private enterprises in Europe (1988 and 1998) is presented. A description of the macro-economic framework within which non-primary private enterprises have developed is also provided. Next, developments within non-primary private enterprises are presented, focusing upon the development of production, employment, labour productivity and profitability by industry, country and size-class. Finally, data on the numerical development of these enterprises is provided.

1.3.1 Macro-economic framework

GDP and demand development

In Table 1.4, a broad picture is presented of macro-economic developments in Europe-19, the USA, Japan, as well as the CEE/FSU². Over the whole of the 1988-1998 period, real GDP growth did not differ much between Europe-19 (2%), USA (2.3%) and Japan (2.4%). A closer look at sub-periods reveals that Europe-19 and the USA showed rather different development patterns:

Europe-19 and the USA enjoyed favourable growth in 1989 and 1990 (USA: 1989 only). The period 1991-1993 should be considered as a recessionary period, with Europe-19

¹ Differences with the Fourth Annual Report arise from the introduction of new statistical information as well as a broader definition of the non-primary private enterprise sector

² Central European Economies and the former Soviet Union; note that for this region, only recently reliable indicators of macro-economic development have become available

recording a fall in real GDP in 1993, and the USA in 1991. Afterwards, the economy recovered, and from 1994 onwards, consistently high GDP growth rates occurred.

In Japan, GDP-growth remained high until 1991 (in fact, during 1989-1990 Japan also showed higher GDP growth than Europe-19 and the USA). Since then, however, growth has been rather modest, and generally speaking, GDP growth in Japan was less than in Europe-19 and the USA.

During the period, export (including intra-trade) has been the fastest growing demand category in Europe-19, showing a real annual growth of almost 6%. For private consumption, an average annual growth rate of almost 2% was recorded, while investment and public consumption were the slowest growing demand categories. Thus, domestic demand - which is relatively important for SMEs - has grown at a much lower rate than exports.

As regards the CEE/FSU, the beginning of the nineties should be regarded as a period of significant economic decline. Attempts have been made (and are still made) to restructure the economy, which resulted, however, in job-losses, high inflation and a fall in GDP. Even in 1994, real GDP-growth was strongly negative at -9.4%. Gradually, since the economic structure of these countries is getting better adapted to the demands of a modern market economy, the negative trend will reverse, and for this year and next, some economic growth is forecast. This might constitute a positive impulse for Europe-19, since economic ties between Europe-19 and the CEE/FSU countries will gradually tighten because of the association and perhaps integration of some of these countries in the EU.

Table 1.4 Real final demand and GDP-growth in the world's main economic regions, 1988-1998

	1989	1990	1991	1992	1993	1994	1995	1996	1997*	1998*	1988/ 1998
percentage change from previous period											
<i>Europe-19</i>											
• Domestic final demand											
– Investment	6.8	3.5	-0.4	-1.1	-11.4	2.6	3.7	1.2	3.0	4.6	1.1
– Private consumption	3.2	2.9	2.3	1.7	-0.3	1.7	1.8	1.9	1.9	2.4	1.9
– Public consumption	1.2	2.5	2.2	1.5	1.1	0.3	0.6	1.2	0.7	0.9	1.2
– Total	3.6	2.8	1.3	0.9	-1.7	2.6	2.1	1.3	2.1	2.6	1.8
• Export	7.6	6.3	4.4	4.0	2.0	9.2	7.4	4.9	6.5	6.7	5.9
• Imports	8.8	6.3	3.9	3.6	-2.6	7.6	6.5	3.7	5.5	6.5	4.9
• GDP	3.5	3.0	1.5	1.0	-0.4	2.9	2.3	1.6	2.4	2.8	2.0
<i>GDP-growth in</i>											
• USA	3.4	1.3	-1.0	2.5	3.4	4.1	2.0	2.4	2.8	2.2	2.3
• Japan	4.8	5.1	3.8	1.1	0.1	0.5	0.9	3.6	1.6	2.5	2.4
• CEE and FSU	n.a.	n.a.	n.a.	n.a.	n.a.	-9.4	-0.9	-1.3	1.8	4.3	-1.2

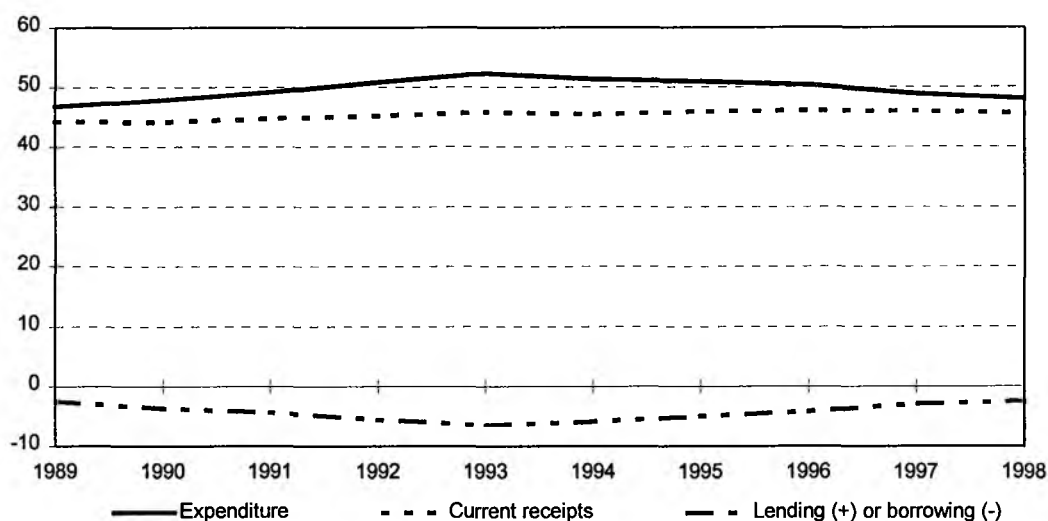
* Forecast.

Sources: European Economy, Supplement A, No. 5, May 1997, and OECD: Economic Outlook No. 61, June 1997.

Fiscal policy

From Figure 1.3, it can be deduced that in the EU, current government receipts have constituted a rather constant proportion of GDP (between 44 and 46% of GDP). On the other hand, government spending increased from 47% of GDP in 1989 to over 52% of GDP in 1993. Since then, it has steadily decreased to a forecast 48% in 1998. As a result, government borrowing increased from 2.5% GDP in 1989 to 6.5% GDP in 1993, and since then, it has decreased to 2.5% of GDP in 1998 (forecast). It can therefore be concluded that during the 1990-1993 recession, government expenditure and borrowing increased, and in the upswing afterwards, government spending and borrowing decreased again. Also, it appears that the decrease in government borrowing between 1993 and 1998 was the result of decreasing government expenditure; as a matter of fact, government receipts decreased as well (though slightly), thus providing an extra stimulus to European enterprises.

Figure 1.3 Government expenditure, current receipts and lending or borrowing, EU



Source: European Economy, Supplement A, No. 5, May 1997.

It also appears that in 1998 the total EU will fulfil the EMU criterion with respect to government lending and borrowing. This may not hold for all individual countries, however. Furthermore, in many countries, government debt is still very high, and for the total EU in 1998 it is forecast to equal over 70% of GDP¹.

Other aspects of the EMU-criteria

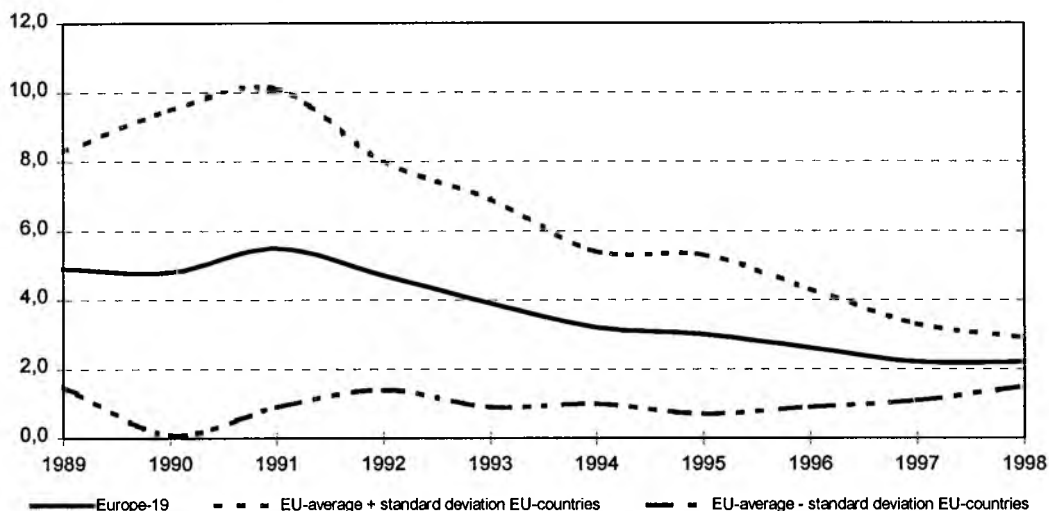
As can be seen from Figure 1.4, inflation in Europe-19 is declining from a 5.5% annual rate in 1991 to slightly over 2% at present. In 1998, inflation in the EU-countries is expected to vary between 1.4% in Finland and 4.8% in Greece. Indeed, it can be seen from Figure 1.4 that not only general inflation decreased, but that differences between EU-countries narrowed. Both of these developments can be regarded as improvements in the business environment in which non-primary private enterprise operates.

¹ European Economy, Supplement A, No. 5, May 1997.

During the last few years, interest rates tended to fall or stay at a relatively low level. Several factors have contributed to this:

- relatively stable exchange rates;
- the fall in US bond rates;
- low inflation rates.

Figure 1.4 Deflator of private consumption (%)



Sources: European Economy, Supplement A, No. 5, May 1997, and OECD: Economic Outlook No. 61, June 1997.

1.3.2 The size-class pattern of macro-economic development in Europe-19¹

Turnover, value added and employment²

Table 1.6 outlines the size-class pattern of value added and employment developments in Europe-19 over the 1988-1998 period. For both SMEs and LSEs, this period can be characterised by high growth in 1988-1990 and 1993-1998, and only moderate growth in-between. This pattern reflects the macro-economic development of the period, as indicated above.

Over the whole period, real value-added growth has been higher in LSEs than in SMEs. On average, real value-added growth amounted to 2¼% in LSEs and to 2% in SMEs. In very small enterprises, the average real value added growth was slightly lower at 1¾%.

Between 1988 and 1993, there were no substantial growth differences between small, medium-sized and large enterprises; in this period, very small enterprises lagged behind with respect to real value-added growth. Since 1993, however, the size-class pattern of

¹ Data presented in this section may differ from corresponding data in the Fourth Annual Report because of:

- the inclusion of new statistical information;
- the inclusion of new insights with respect to the macro-economic environment providing the framework for estimates of recent developments.

² Chapter 5 contains an in-depth discussion of employment issues.

real value-added growth has changed rather drastically: a clear positive correlation between value-added growth and enterprise size has emerged. Between 1993 and 1998, real value-added growth varied between 2.2% in very small enterprises, and 2.8% in LSEs. As the economic recovery that began in 1993 was export-led it may well have contributed to this emerging pattern.

Employment growth over the 1988-1998 period showed a distinct pattern, characterised by a slight decrease in very small and small enterprises and a more significant decline in medium-sized and large enterprises (at an average annual rate of -0.5%). In particular, during the 1990-1993 period, employment decreased considerably in medium-sized and large enterprises^{1, 2}. Between 1988 and 1990, and between 1993 and 1998, there were only small differences between size-classes with respect to employment growth.

Table 1.5 Real value added and employment in non-primary private enterprise by size-class, Europe-19, 1988-1998

	1988-1990	1990-1993	1993-1998	1988-1998
Average annual change in %				
<i>Real value added</i>				
SMEs				
• Very small	2.5	0.4	2.2	1.7
• Small	2.9	0.8	2.3	2.0
• Medium-sized	2.9	1.0	2.5	2.1
• Total	2.7	0.7	2.3	1.9
LSEs	2.9	1.0	2.8	2.3
All enterprises	2.8	0.8	2.6	2.1
<i>Employment</i>				
SMEs				
• Very small	0.6	-0.8	0.4	0.1
• Small	0.6	-1.4	0.1	-0.3
• Medium-sized	0.5	-2.0	0.1	-0.5
• Total	0.6	-1.2	0.2	-0.1
LSEs	0.5	-2.1	0.2	-0.5
All enterprises	0.5	-1.5	0.2	-0.3

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

Table 1.6 shows that turnover growth in SMEs has been higher than in LSEs for most of the domestic demand categories. Only for exports, LSEs (slightly) outperform SMEs in respect to real turnover growth. Higher total turnover growth in LSEs has been the result of their larger overall share of exports and the fast growth of export demand.

¹ As will be argued later in this chapter, this was *not* the result of enterprises crossing size-bands while shedding labour in this recession period.

² Below the size-class pattern of labour productivity, which is to some extent the cause of this size-class pattern of employment growth, will be discussed.

Table 1.6 Real turnover growth in non-primary private enterprise by demand category, Europe-19, 1988-1998

	SMEs				LSEs	Total
	Very small	Small	Medium-sized	Total		
Average annual change in %						
Domestic sales						
• Consumption goods	1.4	1.1	0.7	1.1	0.7	0.9
• Investment goods	1.5	1.4	1.0	1.3	0.6	1.1
• Intermediate goods	2.2	2.3	2.3	2.3	2.4	2.3
• Total	1.7	1.7	1.6	1.7	1.6	1.7
Exports	5.2	5.5	5.7	5.5	5.6	5.5
Total	2.0	2.2	2.2	2.1	2.4	2.2

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

Factors determining growth

In this section, the factors behind the turnover growth of SMEs and LSEs are analysed, using the 'SMEs in Europe Accounting Scheme' (see Table 1.7)¹. Turnover growth largely depends upon macro-economic demand. A distinction is made between foreign demand (exports) and domestic demand (consumption and investment).

Even though SME-related export growth differs only slightly from export growth of LSEs, the direct impact of exports on SME turnover growth is much lower than the impact of exports on LSE turnover growth. This is the result of the relatively small share of exports in total turnover of SMEs (see Section 1.2.3). However, the indirect contribution of exports on turnover growth does not differ much between SMEs and LSEs. Enterprises not only deliver their goods and services to final consumers, but also supply intermediate goods and services to other enterprises. If LSEs increase export sales, SMEs² benefit because of increased demand on intermediate goods and services.

This implies that SMEs, although not intensely involved in export activities, constitute an important element of international competitiveness, due to their share of intermediate exports³. Thus, policy measures aimed at improving international competitiveness should also be directed at SMEs, even though they may not be directly involved in exports.

Domestic demand has developed at a much lower pace, and so has the contribution of domestic demand to turnover growth. This contribution is particularly high in SMEs due to their share of domestic sales.

Increasing internationalisation benefits LSEs in particular as they have the highest propensity to export. This also explains the growth differential between SMEs and LSEs.

¹ See Appendix 1 to this chapter.

² And other LSEs as well, of course.

³ There is direct evidence for the USA that multinational firms in fact do induce more exports by smaller firms (B. Aitken, G.H. Hanson, A.E. Harrison: Spillover, Foreign Investment and Export Behaviour; working paper, Columbia University, 1994).

However, this growth differential is much smaller than one might expect from the data on the sales structure (see Figure 1.2) because exports indirectly affect SME turnover growth.

Table 1.7 Impact of exports and other factors on sales growth, Europe-19, 1988-1998

	SMEs				LSEs	Total
	Very small	Small	Medium-sized	Total		
Compound growth rates in %						
Contribution of exports* to sales growth						
• Direct**	8	9	9	8	15	13
• Indirect	3	6	8	6	5	5
• Total	12	16	18	15	21	18
Impact of domestic final demand on sales growth						
	10	8	6	8	5	7
Impact of other factors on sales growth***						
	-1	-1	-1	-1	0	-1
Total sales growth						
	21	24	24	23	27	25

* Including intra-trade.

** Export growth times share of export in total sales.

*** Calculated as a residual.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

Impact of European integration on the size-class pattern of turnover growth

In Table 1.8, size-class patterns of turnover growth before and after 1992 are presented. In all size-classes, exports grow faster than domestic sales (in real terms). Furthermore, before 1992, exports grew slightly faster than before, while after 1992, domestic sales growth rates were lower. However, this pattern is not characteristic to all size-classes:

- in large enterprises, export growth rates were almost the same before and after 1992, while domestic sales growth rates were lower in the second period;
- in the SME-sector, exports accelerated after 1992, while domestic sales decreased slightly. However, within the SME-sector, significant differences exist between very small and small and medium-sized enterprises:
 - in very small enterprises, the 1992-1998 growth rate of both exports and domestic sales exceeds the 1988-1992 growth rate;
 - in small and medium-sized enterprises, export growth accelerates but domestic sales growth during 1988-1992 is larger than during 1992-1998.

These results might suggest that European integration program has favourably affected SME exports (in particular those of very small enterprises) as compared to their larger counterparts¹.

¹ In Section 11.4.2 of the Fourth Annual Report of the European Observatory for SMEs it is also concluded that the Internal Market program has favourably affected export growth. That conclusion was based of an analysis on the level of individual enterprises (ENSR Enterprise Survey 1996).

Table 1.8 Real export and turnover growth in non-primary private enterprise, Europe-19, 1988-1998

		1988-1992	1992-1998	Difference
Average annual change in %				
SME				
• Very small	Export	4.6	5.5	0.9
	Domestic sales	1.9	1.7	-0.2
	Difference	2.5	3.3	0.9
• Small	Export	5.3	5.6	0.3
	Domestic sales	2.1	1.5	-0.6
	Difference	2.5	3.8	1.2
• Medium-sized	Export	5.6	5.8	0.3
	Domestic sales	1.9	1.4	-0.5
	Difference	2.9	4.1	1.3
• Total	Export	5.3	5.7	0.4
	Domestic sales	2.0	1.5	-0.4
	Difference	2.7	3.7	1.0
LSE	Export	5.6	5.6	0.0
	Domestic sales	1.8	1.5	-0.4
	Difference	3.0	3.8	0.8
Total	Export	5.4	5.6	0.2
	Domestic sales	1.9	1.5	-0.4
	Difference	2.8	3.7	0.9

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

Labour productivity, unit labour costs and profitability

Table 1.9 shows that, in general, labour productivity grows faster in LSEs than in SMEs; thus, in real terms, the productivity differential between SMEs and LSEs tends to widen. Total labour productivity has grown at an almost constant rate throughout the 1988-1998 period. However, during the 1990-1993 period, productivity growth in LSEs was much larger than in the other periods. During the 1990-1993 recessionary period, large firms cut labour costs by shedding labour in order to retain overall competitiveness. During the same period, productivity growth in the SME sector was lower than in other periods. In very small and small enterprises, growth reduction cannot easily be absorbed by shedding labour. Growth reduction must instead be absorbed by an intricate process of enterprise entry and exit, where new enterprises which are better suited to the new market situation, replace stagnant enterprises. Since this process is much more complicated, it takes longer for the small enterprise sector to adapt to the business cycle. This also explains why after 1993, productivity accelerated in SMEs: this is a lagged response to the prevailing circumstances of the 1990-1993 period.

As a result, unit labour costs developed less favourably in SMEs as compared with LSEs. This was particularly true during the 1990-1993 recession, when unit labour costs differ-

ences between SMEs and LSEs amounted to 1.4%. In recent years, unit labour costs grew faster in SMEs than in LSEs, but the difference is less than during 1990-1993.

Regarding profitability, however, the difference between SMEs and LSEs was negligible. Between 1988 and 1998, profitability on average increased by 0.4% per annum which implies that size-class differences with respect to profitability (see Section 1.2.1) have not changed during the last decenium.

Table 1.9 Labour productivity, unit labour costs and profitability in non-primary private enterprise, Europe-19, 1988-1998

	1988-1990	1990-1993	1993-1998	1988-1998
Average annual change in %				
Labour productivity*				
• SMEs	2.1	2.0	2.1	2.1
• LSEs	2.4	3.2	2.6	2.8
• Total	2.2	2.4	2.3	2.4
Unit labour costs**				
• SMEs	3.6	3.9	1.2	2.5
• LSEs	3.5	2.5	0.6	1.7
• Total	3.6	3.4	1.0	2.2
Average annual change in %-points				
Profitability***				
• SMEs	0.2	0.2	0.6	0.4
• LSEs	0.1	0.3	0.6	0.4
• Total	0.2	0.3	0.6	0.4

* Real value added per occupied 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 XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

1.3.3 Job creation¹

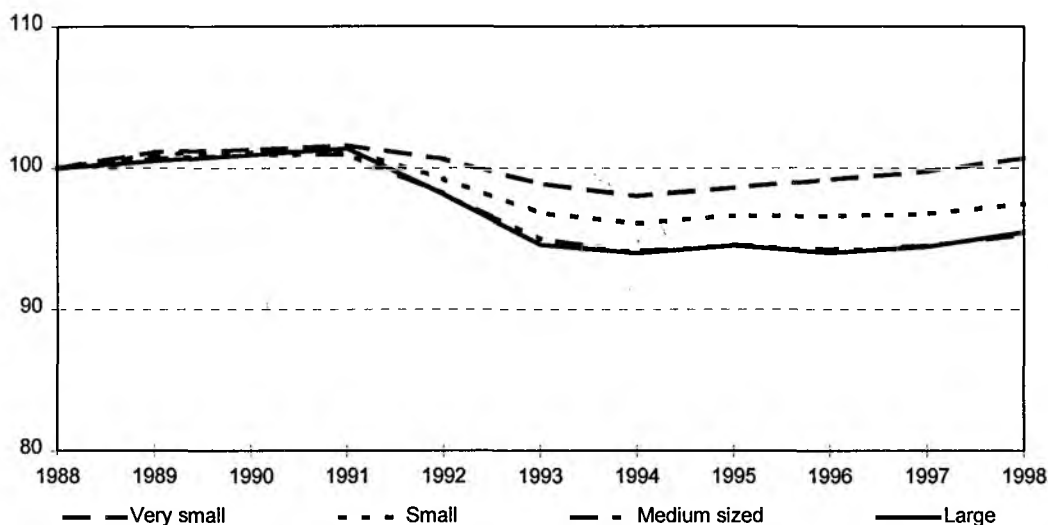
In Figure 1.5, Europe-19 employment trends by size-class are depicted. During the 1990-1993 recession, the decline in employment was greater in medium-sized and large enterprises. The post-recessionary recovery affected all enterprises in similar ways.

Recently, a debate has commenced on the 'real' significance of SMEs as regards employment growth. It is claimed that part of the employment growth in the SME sector resulted from the downsizing of large enterprises. For example, an enterprise that employed 260 persons in 1990 was counted as an LSE; if employment decreases to 240 in 1991, it then became an SME, thus seen to have contributed simultaneously to job creation in the SME sector and employment decline in the LSE sector. This topic was also intensively discussed in the Third and Fourth Annual Reports of the European Observatory for SMEs.

¹ See Chapter 5 for an in-depth discussion of employment growth.

On these occasions, it was concluded that the impact of firms crossing size-bands on the size-class pattern of employment growth was rather small in the medium-term. Only for very small enterprises, a significant impact could be found, and this depended upon their stage in the business cycle.

Figure 1.5 Employment by size-class, Europe-19 (index 1988= 100)



1.3.4 Size-class patterns by country

The fact that real value added growth has been greater in LSEs is reflected in many individual countries (Table 1.10). Particularly, in Finland, France, Germany, Norway and Switzerland, the size-class pattern of real value added growth has been favourable for LSEs. On the other hand, in Austria, Greece, Ireland, Portugal and Iceland, real value added growth in SMEs exceeded that of LSEs.

Also, in most countries (except Belgium, Denmark, Ireland and Iceland) labour productivity has grown faster in LSEs. Combining this trend with the relatively unfavourable development of real value added of SMEs in many countries, a mixed picture arises with regards to size-class patterns of employment growth. In total Europe-19, employment growth was rather unfavourable in LSEs. This holds for 9 individual countries, while in other countries, employment growth in LSEs was approximately the same, or even higher (as in Denmark) than in SMEs.

As has already been noted, in Europe-19 during the 1988-1998 period, profitability differences between SMEs and LSEs remained largely unchanged. This holds for many individual countries. There were, however, some notable exceptions:

- Austria, Greece, Portugal, Sweden and Iceland, where SMEs showed a favourable development in profitability
- Finland, Luxembourg and Switzerland, where LSEs exhibited the best performance in respect to profitability.

Table 1.10 Real value added, employment and profitability by country, Europe-19, 1988-1998

	Real value added		Employment		Profitability (a)	
	SMEs	LSEs	SMEs	LSEs	SMEs	LSEs
	Average annual				Average annual	
	change in %				change in %-points	
Austria	2.1	1.8	-0.3	-0.3	0.3	0.0
Belgium	1.6	1.8	-0.3	-0.6	0.2	0.2
Denmark	2.3	2.5	-0.4	-0.1	0.7	0.8
Finland	1.3	2.0	-2.2	-2.1	0.3	0.6
France	1.3	2.0	-0.1	0.0	0.4	0.4
Germany	2.6	3.2	-0.1	-0.6	0.6	0.6
Greece	2.0	1.8	2.1	1.6	-0.3	-0.5
Ireland	8.1	7.5	2.4	2.1	0.5	0.6
Italy	1.4	1.9	-0.7	-0.7	0.5	0.6
Luxembourg	4.1	4.1	1.6	0.3	0.1	0.4
Netherlands	2.1	2.3	0.9	0.5	0.3	0.4
Portugal	3.2	3.0	-0.5	-0.3	0.9	0.1
Spain	1.9	2.3	0.5	0.3	0.5	0.6
Sweden	1.3	1.0	-2.3	-2.3	0.1	-0.6
United Kingdom	1.7	1.7	-0.4	-0.9	0.1	0.1
EU	1.9	2.3	-0.2	-0.5	0.4	0.4
Iceland	1.4	-0.5	0.6	0.0	1.0	-0.8
Norway	3.3	3.9	1.8	1.7	-0.1	0.0
Switzerland**	1.4	5.5	0.3	-0.2	0.1	1.0
Non-EU	1.9	4.9	0.7	0.2	0.0	0.7
Total	1.9	2.3	-0.1	-0.5	0.4	0.4

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

** Including Liechtenstein.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe. Fifth Report. Brussels/Luxembourg (forthcoming).

1.3.5 Size-class patterns by industry

For total non-primary private enterprises it was found that real value added growth was highest in LSEs. From Table 1.11 it can be seen that this holds mainly for manufacturing. In extraction and construction, SMEs showed the strongest development of real value added, while in the remaining industries, real value added growth has been approximately the same both in SMEs and in LSEs.

For total non-primary private enterprises, it was also found that employment development has been most favourable in the SME sector. This is confirmed for most industries: only in extraction and producer services, employment growth in LSEs exceeded that of SMEs. It might be worth noting that on average, very small enterprises were the only size-class

recording (small) employment growth over the period. This is confirmed by an analysis by industry: only in manufacturing and personal services, employment in very small enterprises decreased (but still less than in the other size-bands), while in other industries employment growth of very small enterprises could be observed.

As regards profitability, no large differences between industries could be observed. Only in extraction, profitability of SMEs developed more favourably than that of LSEs. In transport and communication, profitability of LSEs increased, while in SMEs it remained constant.

Table 1.11 Real value added, employment and profitability by industry, Europe-19, 1988-1998

	Real value added		Employment		Profitability (a)	
	SMEs	LSEs	SMEs	LSEs	SMEs	LSEs
	Average annual change in %				Average annual change in %-points	
Extraction	2.7	1.9	1.6	2.4	0.0	-0.2
Manufacturing	2.4	3.0	-1.3	-1.4	0.8	0.9
Construction	1.5	1.1	0.2	-0.4	0.6	0.7
Wholesale trade	2.3	2.2	0.4	0.1	0.4	0.3
Retail trade (incl. car. repair)	1.5	1.0	-0.1	-1.2	0.4	0.5
Transport. communication	2.4	2.3	0.9	0.1	0.0	0.4
Producer services	2.0	2.1	0.9	1.0	0.0	0.0
Consumer services	1.5	1.6	-0.2	-0.7	0.4	0.5
All industries	1.9	2.3	-0.1	-0.5	0.4	0.4

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

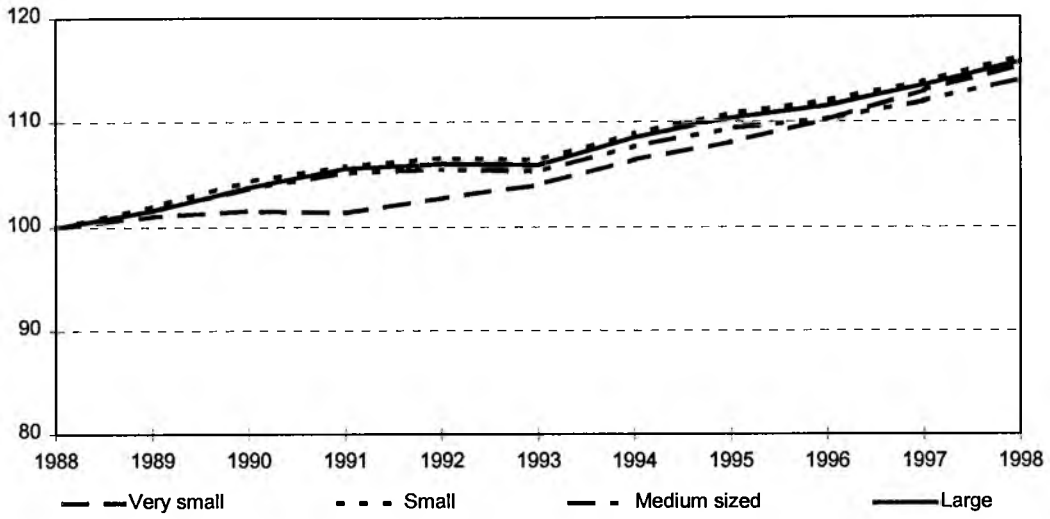
Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

1.3.6 Number of enterprises

In Figure 1.6 it is shown numerically how enterprises in Europe-19 have developed since 1988. On average, the stock of enterprises grew at an annual rate of 1.5%. This growth rate does not differ much between size-classes. Small, medium-sized and large enterprises show similar growth patterns over time. However, growth in the number of very small enterprises has been modest until 1991. Before 1991, a number of very small enterprises became small (that is, they grew to over 10 employees). However, from 1992 onwards, the number of very small enterprises increased relatively fast. In the first years, this could have been the result of some small enterprises declining to very small size¹.

¹ In the Fourth Annual Report it has been argued that during 1989-1990, and during 1994-1997, a number of very small enterprises became small, while during 1991-1993, the converse holds.

Figure 1.6 Enterprises by size-class, Europe-19 (index 1988= 100)



Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

Appendices to Chapter 1

Appendix 1 Data used in this chapter

This appendix pertains to the major statistical database used in the Observatory project. One of the cornerstones of the statistical information used in the European Observatory for SMEs is 'Enterprises in Europe'¹. This publication contains harmonised information for each of the 19 countries on enterprise numbers, 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 analysis of the enterprise sector in each country, desegregated by industry and size-class:

- First, in some countries the data was incomplete and estimates had to be made. This will be described in section 2 of this Appendix.
- Second, the Fifth Report of 'Enterprises in Europe' mostly relates to the situation during 1993², and therefore it is often not comparable with the data published in earlier Reports. To solve this problem, additional estimates had to be made in order to describe the developments that took place between 1988 and 1993. These additional estimates are described in section 3 of this Appendix.
- Third, in order to obtain estimates on recent years (1993-1998), an accounting scheme³ has been compiled, 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. The structure of this accounting scheme as well as the way it was actually applied, are also discussed in section 3.

1 DEFINITIONS

1.1 Industrial classification

All the data presented in this report is based on non-primary private enterprises; excluded from the analysis are:

- all state-owned enterprises;
- forestry and fishing.

Throughout much of this report, industry sectors comprising non-primary private enterprise are classified as follows (using the NACE Rev.1 industrial classification)⁴:

- extraction (including energy and metal processing; NACE C, E)
- manufacturing (NACE D)
- construction (NACE F)
- wholesale trade (NACE 51)

¹ Enterprises in Europe - Fifth Report, prepared by Eurostat and DG XXIII (to be published).

² For some countries, 1994-data could be obtained.

³ In the remaining text, this accounting scheme will be referred to as SEAS: the SME in Europe Accounting Scheme.

⁴ Also see Appendix 2 to this chapter, which gives a detailed description of the industrial classification used.

- retail distribution (NACE 50, 52)
- transport and communication (NACE I)
- producer services (NACE J, K)
- personal services (NACE H, N, O)

In some cases, a complete desegregation, into two digit NACE-divisions, is presented.

1.2 Enterprise size

There is no unique, scientifically based definition of what constitutes an SME, since no clear analytical concept exists. For example, enterprises are sometimes classified according to their balance sheet, or LSEs are simply defined as the largest x% of enterprises in an industry and SMEs represent the numerical balance of that industry. From a policy point of view, one would perhaps like to classify large enterprises as those enterprises which are able - in some way - to dominate markets. This aspect is actually taken into account in the definition of SMEs recommended by the European Commission for the implementation of policy measures, by looking at turnover and/or the balance sheet, and the economic independence of the enterprise, as well as the number of employees¹.

In this report, the number of employees is used as the sole criterion for the classification of enterprises by size-class. The appropriate size-class classification of enterprises depends upon the particular goal of the analysis. Thus, desegregation into multiple size-bands is desirable. 'Enterprises in Europe', which provides the main body of data used in this report, provides opportunities to distinguish the following size-classes for all industries and countries:

- very small enterprises (0-9 employees) which can be further subdivided into those with no employees at all (thus only providing a job for the entrepreneur), and those having between 1-9 employees;
- small enterprises, which employ between 10-49 employees;
- medium-sized enterprises, employing between 50 and 249 individuals;
- large enterprises, providing a job for 250 or more employees.

2 A COMPREHENSIVE STATISTICAL DATABASE OF EUROPEAN ENTERPRISES, 1993/1994

2.1 Introduction

For each country, the Fifth Report of 'Enterprises in Europe' provides a fairly detailed database of non-primary private enterprise, desegregated by sector of industry and size-class for 1993². However, to provide a comprehensive picture by country, industry and size-class, a number of additional estimates had to be made. These additional estimates were made at a low level of aggregation, that is:

- by two digit NACE division (see Appendix 2 to this chapter for an inventory of this industrial classification);
- by the size-classes outlined above.

¹ Official Journal of the European Communities, L 107/6, 1996.

² For a number of countries, Eurostat provided data for 1994

However, in the Observatory project, 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 were missing¹. This section discusses how these problems were resolved.

2.3 Estimating missing data on value added

The estimation started with an inventory by the ENSR-partner as to what information was available on value added, by industry and size-class. However, in many cases no data was available, and so, sectoral data on value added from national accounts had to be used. These were distributed over size-classes according to turnover and observed turnover/value added ratios in other countries².

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

2.4 Estimating missing data on labour costs

Data on labour costs are not always available in the desired industrial/size-class detail, and therefore, additional estimates had to be made. Starting with value added, the procedure was as follows:

- at the industry level, data on the share of labour costs in total value added were taken, so that labour costs could be calculated at the industrial level;
- next, 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.

3 ESTIMATING DEVELOPMENTS for the 1988-1998 period

3.1 Introduction

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 the analysis of trends. Therefore, additional estimates were calculated in two stages:

- developments during the 1988-1993 period were estimated on the basis of available statistical information. This is explained in section 3.2 of this Appendix;
- for recent years, no comprehensive information on the size-class structure of non-primary private enterprise is available. Therefore, other techniques have to be used, which are explained in section 3.3.

¹ It should be noted that Eurostat kindly provided EIM Small Business Research and Consultancy with some additional estimates.

² Turnover includes the purchase value of merchandise, as well as several subsidies and taxes. This might pose problems, especially in wholesale and retail trade.

3.2 Developments during 1988-1993

The data from 'Enterprises in Europe' for 1988, 1990, 1992 and 1993 are not fully comparable. This resulted from the introduction of new sources of information by Eurostat and thus, from improved measurement methods. Also the transition to the NACE Rev. 1 nomenclature instead of the NACE 1970 classification added to this incomparability. The introduction of new sources of information has particularly affected the number of enterprises counted; the number of very small enterprises was particularly influenced. 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, desegregated by industry and size-class and, therefore, they might well be assumed to be unbiased estimates in 1988, 1990, 1992 and 1993. Thus, the following steps were performed in estimating developments between 1988 and 1993:

- estimation of the growth in the number of enterprises;
- estimating the development of employment, by directly applying data on average enterprise size as given by 'Enterprises in Europe'¹;
- estimating the development of turnover and value added, by directly applying data on (apparent) labour productivity from 'Enterprises in Europe'.

The last two steps are obvious, and will not be explained further. In this section, special attention will be paid to the estimation of the growth in the number of enterprises as well as some additional problems which had to be solved:

- In the original database for 1988, different size-classes were used and these were not compatible with those used in the present report;
- the estimation of the development in labour costs. Since labour costs is 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 difference in the number of enterprises between 1988, 1990, 1992 and 1993, as revealed by the various reports of 'Enterprises in Europe', does not coincide with the development in the number of self employed, as registered by Eurostat's Labour Force Survey (LFS)². For example, from 'Enterprises in Europe' a lower number of enterprises in 1990 (as compared with 1988) was recorded for Denmark and Portugal, while the number of entrepreneurs actually increased. On the other hand, according to 'Enterprises in Europe', the number of enterprises in Norway and Sweden increased sharply between 1990 and 1992, while the number businessmen (and women) declined. Many such changes can be regarded as the result of using better sources of information instead of reflecting trends in economic development.

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

² For non-EU countries, OECD's Labour Force Statistics have been used.

Since the LFS 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 the 'Enterprises in Europe' has changed its basic source of information. Generally, it was assumed that smaller enterprises are an appropriate basis 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 desegregation in the database for 1988

The database on the European enterprise sector in 1988 has the same industrial detail as the database for 1992, but is less detailed with respect to size-classes¹. Especially the size-bands 20-49, 50-99, 200-249 and 250-499, were not distinguished yet these are necessary for the definition of small, medium-sized and large enterprises. Therefore, to estimate developments between 1988 and 1990, additional desegregation of the 1988 database had to be performed. The following procedure was used:

- Desegregating the number of enterprises was done by estimating a function describing the size-class distribution of enterprises². Mathematical aggregation over the desired size-bands then gives the share of 20-49 and 50-99 in the 20-99 category, and the division between 200-249 and 250-499 in the 200-499 band, respectively.
- The same function can also be used to calculate the average enterprise size in the newly introduced size-classes. From this, the number of enterprises and employment level can easily be calculated.
- As regards turnover and value added, it was assumed that differences relating to (apparent) labour productivity between the newly introduced size-classes were the same as in 1990. From this assumption and the available data on turnover and value added in the 20-99 and 200-499 size classes, estimated employment levels in the newly introduced size-bands were calculated. A further disaggregation of turnover and value added could also 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, changes 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 desegregated 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 period.

¹ See Annex 1 to the First Annual Report of the European Observatory for SMEs.

² The size-class distribution of enterprises can well 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.

3.3 Estimations of developments for the 1993-1998 period

Since statistical sources only provide information on developments between 1988 and 1993 - as indicated above - additional tools were 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 link developments of turnover and value added by industry and size-class to macro-economic developments;
- to derive the development of employment by industry and size-class from the development of value added and changes in wages and prices;
- to estimate changes in labour costs, taking into account changes in employment and wage costs;
- to estimate changes in the number of enterprises from turnover development and the general economic climate.

These calculations have been performed for all countries. Thus, SEAS actually consists of 18 independent country models¹.

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

- first, macro-economic demand indicators are transformed into final demand by industry and macro-economic category;
- secondly, by means of a multi-industry input-output model, output of intermediate goods and services, and thus total output, is calculated;
- finally, 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 described below).

Thus, the first steps in SEAS is the calculation of developments of sales, by industry, for each final demand category. The following categories of final sales are distinguished:

- consumption goods. Sales of consumption goods and services are calculated as follows. First, macro-economic private consumption demand is broken down into goods categories. For each country, at least two goods categories are distinguished: food and non-food. This breakdown is performed using long-term revealed demand elasticities. Information on the share of these categories in total sales of consumption goods and services enables SEAS to calculate potential sales in each industry. Finally, an elasticity between potential sales and actual sales - which is usually smaller due to imports increasing faster than sales of domestic suppliers - enables the model to calculate actual output by industry.
- investment goods. Basically, the same procedure is used as with consumption goods. However, the distribution over equipment and buildings is exogenous². Furthermore,

¹ Switzerland and Liechtenstein are taken together.

² For non-EU countries, no distinction between equipment and other investment goods is made.

the elasticity of actual sales with respect to potential sales is in many cases lower than for consumption goods and services - as a result of the fact that international specialisation is more feasible for capital goods than for consumption goods and services.

- exports. Export growth, as published by the European Commission¹, is used as the explanatory variable, and is directly linked to sales abroad by industry - by means of a constant elasticity for each industry. Averaged over industries, this elasticity is equal to one.

Output of intermediate goods and services by industry is modelled by means of an input-output model for each country. With sales of intermediate goods and services, import penetration is allowed for. Thus, potential sales of intermediate goods is calculated using a traditional Leontieff matrix.

Stock building - which is part of gross production - is directly linked to the growth of sales.

At this stage, sales by industry and sales category is 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 growth²;
- smaller enterprises are more vulnerable to import penetration than larger enterprises. Since the difference between actual and potential sales in the industry models described above results from import penetration, actual sales grow less than potential sales, and this could have a serious impact on smaller enterprises. Of course, the converse holds as well. Note, however, that these effects are very small.

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, had to be estimated. Basically, the following procedure has been 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 a merchandise. It is assumed that the ratio between these is the same within each size-class, within an industry. Thus, 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 first-round estimates.

¹ 'European Economy' (Supplement A, No. 11/12, December 1995) is the main source for macro-economic information as used by SEAS. For non-EU countries, OECD's 'Economic Outlook' (No. 58, December 1995) has been used.

² Note that turnover includes sales as well as the purchase value of merchandise.

Estimation of the development of real value added

The estimated development of real value added is arrived at in two steps:

- real value added growth by industry is arrived at by applying the industry sub-model of SEAS;
- size-class differences regarding value added growth within an industry is set equal to the differences in turnover growth.

Estimation of the development of employment and labour costs

The development of turnover and value added were basically modelled in a top-down fashion, starting from macro-economic demand indicators. First, sales by industry and sales category were calculated, and finally, turnover growth by industry and size-class was arrived at. Employment, however, 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. Second, because of the large share of labour costs in total costs of small and medium-sized enterprises, the wage elasticity of employment in small and medium-sized enterprises is larger than the same 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. Here, using a lagged adjustment of actual to desired employment, it is assumed that SMEs react more slowly to demand shocks than large enterprises;
- the real wage rate. Nominal wage development is exogenous; real wages are calculated by deflating with the value added deflator;
- a (negative) constant term, reflecting autonomous labour saving technological progress.

Estimation of development in the number of enterprises

Growth in the number of enterprises is also calculated in a bottom-up way. This too has to do with general differences between enterprises from various size-classes regarding their growth in number; e.g. start-ups are very important with respect to the growth in the number of very small enterprises, while it is not important regarding the number of large enterprises.

Factors determining the growth in the number of enterprises can be subdivided into:

- factors determining the 'demand for entrepreneurship', especially sales growth. An increase in real sales makes it attractive to start an enterprise;
- factors determining the 'supply of entrepreneurs':
 - population growth
 - 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);
- costs of labour.

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

The price of value added is calculated in 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 by using only its exogenous variables - macro-economic demand growth, wages, population growth and unemployment in each country - as inputs¹. 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'² has been used to benchmark growth of exports. Also, data from the LFS on employment and the number of self employed are used to calibrate the development of employment and growth in the number of enterprises. By doing so, the business cycle in each country is also taken into account. With respect to employment, information from 'European Economy' has been taken into account to estimate developments in broad industries.

So, the design and use of SEAS is such that knowledge about the way the economy functions, as well as statistical information about actual economic developments, have been integrated so that an estimate of SMEs development between 1993 and the present can be provided for each country.

Forecasting ability of SEAS

To check the forecasting ability of SEAS, the model has been run for 1988-1993, and it will be established whether the size-class structure of the European economy as estimated for 1993 is in accordance with actual data³. This section reviews whether this is the case:

- at the country level. Thus, the main question is: to which extent the simulated size-class structure by country in 1993 differs from the actual size-class structure?
- at the industry level. Here, the main question is: to which extent the simulated size-class structure by industry in 1993 differs from the actual size-class structure?

¹ Exogenous variables are taken from: European Economy - Supplement A, No. 5, May 1997, and - for non-EU countries - OECD: Economic Outlook, No.61, June 1997.

² Eurostat: Industrial Trends - monthly statistics (various issues).

³ As explained, the model is normally run by adding partially available statistical information. In the present application, however, this has not been done. Thus, a really strong test of the forecasting ability of SEAS is performed.

For the analysis, regressions of the following type are run:

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

where

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

$f_{i,j}$ forecasted share of size-class i in country or industry j

In case of perfect forecasting, one would have $\alpha = 1$ and $\beta = 0$. Regression analysis provides a 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 forecasted shares of size-classes for each of these variables will be discussed.

Actual and forecasted employment shares

Figure I.1 (see next page) presents actual and forecasted shares of size-bands in total employment in Europe. As regards small and medium-sized enterprises, differences between actual and forecasted employment shares are negligible. With respect to large and very small enterprises, differences are slightly larger, amounting to an over-estimate of 0.2 percentage-point for large enterprises, and an under-estimate of the same size for very small enterprises. This, however, should be compared against an actual employment share of about one third for both very small and large enterprises.

Table I.1 shows the results of the regression analysis comparing the forecasted employment shares of very small, small, medium-sized and large enterprises against actual shares. In all cases, the coefficient α does not significantly differ from 1, nor does β significantly differ from 0.

One may conclude from this, that SEAS gives an adequate description of the development of employment share of different size-classes.

Figure I.1 Actual and estimated share of size-classes in total employment, Europe-19, 1993 (%)

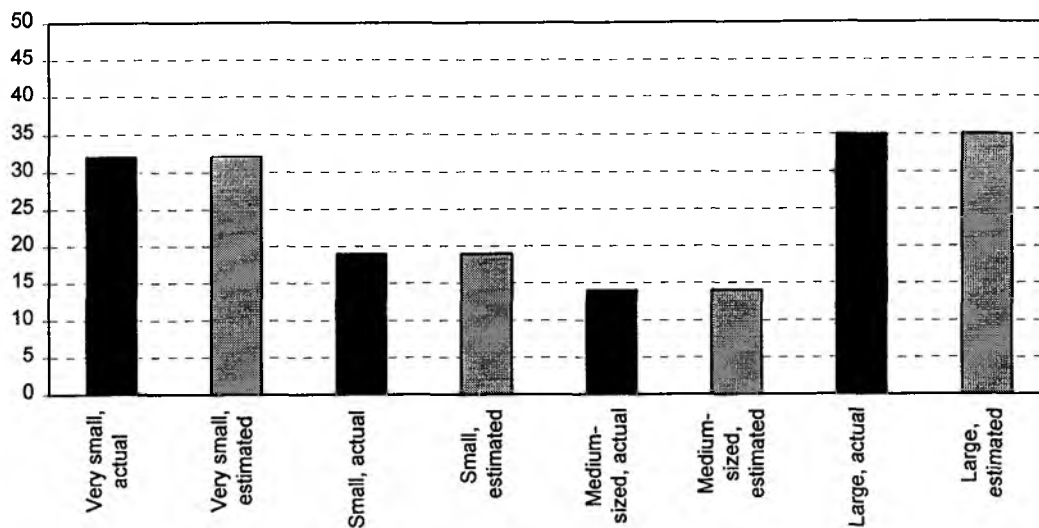


Table I.1 Regression results with respect to actual and forecasted employment shares (t-values between parentheses)

	α	β (%)	R^2_{adi}
<i>Industries</i>			
Very small	0.99* (534.8)	0.09** (1.4)	0.99
Small	1.00* (253.1)	-0.03** (0.3)	0.99
Medium-sized	1.00* (182.5)	-0.02** (0.3)	0.99
Large	1.00* (268.8)	0.20** (0.8)	0.99
<i>Countries</i>			
Very small	1.02* (81.5)	-0.13** (0.3)	0.99
Small	0.98* (59.2)	0.30** (0.9)	0.99
Medium-sized	1.02* (57.1)	-0.51** (1.6)	0.99
Large	0.99* (108.0)	0.25** (0.8)	0.99

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

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

Actual and forecasted turnover shares

Forecasted and actual turnover shares for Europe-19 are presented in Figure I.2 (see next page). Only minor differences can be observed. Table I.2 presents the results of the regression analyses. As with employment, the coefficients are of the right magnitude.

Thus, one may conclude that SEAS gives a satisfactory description of the size-class distribution of turnover.

Actual and forecasted value added shares

Results regarding forecasted and actual shares of size-classes in value added are presented in Figure I.3, while Table I.3 gives the corresponding regression results. It appears that SEAS slightly overestimates the share of very small and large enterprise, while conversely, the share of small enterprises is somewhat underestimated. With respect to the regression results, the following should be noted:

- in all cases but one, α and β are of the right magnitude
- only for the regression results by country, β is significantly less than 0. This is more or less compensated by the estimate of α , which is slightly - though not significantly - greater than 1.

In general, therefore, one can speak of a good adjustment of estimated to actual value added shares.

Figure I.2 Actual and estimated share of size-classes in total turnover, Europe-19, 1993 (%)

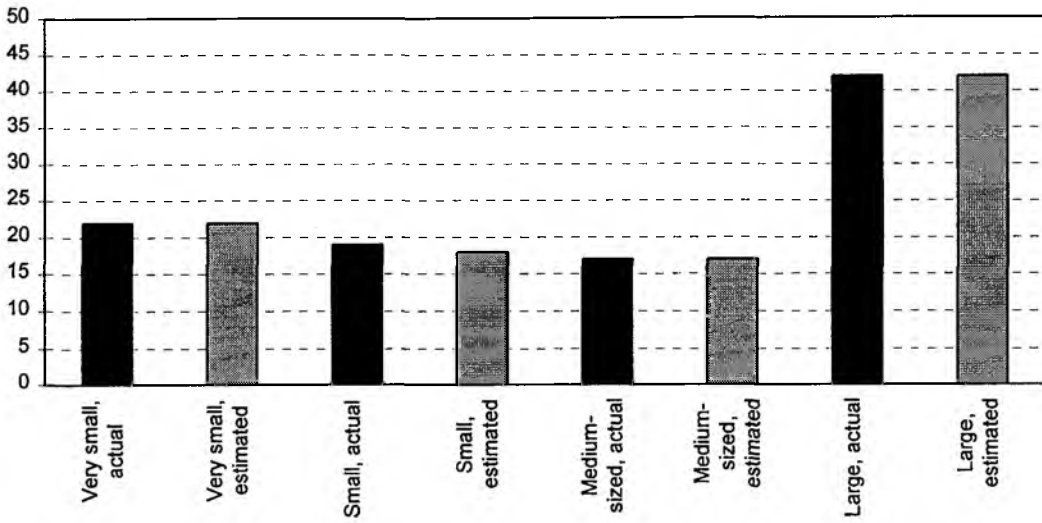


Table I.2 Regression results with respect to actual and forecasted turnover shares (t-values between parentheses)

	α	β (%)	R^2_{adj}
<i>Industries</i>			
Very small	0.99* (346.7)	0.02** (0.3)	0.99
Small	1.00* (300.7)	-0.05** (0.8)	0.99
Medium-sized	1.00* (105.1)	0.02** (0.1)	0.99
Large	1.00* (375.1)	0.01** (0.1)	0.99
<i>countries</i>			
Very small	1.01* (109.5)	-0.17** (0.7)	0.99
Small	0.99* (127.6)	0.15** (1.0)	0.99
Medium-sized	1.00* (83.6)	-0.07** (0.3)	0.99
Large	0.99* (178.2)	0.12** (0.6)	0.99

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

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

Figure I.3 Actual and estimated share of size-classes in total value added, Europe-19, 1993 (%)

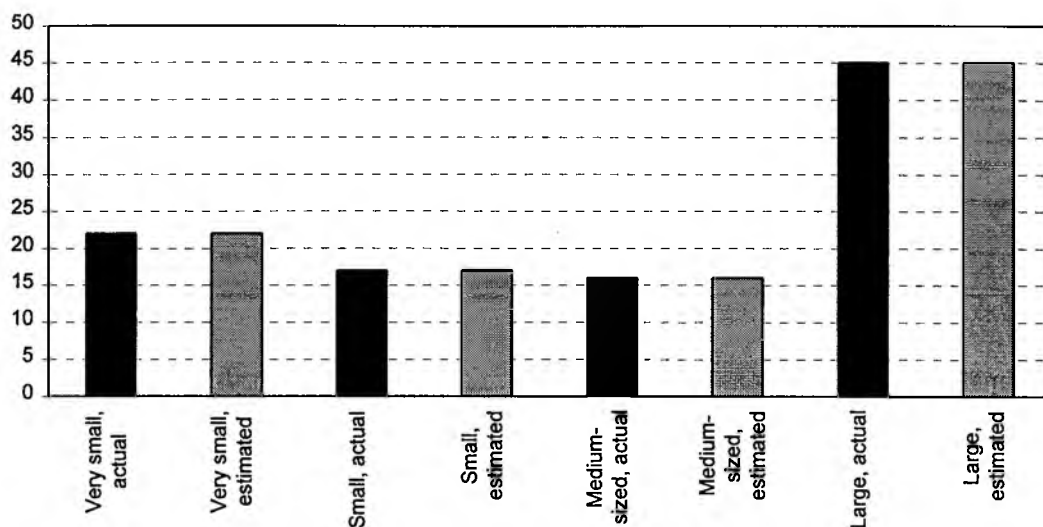


Table I.3 Regression results with respect to actual and forecasted value added shares (t-values between parentheses)

	α	β (%)	R^2_{adi}
<i>Industries</i>			
Very small	0.99* (170.5)	-0.01** (0.0)	0.99
Small	1.01* (181.3)	-0.08** (0.7)	0.99
Medium-sized	1.00* (82.2)	0.06** (0.3)	0.99
Large	1.00* (288.3)	0.22** (1.4)	0.99
<i>countries</i>			
Very small	1.02* (109.6)	-0.29** (1.3)	0.99
Small	0.99* (82.0)	0.26** (1.3)	0.99
Medium-sized	1.02* (118.3)	-0.36 (2.3)	0.99
Large	0.99* (95.7)	0.30** (0.6)	0.99

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

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

Appendix 2 Definition of industries

Industry	NACE-code*	
	(Sub)section	Division
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	
• manuf. of food products, beverages and tobacco	DA	
– manuf. of food products and beverages		15
– manuf. of tobacco products		16
• manuf. of textile and textile products	DB	
– manuf. of textiles		17
– manuf. of wearing apparel		18
• manuf. of leather and leather products	DC	19
• manuf. of wood and wood products	DD	20
• manuf. of paper, paper products; publishing and printing	DE	
– manuf. of pulp, paper and paper products		21
– publishing; printing; reproduction of recorded media		22
• manuf. of coke, refined petroleum and nuclear fuel	DF	23
• manuf. of chemicals, chemical products, man-made fibres	DG	24
• manuf. of rubber and plastic products	DH	25
• manuf. of other non-metallic mineral products	DI	26
• manuf. of basic metals and fabricated metal products	DJ	
– manuf. of basic metals		27
– manuf. of fabricated metal products		28
• manuf. of machinery and equipment n.e.c.	DK	29
• manuf. of electrical and optical equipment	DL	
– manuf. of office machinery and computers		30
– manuf. of electrical machinery		31
– manuf. of radio, tv and communication equipment		32
– manuf. of medical, precision and optical instruments		33
• manuf. of transport equipment	DM	
– manuf. of motor vehicles, trailers and semi-trailers		34
– manuf. of other transport equipment		35

Industry	NACE-code*	
	(Sub)section	Division
• <i>manuf. n.e.c.</i>	DN	
– <i>manuf. of furniture; manuf. n.e.c.</i>		36
– <i>recycling</i>		37
construction	F	45
wholesale trade		51
retail distribution (<i>incl. car and repair</i>)		50, 52
• <i>sale and repair of motor vehicles and motorcycles</i>		50
• <i>retail trade, repair of household goods</i>		52
transport, communication	I	
• <i>land transport; transport via pipelines</i>		60
• <i>water transport</i>		61
• <i>air transport</i>		62
• <i>supporting/auxiliary transport activities; travel agents</i>		63
• <i>post and telecommunication</i>		64
producer services	J, K	
• <i>financial intermediation</i>	J	
– <i>banking, financial leasing</i>		65
– <i>insurance and pension funding</i>		66
– <i>activities auxiliary to financial intermediation</i>		67
• <i>real estate, renting and business activities</i>	K	
– <i>real estate activities</i>		70
– <i>renting of machinery and equipment</i>		71
– <i>computer and related activities</i>		72
– <i>research and development</i>		73
– <i>other business activities</i>		74
personal services	H, N, O	
• <i>hotels and restaurants</i>	H	55
• <i>health and social work</i>	N	85
• <i>other community, social and personal services</i>	O	
– <i>sewage disposal, sanitation and similar services</i>		90
– <i>activities of membership organisations n.e.c.</i>		91
– <i>recreational, cultural and sporting activities</i>		92
– <i>other service activities</i>		93

* The NACE Rev.1 nomenclature has been used.

2 POSITION AND DEVELOPMENT OF THE CRAFT TRADES

Co-ordinated by IfG Vienna

MAIN POINTS

- In most countries, since 1991, the number of craft enterprises and related employment has either increased or remained constant. Over the same period, however, the average enterprise size has decreased.
- Start-up regulations induce considerable economic costs by restricting competition and prevent new start-ups by potential entrepreneurs. On the other hand, regulations in general and proof of proficiency in particular, have been considered valuable instruments for ensuring minimum quality standards, for promoting apprenticeship systems (skill formation) and for securing higher survival rates. However, no evidence has been found to support the hypothesis that birth-rates or exit-rates correlate with degrees of regulation.
- Even in countries with very liberal access to the market and a low degree of regulation, informal requirements force potential entrepreneurs to prove their proficiency. This may also be helpful for marketing purposes, as proof of proficiency tends to induce trust with customers.
- With very few exceptions, recent policies and legal changes, already implemented or under consideration, tended to reduce (formal) requirements and to lighten administrative burdens for potential entrepreneurs. Single contact point principles, simplification of forms, lessening of demands on very small enterprises, shortening of procedures and deregulation are typical examples of most recent policies in Europe. Promotion of apprenticeship training and employment of additional personnel in the form of subsidies, lower social security contributions, etc. represent another important area where recent policies have been designed and implemented.
- European craft and non-craft enterprises are equally affected by the completion of the Single Market. Whereas 39% of craft-type enterprises regard the European Single Market as an opportunity only 15% regard it as a threat. The most important advantages perceived by craft-type enterprises involve the enlargement of the selling market and simplification of international collaboration. The most important disadvantage they discern relates to the increase in overall competition.
- Employment performance of craft-type enterprises was positively affected by the removal of technical barriers and the abolition of physical barriers within the framework of the Single Market.
- In terms of employment growth, the strategic market position of European craft-type enterprises represents an important determinant of success. Market leaders and enterprises introducing new product-market combinations exhibit a higher than average rate of employment growth. Craft-type enterprises in niche markets tend to experience relatively low levels of performance.
- The business strategy that a craft enterprise follows represents another important determinant of success. On average, enterprises that focus on high quality and new technology perform better in terms of employment. In contrast, enterprises which concentrate mainly upon cost reduction strategies exhibit relatively low rates of employment growth.

2.1 INTRODUCTION

The craft trades in Europe tend to preserve the traditional European economic culture and provide social and economic continuity by encouraging vocational skills and entrepreneurship. Characteristics of craft enterprises are predominantly customised production, carried out by skilled entrepreneurs and employees, in which there is a low division of labour and a relatively low minimum efficient scale of production.

These characteristic features of craft trades, as described and analysed in previous Annual Reports of the European Observatory for SMEs, show that this sector is of social and economic importance. The monitoring of craft trades' performance, which started in the Second Annual Report of the European Observatory for SMEs, needs to be continued and refined.

The structure of the chapter is as follows: in Section 2.2 the performance of craft trades is monitored on the basis of national definitions and statistics. Time series of craft enterprise numbers and their employment are updated and refined. Section 2.3 gives an overview of national regulations (within the framework of business licensing) with regard to the start-up of new craft enterprises. In the fourth section, the effect of start-up regulations on the demography of enterprises is studied. In Section 2.5 the success factors relating to craft trades (strategic entrepreneurship, craftsmanship, etc.) are analysed, including the impact of the completion of the Internal Market on the craft trades.

2.2 QUANTITATIVE PERFORMANCE OF CRAFT TRADES¹

In this chapter quantitative information is provided on the role that craft trades play in those countries where national definitions of craft are available and/or where 'craft' is distinguished in national statistics². Countries are grouped according to the four 'approaches' developed in the Fourth Annual Report: profession approach, sector and size approach, artist approach and other countries³. For most countries the period of observation is 1991 to 1995. Apart from the number of enterprises and rates of employment, for some countries the value of production, value added and investment is also available. Although in some countries the concepts of 'production' varies slightly from the gross value of production (i.e. turnover), the data presented can be viewed as an estimation for this indicator.

In *Austria* the number of craft enterprises - according to the national definition - as well as employment in this sector remained relatively stable during the 1991 to 1996 period. Thus, the average enterprise size of 7 employees remained constant. Due to weakness in the business cycle, real gross production decreased by 6.5% between 1991 and 1995 and labour productivity in Austrian craft enterprises declined accordingly. It is often the case in family firms in general, and craft enterprises in particular, that employees are not immediately dismissed when turnover levels are declining.

¹ Owing to changes and improvements with reference to statistical concepts and methodologies the presented data for France, Germany, Ireland, Liechtenstein and Luxembourg are not identical to the information given in the Fourth Annual Report of the European Observatory for SMEs for the same periods.

² The problem of different legal definitions or notions of 'craft' has been dealt with intensively in earlier reports of The European Observatory for SMEs.

³ ENSR, The European Observatory for SMEs, Fourth Annual Report, Chapter 2, Zoetermeer, 1996.

Table 2.1 Number of craft enterprises according to national definitions

	1991	1992	1993	1994	1995	1996
Countries following the profession approach						
Austria						
Absolute number	41,793	41,801	41,929	41,829	41,811	42,056
Index (1991=100)	100.0	100.0	100.3	100.1	100.0	100.6
Germany*						
Absolute number	598,000	606,100	614,000	593,700	597,800	n.a.
Index (1991=100)	100.0	101.4	102.7	n.a.	n.a.	n.a.
Iceland						
Absolute number	5,374	5,459	5,536	5,748	n.a.	n.a.
Index (1991=100)	100.0	101.6	103.0	107.0	n.a.	n.a.
Liechtenstein						
Absolute number	514	n.a.	n.a.	n.a.	631	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	122.8	n.a.
Luxembourg						
Absolute number	3,766	3,822	3,888	3,984	4,066	4,056
Index (1991=100)	100.0	101.5	103.2	105.8	108.0	107.7
Countries following the sector and size approach						
France						
Absolute number	853,682	856,602	830,854	810,532	820,986	827,664
Index (1991=100)	100.0	100.3	97.3	94.9	96.2	97.0
Italy						
Absolute number	1,140,271	1,208,688	1,260,000	1,271,668	1,325,584	1,332,953
Index (1991=100)	100.0	106.0	110.5	111.5	116.3	116.9
Netherlands						
Absolute number	101,000	107,000	115,000	121,000	101,000**	n.a.
Index (1991=100)	100.0	105.9	113.9	119.8	100.0**	n.a.
Countries following the artist approach						
Spain						
Absolute number	13,921	15,165	14,765	14,730	14,920	n.a.
Index (1991=100)	100.0	108.9	106.1	105.8	107.2	n.a.
Other countries						
Switzerland						
Absolute number	64,666	n.a.	n.a.	n.a.	63,185	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	97.7	n.a.
United Kingdom						
Absolute number	n.a.	n.a.	16,892	n.a.	18,629	n.a.
Index (1991=100)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* Due to revised calculation from 1994 onwards comparisons to former years are not valid.

** Not comparable to former years due to the exclusion of non-operational enterprises.

Sources: Austria: Institute for Small Business Research (IfG).
Germany: Statistisches Bundesamt.
Iceland: National Economic Institute.
Liechtenstein: Liechtenstein Office of National Economy.
Luxembourg: Chamber of Craft.
France: INSEE.
Italy: Istituto Taglicame, Unioncamere.
The 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.
The United Kingdom: Department of Trade and Industry.

For *Germany*, the comparability of data over time is hampered by a change in calculation methods (effective from 1994). However, with respect to enterprise numbers, the positive trend observed during the 1991-1993 period continued throughout the 1994-1995 period. In contrast, whereas craft employment increased considerably between 1991 and 1993 it decreased from 1994 to 1995 by more than 6%. For the 1991-1994 period *Iceland* experienced an increase in the number of craft enterprises and a decrease in employment rates. Enterprise size declined from 3 to 2.5 employees. Real gross production declined until 1993 but consequently increased sharply.

Whereas in 1995 the number of craft enterprises in *Liechtenstein* stood 23% above the 1991 figures, over the same period employment grew by approximately 11% (as a consequence, the average enterprise size decreased).

In *Luxembourg*, following the 'profession approach' with respect to the national craft definition, both employment and number of enterprises increased constantly until 1995 and remained constant during 1996.

For *France* - following the 'sector and size approach' - both the number of craft enterprises and related employment declined during 1993 and 1994. Since then, however, the number of enterprises and employment has shown a slight improvement. Real gross production and value added grew considerably in 1995 and led to an increase in labour productivity. Importantly, however, real craft investment in 1995 registered at 84% of the 1991 level.

In *Italy*, which has the largest craft sector in terms of number of enterprises, craft employment remained more or less constant until 1994, whereas number of enterprises increased by 17% between 1991 and 1996. Average enterprise size fell to 2.4 employees in 1994.

A consistent growth in the number of enterprises was recorded in *the Netherlands*¹. On the other hand, craft employment rates went down by 13% over the 1991-1995 period. Real gross production has not changed considerably during the observed period but labour productivity in the craft sector has increased.

In *Spain* - where the craft definition follows the 'artist approach' - between 1991 and 1992 the number of enterprises went up by 9% and since then they remained relatively stable. Related employment increased at an even higher rate in 1992 but in contrast to the number of enterprises it fell considerably during 1994 and 1995. Thus, the average craft enterprise size increased until 1992 and went down again in the following years; in 1995 it was below the size recorded in 1991.

In *Switzerland* a slight reduction in the number of enterprises was accompanied by a considerable decline in employment (-12%)².

¹ The figure for 1995 has been corrected for non-operational firms and therefore is not directly comparable.

² In Switzerland the decrease has to be seen together with a substantial rise in the period 1985 to 1991.

Table 2.2 Employment in craft enterprises according to national definitions

	1991	1992	1993	1994	1995	1996
Countries following the profession approach						
Austria						
Absolute number	287,767	289,560	287,703	294,322	291,697	292,747
Index (1991=100)	100.0	100.6	100.0	102.3	101.4	101.7
Germany*						
Absolute number	4,516,000	4,670,000	5,018,000	6,872,100	6,409,100	n.a.
Index (1991=100)	100.0	103.4	111.1	n.a.	n.a.	n.a.
Iceland						
Absolute number	16,344	15,740	14,765	14,339	n.a.	n.a.
Index (1991=100)	100.0	96.3	90.3	87.7	n.a.	n.a.
Liechtenstein						
Absolute number	5,247	n.a.	n.a.	n.a.	5,807	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	110.7	n.a.
Luxembourg						
Absolute number	41,405	42,878	43,024	43,002	43,879	43,490
Index (1991=100)	100.0	103.6	103.9	103.9	106.0	105.0
Countries following the sector and size approach						
France						
Absolute number	2,245,000	2,205,000	2,165,000	2,010,000	2,063,000	n.a.
Index (1991=100)	100.0	98.2	96.4	89.5	91.9	n.a.
Italy						
Absolute number	3,111,954	3,097,126	3,010,666	3,108,470	n.a.	n.a.
Index (1991=100)	100.0	99.5	96.7	99.9	n.a.	n.a.
Netherlands						
Absolute number	354,000	353,000	331,000	317,000	308,000	n.a.
Index (1991=100)	100.0	99.7	93.5	89.5	87.0	n.a.
Countries following the artist approach						
Spain						
Absolute number	47,554	56,868	58,508	53,879	46,345	n.a.
Index (1991=100)	100.0	119.6	123.0	113.3	97.5	n.a.
Other countries						
Ireland						
Absolute number	99,033	95,644	89,066	97,202	98,810	101,576
Index (1991=100)	100.0	96.6	89.9	98.2	99.8	102.6
Switzerland						
Absolute number	445,438	n.a.	n.a.	n.a.	393,832	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	88.4	n.a.

* Due to revised calculation from 1994 onwards comparisons to former years are not valid.

Sources: Austria: Institute for Small Business Research (IfG).
Germany: Statistisches Bundesamt.
Iceland: National Economic Institute.
Liechtenstein: Liechtenstein Office of National Economy.
Luxembourg: Chamber of Craft.
France: INSEE.
Italy: Istituto Taglicarne, Unioncamere.
The 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.

The data shows that the number of enterprises in 1995 as compared to 1991 has increased in almost all countries (with the exception of France and Switzerland). These figures include a relatively high number of newly created craft enterprises. Conversely, however, the average craft enterprise size decreased in most of the European countries. Craft employment did not develop at a uniform pace. From 1991 to 1995 in Austria, Liechtenstein and Luxembourg, craft-related employment increased. In some countries and over the same period, craft employment declined. Such variations could be interpreted as providing evidence for the assumption that the short-term effect of start-ups on employment is low since these enterprises are in general very small; from a long-term perspective, however, these start-ups could represent a potential for future growth.

Export

Very few indicators are available on the development of craft-related exports. For Austria, the available data shows that the number of exporting craft enterprises has increased from 8.4% in 1993 to 8.9% in 1994 and 12.6% in 1995. It remained stable at 12.6% during 1996. These enterprises exported on average 19% of their turnover in 1996. While the development of craft-related exports in the Netherlands recorded a sharp decrease in 1995 after a two year period of remarkable growth, craft exports in Iceland increased remarkably since 1993. The strong performance in 1994 and again in 1995 indicate the positive effects of the membership of the EEA.

2.3 REGULATIONS ON START-UPS IN CRAFT TRADES

2.3.1 Licensing requirements and proof of proficiency

Licensing requirements refer to the obligation of start-up enterprises in craft trades to acquire various permits before they are allowed to operate. Operating permits may be granted on proof of proficiency by entrepreneurs and/or their employees or on fulfilment of similar conditions which indicate that the new business will be able to provide services of a certain quality. Similarly, building permits issued on the suitability of premises, permits for the use of specified machinery or for the training of apprentices are further examples of this type of licensing requirement. In all cases, these permits have been (legally) instituted in an attempt to prevent the output of inferior products or services and to establish (minimum) quality standards.

Those countries which recognise crafts as a specific sector of their economy usually have particular requirements for such enterprises. While opinion on the necessity of reducing administrative burdens is quite unanimous, opinions on licensing regulations differ considerably. Some commentators claim that licensing involves considerable economic costs with comparatively few benefits¹ while others counterclaim that the improvement in the quality of products and services, human capital formation implications and other benefits outweigh the relatively small economic costs involved in the process.² Apprenticeship systems can frequently be linked to licensing requirements. Firstly, apprentices can only

¹ Albach H., *Deregulierung des Handwerks (Deregulation in Craft trades)*, Wiesbaden, 1992.

² Kucera G., Stratenwerth W., *Deregulierung des Handwerks (Deregulation in Craft trades)*, Göttingen, 1990.

be trained by persons qualified or holding proof of proficiency (e.g. master exam). Growing numbers of enterprises without such qualifications would mean that fewer enterprises would be able to train apprentices. Secondly, successfully completed apprenticeships are generally viewed as a precondition for admittance to master exams. If the qualification would not be a requirement for business formation, many young people may avoid apprenticeships and thus reduce the supply of skilled persons. Other arguments claim that more regulated enterprise formation leads to higher survival rates but lower birth rates (see Section 2.4).

Strict licensing requirements could also limit the (legally) possible scope of future business activities. Thus, it may be argued, that they make it more difficult for enterprises to diversify and respond flexibly to market demands. In today's business environment, which is subject to a high degree of change, the benefits of strict licensing systems may be offset by the disadvantages of impeded flexibility.

2.3.2 Comparison of national regulations

Formal requirements

There is no unified definition of craft trades in Europe and relevant regulations can differ considerably. To make comparisons between countries possible it has been decided to select five craft-type trades and compare the regulations for these trades between them. The selected trades are bakers, joiners, hairdressers, plumbers (comprising gas, water, and heating installations) and roofers. Although these trades may not be defined as crafts in all the countries under scrutiny. In addition, it must be noted that roofers may not be recognised as a trade in all countries. The comparison is further restricted to the specific requirements relating to proof of proficiency and/or licenses. For comparison purposes it is further assumed that the start-up will be a sole trader, the main occupation of the entrepreneur, and that it meets the size criteria for craft enterprises as applied in France or Italy. Table 2.3 summarises the requirements for proof of proficiency for the selected craft-type trades. In comparing regulations between countries one must keep in mind that regulations can be the same, but that they may be applied differently.

The regulatory systems applied throughout the EEA and Switzerland are quite diverse and in some countries (e.g. Spain) are even more complicated since regional governments can implement additional regulations. In Belgium, Austria, Germany, Iceland and Luxembourg a master examination is required as proof of proficiency. The master exam extends to professional and managerial skills and enables the successful candidate to train apprentices. In Austria and Germany skilled persons with no master qualifications may also train apprentices but only if they pass a set of specified examinations. In Austria, for water and gas installation, in addition to the master examination a start-up enterprise also needs a license.

In Liechtenstein, for plumbers, bakers, hairdressers and joiners a successfully completed apprenticeship and relevant experience is needed. In Switzerland, hairdressers and plumbers need (at least) an apprenticeship and experience (gas and water installation only) in addition to a license. For the remaining trades no proof of proficiency is required. In the Netherlands the selected trades (except joiners) need to prove a general education; bakers, hairdressers and plumbers are subject to further proficiency requirements which

consist of a number (1-2) of successfully completed exams. In France and Italy, in general, no proof of proficiency is required, but specified laws regulate the required skills for some of the selected trades: bakers, hairdressers, and plumbers (gas, heating). In Greece, licenses are necessary requirements but may not comprise proof of proficiency. Bakers, hairdressers, and plumbers are subject to the requirement of proof of proficiency. In Spain where, in general, no license or proof of proficiency is required, specific provisions (necessary know-how) exist for bakers, hairdressers and plumbers. The latter need a special license in Spain which has to be renewed every six years. Proof of proficiency and a license is required in Denmark and Finland only for plumbers.

Ireland, Norway, Portugal, Sweden and the United Kingdom have no requirements for license or proof of proficiency in the selected trades. In the United Kingdom some local authorities may request registration of hairdressers.

In many countries titles such as 'Master' (Austria, Denmark, Germany, Iceland, Norway, Sweden) or 'artisan' (France, Italy, etc.) are legally protected. An entrepreneur can only receive or use this title if special exams are successfully completed. Usually, this is an indication that such firms have a high degree of personal and professional know-how. Since other countries have other qualification and proofs of proficiency (such as certificates or diplomas), a master examination is not a necessary (formal) requirement.

Table 2.3 Proof of proficiency requirements for four selected craft-type trades in the EEA and Switzerland

Country	Plumbers*	Baker	Hairdresser	Joiner
Austria	m, l	m	m	m
Belgium	m	m	m	m
Denmark	p, l			
Finland	P, l			
France	p	p	p	
Germany	m	m	m	m
Greece	p	p	p	
Ireland				
Italy		p	p	
Luxembourg	m	m	m	m
Netherlands	p	p	p	
Portugal				
Spain	p, l	p	p	
Sweden				
United Kingdom				
Iceland	m	m	m	m
Liechtenstein	p	p	p	p
Norway				
Switzerland	p, l**		p	

Explanation:

m = master exam

p = other proof of proficiency

l = (additional) license

m=

p=

p, l=

m, l=

* Gas-, water-, and heating installation, repair.

** Gas- and water-installation only.

In many countries, premises and the use of machinery are, apart from personal skills, subject to explicit approval. Hygiene, workers safety and environmental protection (including protection of neighbours from undue noise, smells, etc.) are the main concerns. Hygiene-related inspections are applicable mostly to food processing or health trades. Machinery-related provisions concern less the entrepreneur than the producers of such machines.

Since the diversity of national systems and their application in practise affects their comparability, any classification of national systems will remain doubtful to some degree. However an attempt has been undertaken which is based on the comparison of four selected craft-type trades. On the basis of Table 2.3 national regulations could be classified by giving a value to different types of requirement. The attribution of values constitutes a subjective decision by the authors. If one attributes a value of 2 for a master exam, 1 for another proof of proficiency and an additional license and 0 in case no proof of proficiency is required, three groups of countries emerge:

- countries with strict regulations, taking on values between 8 and 9 (Austria, Belgium, Luxembourg, Germany and Iceland);
- countries with a moderate degree of regulation, taking on values between 3 and 5 (France, Greece, Liechtenstein, the Netherlands, Spain, and Switzerland);
- and countries with a low degree of regulation, taking on values between 0 and 2 (Denmark, Finland, Ireland, Italy, Norway, Portugal, Sweden and the United Kingdom).

Informal/Non-Legal Requirements

With regard to barriers for start-ups, informal/non-legal requirements may play a similar role as legal requirements. Although such informal requirements do not usually prevent a start-up, they can position a non-complying enterprise at serious disadvantage. Evidence from the United Kingdom reveals that bakers, plumbers, hairdressers and joiners which locate their enterprise too near to an already established enterprise, may become the target of swift social and professional penalties and occasionally even criminal damage. Similar restrictions may be imposed on the use of marketing outlets where established and more powerful competitors may exert pressure on such channels and successfully prevent their use by newly established enterprises.

In some countries informal requirements, such as the provision of apprentice training (in parts of Austria, Germany, Iceland), ISO-certification (ISO 9000 type) (for example Germany, Iceland), or participation in a pension fund (Ireland) are expected from enterprises participating in public tenders. Although not legally required, proof of proficiency could often be a precondition for obtaining larger contracts, for public contracts, or insurers of heavy machinery may request that these are operated only by qualified employees.

Professional upgrading, membership of professional associations, the ability to use a 'master' title or another quality certificate for marketing reasons, constitute further motivation for obtaining a qualifying (master) qualification in countries where apprenticeships and experience suffice as proof of proficiency (Switzerland, Liechtenstein), or no proof of proficiency is required at all (Denmark, Ireland, Norway, Sweden, the United Kingdom).

2.3.3 Recent developments in the field of start-up regulation for crafts¹

Recent changes in Austria² and the Netherlands have reduced the number of trades for which proof of proficiency is required and have extended the possibilities for enterprises to diversify into related areas without the need of additional registration. As in Germany, other legal changes in Austria try to speed up the procedures necessary for obtaining permits to produce in a particular premise, or use specified machinery. On the contrary and referring to France, requirements have increased. Under the Loi Raffarin from July 1996 a number of additional activities have been subjected to proof of proficiency (for example equipment for gas distribution, heating of buildings and production of fresh products of a bakery). For each of the activities concerned a decree, formulated with the advice of the Competition Council, the Commission of Consumers Safety, the Chambers of Craft, the Chambers of Commerce and other professional organisations, define the qualifications requested.

Most measures recently taken in regard to start-ups in general, except environmentally motivated additional requirements and safety evaluation of work places, are directed at diminishing entry barriers and lightening administrative burdens. The institutionalisation of impact-assessment of new legislation or policy measures, to avoid administrative burdens on business in general and SMEs in particular has become operational in several countries (Denmark, France, the Netherlands, Germany, Sweden and the United Kingdom) and is considered in a number of other countries (Belgium, Iceland, Ireland, Luxembourg, Spain).

Not exclusively related to the start-up process have been (ongoing) attempts to lighten administrative burdens by simplification of forms (Denmark, France, Ireland, Luxembourg, Spain, Switzerland), statistical requirements (Austria, Denmark, France, Ireland, the Netherlands, Switzerland), tax reporting and payments for the very small enterprise (Austria, Finland, France, Iceland, Ireland, Luxembourg, the Netherlands, Switzerland), through the admittance of EDP and modern (tele-)communication technologies for reporting (France, Iceland, Norway, Portugal, Spain) and also payment of taxes (France). In many cases, however, these attempts are in the phase of consideration and not yet operational.

To simplify registration procedures for new enterprises, the single contact point for start-ups in general has been incorporated in a couple of countries (Denmark, Ireland, France, the United Kingdom)³ and is considered in others (Switzerland and Belgium). Single contact point strategies for start-ups have been introduced in 1997 in Denmark. The new system relies on a single identification number and the collection of information at a single register. Other authorities do have access to that register and obtain the necessary information from the register and not the enterprise. In Greece a proposal for a new law is under consideration which will introduce on-the-spot examination of premises and the one contact point principle. Those measures will improve the Greek situation considerably as the collection of different certificates and registration necessary for start-ups at present is an especially cumbersome procedure.

¹ See also Chapter 9 of this report.

² Gewerbeordnungsnovelle, June 1997.

³ ENSR, European Observatory for SMEs, Third and Fourth Annual Report.

In addition in several countries a great number of promotional measures have been introduced to promote start-ups and indirectly crafts. Measures are mainly directed at specified groups of persons (e.g. unemployed) or specific types of enterprises (technology based firms) and include soft aid measures (information, consulting, coaching) as well as financial grants or guarantees.

2.4 THE EFFECT OF START-UP REGULATIONS ON THE DEMOGRAPHY OF ENTERPRISES

Analysis of the hypothesis 'that a higher degree of regulation lowers the rate of start-ups and increases survival rates' suffers from the weakness of empirical evidence and the incomparability of statistical information on birth, exit and survival rates¹. In addition a comparison between countries is hampered by the influence of other factors such as government support measures, economic development of trades, etc.

In Table 2.4 birth rates are given for the four selected craft trades in a number of countries. An intra-national comparison of birth-rates indicates that birth-rates in the craft-type trades are in all countries lower than for the total economy. This provides only very weak positive evidence of a negative correlation between licensing regulations and birth rates within countries.

Table 2.4 The birth rates (number of start-ups/stock of enterprises in %) for the selected trades and total economy (index, total economy = 100)

	Baker	Joiner	Plumber	Hairdresser	Total
Austria*	49	73	74	62	100
Belgium*	57	77	72	63	100
Denmark**	45	59	56	63	100
Finland (95)	68	88	64	87	100
France (94)	53	90	86	67	100
Luxembourg*	(5.2)	(9.6)	(14.1)	(8.2)	n.a.
Norway**	62	75	63	72	100
Spain (95)	(3.0)	(4.0)	(8.0)	(5.0)	n.a.

Note: Since applied definitions of entry differ considerably between countries inter-country comparisons are not valid. The patterns in the various fields indicate degree of regulation (see Table 2.3).

For Luxembourg and Spain indexing is not possible since data on total economy are not available.

* Average 1990 to 1995.

** Average 1990 to 1994.

Source: Austria: Economic Chamber.
 Belgium: KMO.
 Denmark: Danish Statistical Office, VAT register.
 Finland: Statistics Finland's Business Register.
 France: Ministry for SMEs, Trade and Craft, elaboration: Aprodi.
 Luxembourg: Chamber of Craft.
 Norway: VAT register.
 Spain: Ministerio de Trabajo y Asuntos Sociales.

¹ The implementation of business registers following a unified statistical concept is part of the European Statistical System and should improve the availability and comparability of demographic information as soon as these registers are introduced in most of the European countries.

Table 2.5 indicates that exit rates in craft-type trades are in general lower than in the total economy. However, there is only weak evidence for a correlation indicating causal relationship between regulation and number of exits.

Table 2.5 Exit rates (number of exits/stock of enterprises in %) for 4 craft-type trades and total economy (index, total economy = 100)

	Baker	Joiner	Plumber	Hairdresser	Total
Austria*	71	65	60	58	100
Belgium*	84	76	70	62	100
Denmark*	97	84	68	57	100
France (94)**	(4.1)	(7.4)	(7.1)	(3.8)	n.a.
Norway***	72	84	64	59	100

Note: Since applied definitions of exits differ considerably between countries inter-country comparisons are not valid. The patterns in the various fields indicate degree of regulation (see Table 2.3).

* Average 1990 to 1995.

** Since data on total economy are not available indexing is not possible.

*** Average 1990 to 1994.

Source: Austria: Economic Chamber.

Belgium: KMO-Studiecentrum.

Denmark: VAT register.

France: Ministry for SMEs, Trade and Craft, elaboration: Aprod.

Norway: VAT register.

A sample-survey of 500 Austrian private enterprises started in 1990 analysed the association between the requirements for proof of proficiency and the 5-year survival rate for the sector. According to this study, about 87% of the craft enterprises, where qualification standards are highest, have been still in operation in 1995. On the other hand enterprises which apply either industrial production methods or belong to a 'freies Gewerbe (free professions)' and do not need any proof of proficiency or license had survival rates of only 50% and 60%¹. These results indicate support for the above hypothesis. Even so the lower survival rate of trades for whom no additional regulation exists versus the higher survival rates for regulated trades, could be also interpreted as a consequence of sector/trade related risks.

In Table 2.6 survival rates are given for three countries. The table shows that the survival rates for the four trades in Luxembourg are approximately the same. In Norway only the survival rate of joiners is lower than the other three trades. In Spain this is the case for plumbers.

¹ Wanzenböck, Herta, Überlebensquoten und Wachstumsverläufe von Unternehmensgründungen (Survival and growth rates of start-ups), Vienna, 1996.

Table 2.6 3-year survival rates (in %) for 4 craft-type trades

	Baker	Joiner	Plumber	Hairdresser
Luxembourg	81	71	72	79
Norway*	65	57	71	69
Spain**	71	82	49	66

Note: Since applied definitions of exits differ considerably between countries inter-country comparisons are not valid. The patterns in the various fields indicate degree of regulation (see Table 2.3).

* Computed on the basis of figures from the year 1992.

** Data refer to the Spanish province Navarre only.

Source: Luxembourg: Chamber of Craft.

Norway: VAT register.

Spain: Tesoreria general de la Seguridad Social.

2.5 SUCCESS FACTORS OF CRAFT TRADES AND THE IMPACT OF THE SINGLE MARKET

2.5.1 The impact of the Single Market on craft trades

In order to investigate the impact of the Single Market on strategies and performance of SMEs, the 'ENSR Enterprise Survey'¹ was set up. In the Fourth Annual Report² the survey comprised SMEs in general and did not explicitly distinguish craft enterprises. In this years' survey, apart from other SMEs, the five craft-type trades have been surveyed. As described before these trades were: roofer, joiner, plumber, baker and hairdresser.

From Table 2.7 one may conclude that the establishment of the Single Market does not have a negative impact on the craft trades. Only 15% of the firms see the Single Market as a threat. According to almost 40% of the craft trades the establishment of the Single Market offers an opportunity, but a similar percentage of firms say that the Single Market in balance has no impact.

Table 2.7 Share of craft-type enterprises regarding the European Single Market on balance as a opportunity, threat or no impact (%)

Opportunity	Threat	None	No opinion /don't know
39	15	40	6

Source: ENSR Enterprise Survey 1997.

Earlier studies found for the United Kingdom that the direct impact of the Internal Market on craft enterprises is distinctly weaker than on larger enterprises or SMEs in general³. The analysis of the ENSR Enterprise Survey 1997 does not show any statistically significant difference in perceived affectedness by the European Single Market between craft-

¹ For a detailed description of the ENSR Enterprise Survey 1997, see the appendix of Chapter 12 of this report.

² ENSR, The European Observatory for SMEs, Fourth Annual Report, Zoetermeer 1996.

³ Watkins, D., Der Europäische Binnenmarkt: Eine Beurteilung der Auswirkungen auf Klein- und Mittelunternehmen aus der Sicht Grossbritanniens (The Internal Market, an assesment of the effects on SMEs in Great Brittan), in Internationales Gewerbearchiv, Zeitschrift für Klein- und Mittelunternehmen, No. 1, 1995, pp. 1-14.

type and non-craft enterprises. The percentage shares of enterprises regarding the Single Market as an opportunity on the one hand and as a threat on the other are more or less equal¹.

The most important advantages for craft-type enterprises as well as for SMEs in general are the enlargement of the selling market and the simplified international collaboration. The most important threat is increased competition (33%).

As to specific measures in the framework of the Internal Market project, significant differences in affectedness of craft-type versus non-craft SMEs exist in reference to the introduction of EU-standards for products and production processes: 29% of the craft-type enterprises are affected as compared to 20% of non-craft enterprises.

Around 17% of the craft-type enterprises perceive an impact of the abolishment of customs documents and delays, and 15% are affected by the modification of the VAT procedures. In both cases results do not significantly deviate from the results for non-craft enterprises only.

During the last 5 years 37% of the craft-type enterprises have encountered increasing competition, and about 32% have more international contacts now than 5 years ago. Still the degree of internationalisation of craft-type enterprises is far less than that of non-craft enterprises even if size effects are excluded (4% vs. 8% of turnover).

On the basis of the results of the ENSR Enterprise Survey the impact of the Single Market on turnover growth, employment growth and export growth can be analysed.

The main finding with reference to export and turnover performance of craft-type enterprises is that in contrast to non-craft enterprises there apparently is no significant effect of the measures of the Single Market Programme. Surprisingly, *employment growth* is determined by the removal of technical barriers and - very small craft-type enterprises excepted - the abolishment of physical barriers, both measured within the framework of the Internal Market. Additionally, increasing cross border co-operation stimulates employment performance of European craft-type enterprises (see Table 2.8).

¹ These percentages include also respondents for whom opportunities equal threats.

Table 2.8 Determinants of employment performance of European craft enterprises 1994-1996*

Indicator	Impact (+/0/-)
– Turnover growth	+
<i>Internal market programme</i>	
– Removal technical barriers	+
– Abolishment physical barriers	+
– Reduction fiscal barriers	0
– Increase cross border business contacts	0
– Increase cross border competition	0
– Cross border co-operation	+
– Foreign direct investment	0
<i>Strategic enterprise behaviour</i>	
– Strategic market position	+
– Business strategy	+
– Training efforts	0
– R&D efforts	-
<i>Enterprise characteristics**</i>	
– Subsidiaries	0
– Educational level	0
– Age of the enterprise	0

* Only those effects are indicated which are significant at the 0,05 level.

** Sector and size is dealt with in relation to other determinants.

Source: ENSR Enterprise Survey 1997.

2.5.2 Determinants of success in the craft trades

In Table 2.9 the different business strategies of craft and non-craft enterprises have been given. As the table shows there are no large differences between craft and non-craft. Only the share of craft-type enterprises whose main business strategy is providing high quality is higher than for non-craft enterprises.

Table 2.9 Share of enterprises focusing on different business strategies (%)

	Cost reduction	High quality	Product differentiation	New technologies	Services	Other/don't know
Non-craft	28	24	10	10	20	7
Craft	31	33	6	8	17	6
Total	29	26	9	10	20	7

Source: ENSR Enterprise Survey 1997.

On the basis of the results of the ENSR-Survey the determinants of success in terms of strategic enterprise behaviour in craft-type enterprises have been examined in the same manner as the impact of the Single Market Programme. Again in comparison to total private enterprises and SMEs in general, no significant influence of selected behaviour vari-

ables on turnover and export performance has been discerned. On the other hand enterprise behaviour does have an impact on employment growth (see Table 2.7).

First of all, craft-type enterprises being a market leader in their segment or craft-type enterprises introducing new product market combinations tend to have a higher employment growth than craft-type enterprises operating in niche markets.

Secondly, regarding business strategy, craft-type enterprises focusing on reduction of their costs have lower employment growth than enterprises oriented to offering high quality and applying new technologies. Otherwise, there is no difference compared to SMEs in general in this respect.

In addition to success factors on enterprise level, characteristics of the individual entrepreneur as a person might influence business performance. With reference to strategic management the 'delegation of authority' and the 'use of employee feedback' have been found to significantly and positively affect small enterprise performance. Moreover, enterprises with entrepreneurs which are continuously seeking opportunities, recognise the need to achieve goals, being 'independent minded' and innovative, on average distinctly perform better¹.

2.6 POLICY ISSUES

Based on the results found in this chapter and within the wider context of SME policy, further attempts to stimulate and promote increased start-ups will remain a central task for policy makers on all levels.

Such policies and support programmes have to address financing problems (the shortage of risk capital) as well as the diminishing of administrative burdens and the lowering of other entry barriers such as licensing requirements. New instruments for the provision of risk capital to SMEs and fewer administrative burdens will also address the needs of existing craft enterprises. The European Commission has recognised these needs and recently addressed them again.²

Related to the promotion of start-ups are also efforts to increase the number of female entrepreneurs and to support disadvantaged groups, such as the unemployed, for whom entrepreneurship may be a viable professional option.

The ENSR survey showed that craft-enterprises are affected by the Single Market. Due to the introduction of the single currency craft-enterprises located in bordering regions but also more craft-enterprises in general are likely to become regular exporters (intra EU-trade). Enterprises today are still quite unprepared as to the necessary administrative and strategic changes the single currency may imply for their enterprises. The increased exchange of goods and services across national borders may increase the need for further harmonisation of VAT-rates, income tax-rates, etc. This affects all enterprises equally and may not be specifically considered as craft policy or even SME policy.

¹ Lepnum, R. / Bergh, C.D., Strategic Management and Entrepreneurial Orientation in Sick, Marginal and Healthy Small Business, in: Journal of Small Business and Entrepreneurship, Vol. 12, No. 2, 1995, pp. 8-18.

² Empfehlung der Kommission vom 22. April 1997 zur Verbesserung und Vereinfachung des Umfelds von Unternehmensgründungen (Recommendation of the Commission on the improvement and simplification of business environment for start-ups), Amtsblatt Nr. L 145 vom 5.6.1997, S 29, Brüssel 1997.

Harmonisation of technical norms is another area in which craft-enterprises feel affected by the completion of the Single Market. Other regulatory changes on EU as well as national level impose an additional problem on SMEs in general and craft enterprises in particular as their information management capacities are limited.

As employment is mainly created by start-ups and by young, innovative enterprises, the need for fast technology diffusion, increased innovation on all levels and improved (strategic) management skills training programmes is required.

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

3 TRANSNATIONAL CO-OPERATION BETWEEN SMEs

Co-ordinated by the Small Business Research Institute, K.U. Brussel

MAIN POINTS

- Promoters of international joint ventures and of international technical co-operation have to realise that these transnational co-operation forms are concluded by only a very small minority of SMEs. Typically, SMEs appear to prefer commercial forms of transnational co-operation.
- The type of co-operation between SMEs varies considerably, mainly by sector and country groups. The construction and transport sectors are involved in a variety of different types of co-operation. Interestingly, only equity participation and franchising differ by size class. Typically, large enterprises enter into equity participation agreements, while medium-sized enterprises prefer franchising.
- Most SMEs prefer informal ways of concluding transnational co-operation. Consequently, the majority of transnational relationships are based on verbal agreements.
- Most SMEs do not actively search for partners. Mostly, they make use of informal networks to identify a potential transnational partner. Links with known enterprises are the preferred form of transnational co-operation. A good personal relationship between partners plays an important role in securing the stability of transnational co-operation.
- The strategic market position of an enterprise impacts considerably upon the decision-making processes that lead to transnational co-operation. Dissatisfaction with current market shares and the search for new products and markets can lead to increased transnational co-operation. Size of the enterprise, sector of activity and education level of the entrepreneur were found not to have a significant impact on transnational co-operation.
- Transnational co-operation between SMEs is usually aimed at strengthening the competitive position of enterprises by sharing marketing knowledge amongst partners. Conversely, reasons not to co-operate include: no necessity, inability to increase competitiveness, unwillingness to lose favourite work and/or independence, and a fear that one party may be judged as inadequate.
- The main problems SMEs encounter with transnational co-operation include: finding and evaluating a partner, unequal commitment, lack of resources and communication difficulties between partners.
- SMEs could evaluate possibilities for co-operation by obtaining testimonies and references from entrepreneurs who have experience of transnational co-operation. It would also be useful if the European Commission could create a financial support mechanism to facilitate co-operation between SMEs situated in different Member States.

3.1 INTRODUCTION

A growing number of co-operation agreements between enterprises is taking place. In the Fourth Annual Report of the European Observatory for SMEs, co-operation between SMEs and large enterprises was scrutinised. In this chapter, attention is paid to co-operation between SMEs and, in particular, transnational co-operation. Transnational co-operation is defined as co-operation in a broad sense between SMEs that are situated in different countries (within or outside the borders of the European Economic Area).

According to the ENSR Enterprise Survey 1997, 41% of the SMEs surveyed collaborate with foreign partners¹. Transnational co-operation scores highly (50%) in non-EU countries (Norway, Iceland, Liechtenstein and Switzerland), as compared with 43% in the Northern EU countries (Denmark, Finland, Sweden and the United Kingdom), 39% in the Southern periphery EU countries (Greece, Portugal and Spain) and Ireland, and 34% in the Central EU countries (Austria, Belgium, France, Germany, Italy, Luxembourg and the Netherlands).

This chapter is organised in 5 sections. To acquire an insight into transnational SME co-operation, a review of the different forms was undertaken. In section 3.3 the characteristics of co-operating entrepreneurs and enterprises are studied. Section 3.4 analyses the reasons to undertake or not to participate in transnational co-operation. This section is followed by an analysis of the advantages and disadvantages attributable to transnational co-operation. Policy issues are reviewed in the final section.

3.2 FORMS OF TRANSNATIONAL CO-OPERATION

SMEs that work together with foreign partners as well as those not collaborating with foreign partners conclude a mosaic of co-operation forms with other SMEs (see Table 3.1). In both groups, supply and contracting-out relationships are clearly favoured to other forms of transnational co-operation. We would like to draw attention to three aspects outlined in the Table 3.1 first, the figures in the table have to be interpreted as column percentages. This means that they indicate the percentage of those enterprises that work together with foreign partners as well as of those that do not enter into the co-operation agreements listed. Concerning dealerships, for example, 27% of those working with a foreign partner have entered into such an agreement. Second, the sum of the column percentages is more than 100, because the respondents could mention more than one type of co-operation. Sums larger than 100% indicate that SMEs concluded, on average, more than one co-operation agreement. Third, the types of co-operation agreements mentioned by those working together with a foreign partner may not be interpreted exclusively as transnational agreements. These involve co-operation agreements concluded on average by those working together with a foreign partner. However, existing data do not allow us to differentiate between national and transnational agreements.

¹ See the Appendix to Chapter 12 of this Report for more technical details on the ENSR Enterprise Survey 1997 and for the way the country groups are chosen.

Table 3.1 Types of co-operation according to working or not working together with a foreign partner (column percentages, more than one answer possible)

Type of co-operation agreement	Working together with a foreign partner	
	Yes	No
<i>Commercial</i>		
Supply/contacting-out	33	47
Dealership	27	25
Marketing/distribution	24	10
Joint purchasing	17	20
<i>Financial</i>		
Joint venture	8	9
Equity participation	3	1
<i>Technical</i>		
Joint R&D	7	8
<i>Others</i>		
Licensing	11	5
Association	10	3
Franchising	2	-
European Economic Interest Grouping	-	-

Source: ENSR Enterprise Survey 1997.

Concerning the co-operation area, it can be derived from Table 3.1 that commercial co-operation prevails over financial (capital participation) and technical co-operation (R&D). This result indicates that SMEs prefer commercial transnational co-operation and that those who are advocating that SMEs enter into joint ventures with foreign partners need to realise that this form of co-operation is only concluded by a minority of SMEs. Other studies confirm the finding that commercial co-operation is the most frequent form of transnational co-operation. Amann¹ observes that in Austria 65% of transnational co-operation between SMEs takes place in the commercial domain. Technical and financial transnational co-operation occurs, respectively, in 17% and 12% of the SMEs studied. Similar results are observed in Spain, where 63% of transnational co-operation takes place in the commercial field, followed by the R&D domain (32%)². In the service sector of the Netherlands, transnational co-operation in the commercial domain reaches as high as 90%³. In Switzerland, 63% of co-operation agreements have a vertical dominance (concluded with clients or suppliers), 16% have a diagonal dominance (concluded with complementary enterprises) and 11% have a horizontal dominance (concluded with competitors)⁴.

¹ Amann, R., Internationalisierung der Klein- und Mittelbetriebe durch grenzüberschreitende Kooperation - mit einem empirischen Beitrag (Internationalisation of SMEs through transnational Co-operation - with an empirical Contribution), Innsbruck, Doctoral dissertation, 1991.

² Alonso, J.A., V. Donoso, Competitividad de la Empresa Exportadora Española (Competitiveness of the Spanish Exporting Firm), ICEX, 1994.

³ Puylaert, M.G.F., A.H.M. Stoelinga, Samenwerken met bedrijven in Europa. Visies, feiten en ervaringen (Co-operating with enterprises in Europe. Visions, facts and experiences), Alphen aan den Rijn, Diegem, Samsom Bedrijfsinformatie, 1995.

⁴ Volery, T., La coopération inter-entreprises: Le cas des petites et moyennes entreprises suisses (Co-operation between enterprises: the case of Swiss SMEs), University of Fribourg, 1996.

Table 3.2 Significant differences in the domains of transnational co-operation by size, sector and country group

Co-operation type	Size	Sector	Country group
Supply/contracting-out	-	Hotel/catering, manufacturing industry, services to enterprises, construction and transport	European Centre and Northern Periphery
Dealership	-	Repair, other services, construction, retail trade, wholesale trade and services to enterprises	Non EU countries
Marketing/distribution	-	Banking/insurance, services to enterprises, transport and construction	Southern Periphery and Ireland
Joint purchasing	-	Wholesale trade, transport and construction	-
Licensing	-	-	-
Association	-	Banking/insurance, other services and retail trade	European Centre
Joint venture	-	Construction, transport and manufacturing industry	-
Joint R&D	-	Hotel/catering, construction and manufacturing industry	Northern Periphery
Equity participation	Large	-	-
Franchising	Medium-sized	Transport and services to enterprises	Southern Periphery and Ireland
European Economic Interest Grouping	-	-	-

Source: ENSR Enterprise Survey 1997.

There is some evidence with regard to types of co-operation (Table 3.1) which appear to differ by enterprise size, sector of activity and country group. Table 3.2 summarises differences by enterprise size, sector and country group. Concerning differences by size, only equity participation and franchising show significant differences. Large enterprises surveyed show a significant equity participation in agreements with SMEs. Franchise-related co-operation scores the highest in medium-sized enterprises. Regarding differences by sector, construction and transport SMEs are most involved in different co-operation types (in five co-operation types). This could be attributed to the increasing competition that these sectors are facing. Co-operation also ranks highly in the service sector (SMEs were involved in four co-operation domains). Finally, some co-operation types differ by country groups.

The way SMEs conclude agreements with each other shows that they prefer informal co-operation. In Austria, it is perceived that only 26% of the SMEs base their transnational co-operation on written agreements¹. In Finland, approximately two thirds of co-operative relationships are based on verbal agreement². This preference for informal co-operation can be attributed to the importance SMEs attach to their independence and to a lack of a

¹ Thelen, E., Die zwischenbetriebliche Kooperation - Ein Weg zur Internationalisierung von Klein- und Mittelbetrieben? (Co-operation between enterprises - A way to internationalisation of SMEs?), Innsbruck, 1993.

² Vesalainen, J., P. Asikainen, Yhteistyöyhtykset ja yhteistyösuhteiden luonne suomalaisella pkt-sektorilla (Joint ventures and characteristics of co-operative relationships among Finnish industrial SMEs), Vaasa, Publications of the University of Vaasa, Research papers, No. 166, 1993.

solid legal assistance for these enterprises (which would be needed if written agreements were to be concluded). More information on the use of external advice by SMEs is given in Chapter 4 of this Report.

The way SMEs find their partner is also rather unstructured. Research in Austria shows that only 29% of co-operating enterprises have actively searched for collaborating partners¹. In Denmark, an evaluation of the business to business programme Denmark-Eastern Europe has shown that in many cases, enterprises made little effort to find the right partner². Only about half of collaborating enterprises found a partner through systematic search processes while the rest met partners by coincidence.

Some SMEs use informal networks to trace relevant partners. In Belgium, Denmark, Ireland and the United Kingdom, the most widely used and the most successful sources of collaboration are personal recommendations and professional contacts (used by 44%)³. Trade fairs are also ranked highly (37%). Less popular are the more formal and impersonal methods of search (such as business associations and embassies). A study undertaken in Austria by Fontanari showed that 38% of SMEs found their partner through networking. The importance of data bases or external agents is relatively low. Usually, search profiles are not consulted, as the main emphasis is on trust and personal relationships. Those who look actively for a partner appeal, in the first place, to their employees, who have made contacts during trade fairs, seminars and similar events⁴. In Finland, it was observed that the most common sources of information regarding potential partners for co-operation were colleagues, suppliers and customers⁵.

Consequently, it is not surprising that the creation of transnational co-operation with known enterprises remains the preferred option⁶. According to research in Germany, more than 50% of all co-operations were based on existing, long-term relationships with joint venture partners. The ability to judge the quality of potential partners through past experiences is of particular importance, especially when it involves joint ventures with actual and/or potential competitors. More than 60% of joint ventures involving competitors was found to be built on existing, positive experiences with the partner. Similarly, in the case of R&D, more than two thirds of links involved well-known partners. A good personal relationship between the partners also played an important role in securing the stability of

¹ Fontanari, M., *Kooperationsgestaltungsprozesse in Theorie und Praxis (Co-operation process in Theory and Practice)*, Berlin, 1996.

² Cowi consult for the Danish Agency of Trade and Industry, *Business to Business. A Review of Danish Experiences*, 1995.

³ Stringer, J., *Study on the Conditions of Co-operation: The case of Craft Firms and Small Enterprises*, in O'Doherty, D. (Ed.), *Globalisation, Networking and Small Firm Innovation*, London, Graham and Trotman, 1995.

⁴ Amann, R., *Internationalisierung der Klein- und Mittelbetriebe durch grenzüberschreitende Kooperation - mit einem empirischen Beitrag (Internationalisation of SMEs through transnational Co-operation - with an empirical Contribution)*, Innsbruck, Doctoral dissertation, 1991.

⁵ Vesalainen, J., P. Asikainen, *Yhteistyöyritykset ja yhteistyösuhteiden luonne suomalaisella pkt-sektorilla (Joint ventures and characteristics of co-operative relationships among Finnish industrial SMEs)*, Vaasa, Publications of the University of Vaasa, Research papers, No. 166, 1993.

⁶ Kaufmann, F., *Internationalisation Via Co-operation - Strategies of SME*, *International Small Business Journal*, 2, 1995.

transnational co-operations¹. In addition, personal relationships between co-operating partners (mutual trust, reliability, respectability, and similarities in attitudes or mentality) was highly valued by participants. A study by König and Müller also showed that most transnational co-operations are between SMEs situated in the EU. For example, in Spain, 67% of all transnational co-operation agreements involved SMEs located within the EU².

3.3 CHARACTERISTICS OF TRANSNATIONALLY CO-OPERATING ENTREPRENEURS AND SMEs

In order to draw a tentative profile of transnationally co-operating entrepreneurs and SMEs, it was necessary to examine which characteristics had an effect upon this type of co-operation.

Table 3.3 Impact of entrepreneur- and enterprise-related characteristics on transnational co-operation

Variable	Impact
Manufacturing	No impact
Trade sectors	No impact
Enterprise size	No impact
Maximum lower education	No impact
Maximum secondary education	No impact
Maximum higher education	No impact
Age of the enterprise	Significant negative impact*
Market leader in market segment	No impact
Fighting hard for a larger market share	No impact
Satisfied with current market share	Significant negative impact**
Serving small market segments or product groups that no one else is serving	No impact
Concentration on new product and market combinations	Significant positive impact***

* The significant negative relationship with age could mean that the younger an enterprise is the more international co-operation they would undertake.

** The significant negative relationship with satisfaction with current market share could mean that enterprises not satisfied with their current market share enter into more international co-operation agreements.

*** The significant positive relationship with concentration on new product and market combinations could mean that enterprises focusing on new product and market combinations have more transnational co-operation agreements than enterprises following other market strategies.

Source: ENSR Enterprise Survey 1997.

Table 3.3 shows the variables analysed and their impact upon entrepreneurs and their SMEs. Three variables appear to have an impact upon transnational co-operation: age (younger enterprises are more involved in transnational co-operation), satisfaction with current market share (enterprises which were satisfied with their current market share co-operated less) and concentration on new product and market combinations (those which

¹ König, W., K., Müller, Empirical Survey of Cross-Border Co-operations in the Crafts Sector, International Small Business Series 18, 1994.

² Casani, F., Una Aproximación Empírica a la Cooperación Interempresarial en España (An Empirical Approach to Inter-firm Co-operation in Spain), Boletín ICE No. 746, October 1995.

focused upon new product and market combinations co-operated more). The influence of market-related variables indicates that transnational co-operation is an important factor for improving existing SMEs' market positions. The importance of the market approach was also noticed in Chapter 2 and Chapter 12 of this Report. Enterprise size, sector of activity and educational level of the entrepreneur have no significant impact on transnational co-operation. Interestingly, the fact that the size of an enterprise is not significant seems to be remarkable, as it is often stated that many small enterprises are reluctant to enter into co-operation agreements because these might limit their autonomy or independence.

3.4 REASONS TO CO-OPERATE AND NOT TO CO-OPERATE¹

The following reasons for transnational co-operation can be discerned (not in hierarchical order):

- Access to new markets.
- Minimising the overall costs relating to searching, identifying and marketing existing products on foreign target markets.
- Growth beyond domestic niche markets.
- Broader supply of products.
- Access to new technology and competencies.
- Stronger positioning in relation to customers and/or suppliers.
- Reduced costs.
- Access to production capacity.
- Access to capital.

Thus, SMEs work together to strengthen their competitive position by means of sharing marketing knowledge between partners. Humphrey and Schmitz² argue that it is the combination of competition and co-operation which drives the search for improvement. This hypothesis was confirmed by a study among business start-ups in the former East Germany³ and by the results of the ENSR Survey. The ENSR Survey indicates that SMEs working together with a foreign partner have coped more with foreign competition over the past 5 years (50% compared with 26% of those not having a transnational co-operation agreement). In addition, SMEs working together with a foreign partner see more competition as the biggest threat within the European Single Market (38% compared with 30% of those not co-operating with a foreign partner).

As far as opportunities within the European Single Market are concerned (see Table 3.4), SMEs that are working together with a foreign partner mention more a larger selling market (27% compared with 10% of those not working together with a foreign partner). Moreover, SMEs co-operating with a foreign partner are more aware of other opportunities throughout the European Single Market (24% compared with 12% of those not working together with a foreign partner).

¹ Derived from the ENSR partners.

² Humphrey, J., H. Schmitz, Principles for promoting clusters & networks of SMEs, Unido, October 1995.

³ Schiller, R., Kooperation als Erfolgsfaktor für Klein- und Mittelunternehmen (Co-operation as Success Factor for SMEs), IGA-Zeitschrift für klein- und mittelunternehmen, 1996.

Table 3.4 Transnational co-operation and opportunities offered by the European Single Market as perceived by entrepreneurs (column percentages, more than one answer possible)

Opportunities	Working together with a foreign partner	
	Yes	No
Larger selling market	27%	10%
Simplified collaboration with international enterprises	29%	10%
Lower production costs	11%	6%
Other opportunities	24%	12%
No opportunities	30%	59%

Source: ENSR Enterprise Survey 1997.

Not surprisingly, SMEs having a transnational co-operation agreement regard on balance the European Single Market as an opportunity (61% compared with 33% of those not co-operating with a foreign partner). The latter perceive the European Single Market more as a threat (19% compared with 13% of those co-operating) or are indifferent towards it (neither an opportunity nor a threat 40% versus 24% of those co-operating).

As reasons for excluding transnational co-operation, one can mention the following (not in hierarchical order):

- Not necessary or unusual.
- Impossible to increase competition.
- Co-operation affects independence.
- Co-operation influences the favourite work.
- Fear to be judged as an inadequate partner.

3.5 ADVANTAGES AND DISADVANTAGES¹

The following advantages of transnational co-operation can be quoted (not in hierarchical order):

- Opportunity to expand a set of products or services beyond the limitations of a domestic market.
- Social advantages: new and exciting experiences, learning new languages, involvement with new cultures.
- Complementary resources.
- Advantages of scale.
- Reduced risks and costs.
- Co-opted or blocked competitors.
- Faster international experiences.
- Stronger competitive position.

Disadvantages can be ranked under the following denominators:

- Costs: direct (travel and accommodation expenses), indirect (adjustment of products and services directed at foreign markets) and opportunity (loss of revenue and/or other sales, opportunities in alternative/complementary domestic market niches).
- Dependency.

¹ Derived from the ENSR partners.

The problems that SMEs encounter with transnational co-operation are added onto disadvantages: finding and evaluating a partner, unequal commitment, lack of resources and communication between the partners. SMEs with experience of transnational co-operation have fewer problems in finding a partner than those not experienced (58.5% versus 80%). However, they face more barriers during start-up (35.4% versus 20.0%) and in the management phase (36.9% versus 14.3%)¹. This can be attributed to the fact that enterprises experienced with co-operation have learnt from mistakes and try to formalise them in contracts with new partners.

3.6 POLICY ISSUES

In different European countries, logistic and financial public support is available to facilitate transnational co-operation between SMEs. The logistic support can consist of consultancy, assistance with search for a partner, databases of technology offers and requests for co-operation, organisation of fairs, etc. The financial support (subsidies, risk capital) is granted for travel, feasibility studies, enterprise audits and/or the establishment of joint ventures. Unfortunately, no evaluation studies on these support mechanisms are available. However, in order to suggest an efficient policy, it is necessary that evaluation research gets a proper place in the armoury of policy makers and researchers. Moreover, the evaluation criteria have to be broadened beyond that of simple input/output assessments.

At the European level, similar logistic and financial support mechanisms exist. Examples of logistic support include: BC-net, BRE (Bureau de Rapprochement des Entreprises, Interprise and Europartenariat for partner search. Examples of financial support programmes include: JOP (Joint Venture Programme to stimulate co-operation between SMEs in the EU and SMEs in Central and Eastern Europe or in the Commonwealth of Independent States), Med-Invest (to stimulate co-operation between SMEs in the EU and SMEs in Mediterranean countries), AI-Invest (to support co-operation with SMEs from Latin America) and ECIP (to stimulate co-operation with SMEs in Latin America, Asia, the Mediterranean countries and South Africa).

In addition, the European Commission ensures that co-operation between enterprises does not restrict competition. Therefore, article 85 of the Treaty of the European Economic Community pertains to agreements between enterprises as well as their common actions and article 86 concerns illegal practices of one or more enterprises that are in a dominant position. However, SMEs could benefit from a favourable regime that aims to facilitate and encouraging co-operation between SMEs as well as their overall development².

Regarding future policy actions, it is important to foster susceptible SMEs to co-operate, in particular when they are hesitant about transnational co-operation. Testimonies from entrepreneurs who have experiences with transnational co-operation (for example during

¹ Staudt, E. et al., Kooperation als Erfolgsfaktor ostdeutscher Unternehmen, Ergebnisse einer empirischen Untersuchung zur Kooperationslandschaft in Ostdeutschland (Co-operation as success factor of Eastern German entrepreneurship. Results of an empirical research on the co-operation landscape in Eastern Germany), Bochum, Institut für angewandte Innovationsforschung, Bericht aus der angewandten Innovationsforschung No. 132, 1995.

² Commission des Communautés Européennes, PME et concurrence. Un guide pratique (SME and competition. A practical guide).

seminars or common stands at trade fairs) could offer significant insight and support for other SMEs. Furthermore, it would be very useful if the European Commission could create a financial support mechanism (similar to financial support programmes listed above) to facilitate co-operation between SMEs situated in different Member States of the EU. Such financial measures would considerably assist SMEs to enter into transnational co-operation, in particular with a partner from another Member State of the EU.

4 THE USE OF EXTERNAL ADVICE BY SMEs IN THE DIFFERENT PHASES OF THE LIFE CYCLE

Co-ordinated by Small Business Institute, Turku school of Economics and Business Administration

MAIN POINTS

- The use of external advice as well as the variety and complexity of advice grows as the enterprise size increases. Generally, large enterprises use more external advice. These differences in use are specially remarkable in the case of advice related to quality, management, health & safety, environment, internationalisation and marketing & communication.
- Enterprises in the service sector use not only more external advice than industry in general but also advice on different fields. Advice related to product development, marketing & communication, environment or quality is more often used by manufacturing enterprises, whereas their tertiary counterparts require more external advice on legal affairs and management.
- Highly educated, growth oriented and opportunistic entrepreneurs use more external advice.
- Barriers to external advice can be divided into four groups: barriers related to the resources of the enterprise (e.g. costs) and the entrepreneur (i.e. attitude), barriers related to the contents of external advice (i.e. suitability), barriers related to the information received (e.g. on availability) and barriers related to the implementation of external advice (i.e. application of recommendations).
- National policies to enhance the use of external advice are often aimed at reducing its costs or at disseminating information about it. Evaluation of measures aimed at enhancing the use of external advice are relatively rare. Most existing evaluation studies have shown that more practical and process-oriented services are required by SMEs.
- SMEs mostly need customer-oriented external advice and tailor-made services developed specifically for small enterprises. Therefore, more programmes for training and/or qualifying SME advisors are needed.
- Public provision of external advice should not affect the competition for external advice. The role of public, semi-public and private enterprises offering different types of external advice should be tuned to the specific needs of SMEs.

4.1 INTRODUCTION

In the Fourth Annual Report of the European Observatory for SMEs it was stated that stimulation and promotion of entrepreneurial and management training as well as the use of external experts by SMEs deserved more attention from the European Commission¹. The objective of this chapter is to provide information about the utilisation of external advice by SMEs in different phases of their life cycle as well as to identify the reasons for the use or lack of use of this type of advice. In this chapter, external advice includes information, advice and consulting services obtained by an enterprise from external sources (from either private, semi-public or public organisations).

The chapter is organised as follows. Section 4.2 analyses some of the factors that affect the use of external advice by SMEs, such as factors related to the enterprise, factors related to the entrepreneur and factors related to the life cycle phase within which an enterprise is operating. Meanwhile, Section 4.3 examines the barriers that affect the use of external advice by SMEs and the benefits that could be derived from it. Section 4.4 provides some examples of public policies intended to reduce these barriers. Finally, the chapter concludes by introducing some policy issues.

4.2 USE OF EXTERNAL ADVICE BY SMEs

An entrepreneur's own competencies and know-how may not always be sufficient for solving all the problems associated with the management of a successful business. There exists an obvious need for external advice provided by outside experts. Empirical evidence from the ENSR Enterprise Survey 1997² suggests that the most widely used external advice relates to finance, data processing, legal affairs, marketing & communication (26%, 24%, 22% and 22% respectively)³. In contrast, 41% of the enterprises surveyed admitted not to use any type of outside consultancy services. It is probable that some of these enterprises do in fact use external advice related to e.g. bookkeeping and tax accounting, but they just do not consider these routines as external advice.

Three main factors that affect the use of external advice can be discerned: enterprise-related, entrepreneur-related and life cycle-related factors.

Enterprise-related factors

The use of external advice enables an entrepreneur to concentrate on the core activities of the enterprise. External advice is also demanded when there is a need to know and learn new things or when a reorganisation of activities is required. Enterprises may also use external advisors either to check that everything is all right or to act as 'a critical eye'.

¹ EIM Small Business Research and Consultancy / ENSR, The European Observatory for SMEs, Fourth Annual Report, Zoetermeer, 1996.

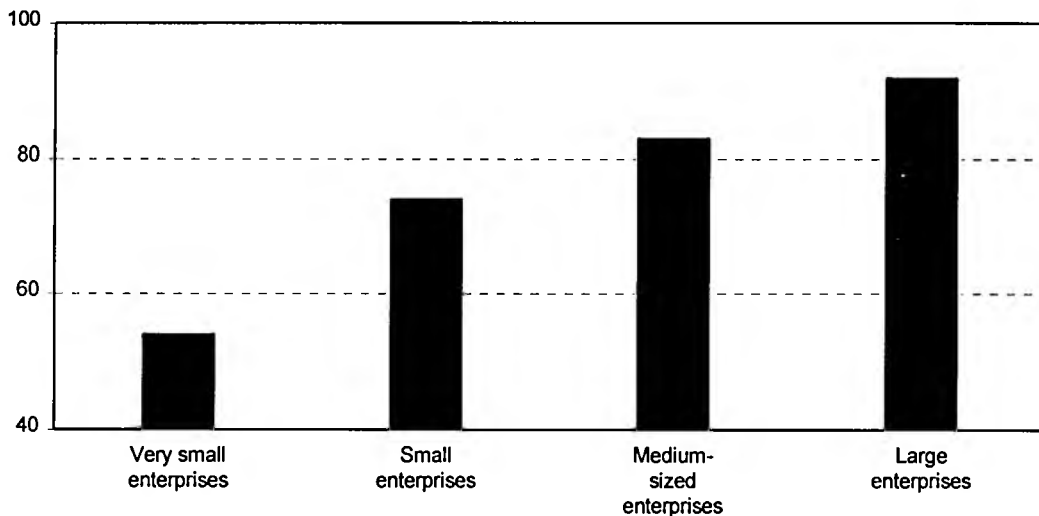
² For further information on the ENSR Enterprise Survey 1997, see appendix of Chapter 12 to this Report.

³ In the survey, no definition of external advice was provided to the entrepreneurs interviewed, so their personal interpretations certainly affect the results.

Cost reductions, as a result of externalised functions, may also be a motive behind the use of external advice¹.

The use of external advice as well as the variety and complexity of advice grows as the enterprise size increases. This hypothesis is supported by empirical evidence collected in many European countries² and by the ENSR Enterprise Survey 1997. Figure 4.1 shows a positive relationship between enterprise size and use of external advice. Additionally, this survey also shows that generally, large enterprises use more external advice on the rest of the fields, with the exception of advice on finance. These differences in use are specially remarkable in the case of advice related to quality, management, health & safety, environment, internationalisation and marketing & communication.

Figure 4.1 Percentage of enterprises using external advice by enterprise size



Source: ENSR Enterprise Survey 1997.

To explain these differences several reasons have been suggested. Small enterprises may not need as much advice as larger enterprises because their activities are less complex. Furthermore, large enterprises often provide internally some services, through their own departments. Additionally, small enterprises use less external advice due to a lack of internal resources and tailor-made services. However, some authors also argue that pre-

¹ Rynning, Typiske konsulentoppdrag og vellykkede konsulentoppdrag (Typical consulting and successful consulting) SNF-report 21/91, Bergen Norway, 1991; The Danish Ministry of Business and Industry, Virksomhedens rådgivere (The enterprises' consultants), 1991; Ministère de l'industrie et du commerce extérieur Français, Le conseil en PMI, Evaluation des FRAC et perspectives (Evaluation of FRAC's and future perspectives), 1991; FEDEA, Spain, 1993 and Wick, Beraternetzwerk der Schweizer und Liechtensteiner Klein- und Mittel-unternehmen (Counselling network in Swiss and Liechtenstein SMEs), St. Gallen, forthcoming.

² Tordoir, P.P., Resultaten van de TNO enquête 'Know-how ondersteuning' (Results of the TNO survey on 'Know-how support'), TNO-Beleidsstudies, Delft; 1992, IfM Germany; Lampe, Unternehmensberatung für Klein- und Mittelbetriebe (Consulting SMEs), Wien, 1991; The Danish Ministry of Business and Industry, Virksomhedens rådgivere (The enterprises' consultants), 1992; Instituto para la Mediana y Pequeña empresa industria, Demanda de servicios en España (Service demand in Spain), 1992 and Nutek, Småföretagen i Sverige (Small enterprises in Sweden), 1995.

cisely because of limited resources and functions inside the enterprise, small enterprises could benefit substantially from the use of external advice¹.

The use of external advice seems also to be dependent on other factors such as the economic sector to which the enterprise belongs to. Thus, according to some ad hoc studies, service sector enterprises use not only more external advice than industry in general² but also advice on different fields. These results were partially confirmed by the ENSR Enterprise Survey 1997 (see Table 4.1): advice related to product development, marketing & communication, environment or quality is more often used by manufacturing enterprises, whereas their tertiary counterparts require more external advice on legal affairs and management. The survey also showed that manufacturing enterprises use more external advice than their tertiary counterparts (63% of manufacturing enterprises use external advice in comparison to 54% and 60% of enterprises in trade and in services, respectively).

Table 4.1 Percentage of enterprises in each sector using external advice on each field

Field of advice	Manufacturing & Construction	Trade	Services
Starting a new company	10	4	10
Quality	21	15	13
Management	13	13	15
Data processing	30	20	22
Health & Safety	13	9	11
Marketing & Communication	25	22	19
Internationalisation	5	3	5
Legal Affairs	19	21	24
Product Development	17	9	13
Environmental Issues	15	6	7
Personnel Management	11	11	9
Finance	30	23	26
Use of any service	63	54	60

Source: ENSR Enterprise Survey 1997.

The degree of internationalisation of an enterprise seems to have a positive effect upon the demand for external advice. Thus, French evidence suggests that exporting SMEs demand more external advice than their counterparts, where external advice is regarded as crucial in the preparation phase of exports³. The ENSR Enterprise Survey 1997 shows that exporting SMEs and SMEs that have increased international contacts during the past few years use external advice more intensively than locally-oriented enterprises.

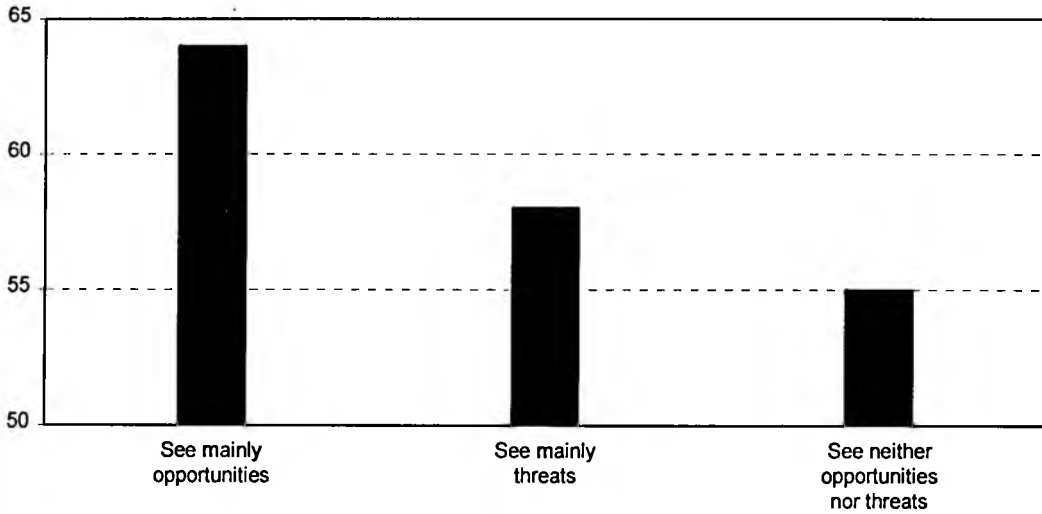
¹ Storhammar, PK-yritykset yrityspalvelujen käyttäjinä ja asiakkaina (SMEs as users of business services) University of Jyväskylä, Centre for economic research in Central Finland, 1996.

² Donckels - Bouwen - Van Assche - Letouche, Ondersteunende Dienstverlening aan KMO's (Supporting vending of services to SMEs), Brussels, 1994 and IAPMEI, 1996 and INE National Accounts 1977/1983 and 1993.

³ Ministère de l'industrie et du commerce extérieur Français, Le conseil en PMI, Evaluation des FRAC et perspectives (Evaluation of FRAC's and future perspectives), 1991.

The evidence derived from the ENSR Enterprise Survey 1997 (see Figure 4.2) suggests that enterprises 'challenged' by the Internal Market (i.e. either because they see opportunities or threats in it) resort more generally to external advice than those enterprises not 'challenged' by it (because they do not see either opportunities or threats).

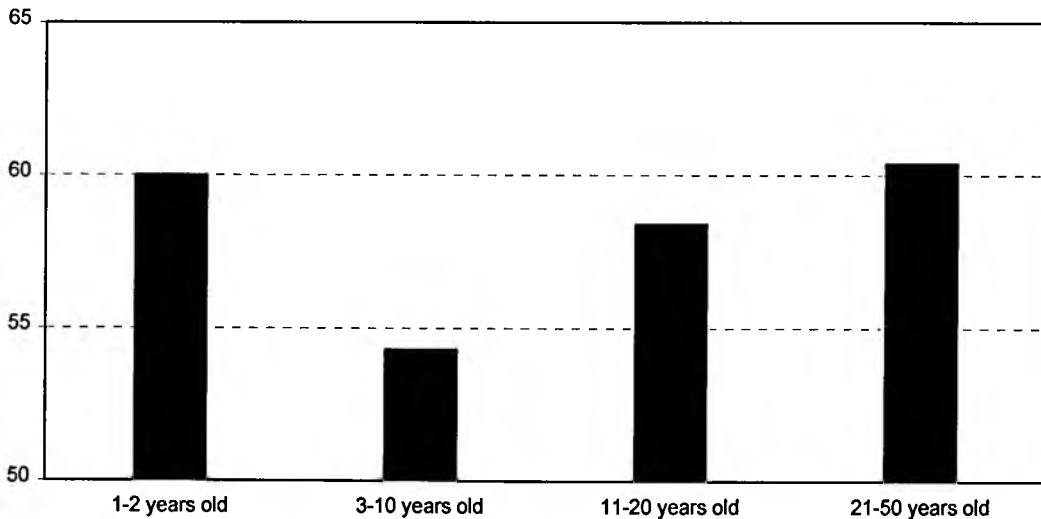
Figure 4.2 Percentage of enterprises that use external advice, according to their general opinion on the effects derived from the Internal Market



Source: ENSR Enterprise Survey 1997.

Finally, the ENSR Enterprise Survey also showed that, with the exception of very young enterprises (less than three years old), the use of external advice is directly related to the age of the enterprise. Figure 4.3 shows that enterprises in their early stages require and subsequently make use of external advice in a quite intensive way. Interestingly, and with the exception of start-up advice, there is no clear relationship (either positive or negative) between the age of an enterprise and the field of advice.

Figure 4.3 Percentage of enterprises using external advice, according to the age of the enterprise



Source: ENSR Enterprise Survey 1997.

Entrepreneur-related factors

It is clear that the smaller the enterprise is, the more influential the entrepreneur and his/her personality profile and abilities are to the development and success of the enterprise¹. These factors also have an effect upon the use of external advice. The entrepreneurs' willingness to accept their own limitations and to realise the need for outside help clearly affects their attitudes towards external advice. The educational achievements of the entrepreneur seems to represent another major entrepreneur-related factor explaining the use of external advice by SMEs. Highly educated entrepreneurs are more likely to use external advice in the development of their enterprises². This result is also confirmed by the ENSR Enterprise Survey 1997, in the sense that enterprises with highly educated entrepreneurs use more extensively external advice in a wider range of matters. Only 21% of enterprises run by university degree holders do not use any external advice in comparison to 44% amongst entrepreneurs who only have basic education.

The importance of the entrepreneur's profile on the use of external advice is also confirmed by a French study³. This study identified two distinct entrepreneurial profiles in relation to the use of external advice: growth-oriented entrepreneurs make more use of external advice and rely more on it, whereas entrepreneurs who do not emphasise growth use external advice to a lesser amount.

Life cycle-related factors

The use of external advice appears to depend not only on the enterprise and entrepreneurial characteristics, but also on the phase of the life cycle of the enterprise. Whereas some advice services are required in all the phases of the enterprise life cycle (i.e. financial services⁴), other advice services are related to special or exceptional situations (see Figure 4.4). Three main groups of external advice service can be discerned according to the enterprise's life cycle.

External basic advice or low-value external advice includes traditional and common advice used by SMEs in all phases of their life cycle (a solid line in Figure 4.4). Examples of this kind of advice relate to bookkeeping, data processing or legal matters. A special group of basic advice relates to the start-up of an enterprise, e.g. connected with the development of the business idea or with administrative burdens.

External advice connected to growth and change involves advice services used as the enterprise grows and/or changes its operations (a dotted line in Figure 4.4). The nature of this type of advice is often strategic, and examples include advice on management, environment or internationalisation.

¹ Pleitner, *Entrepreneurial personality and enterprise development*. University of St. Gallen Switzerland, 1996 and Solomon - Fernald, *An examination of personal and behavioural characteristics of small-business owner-managers and help-seeking behaviour through the business life-cycle stage*, Washington DC, 1996 Unpublished.

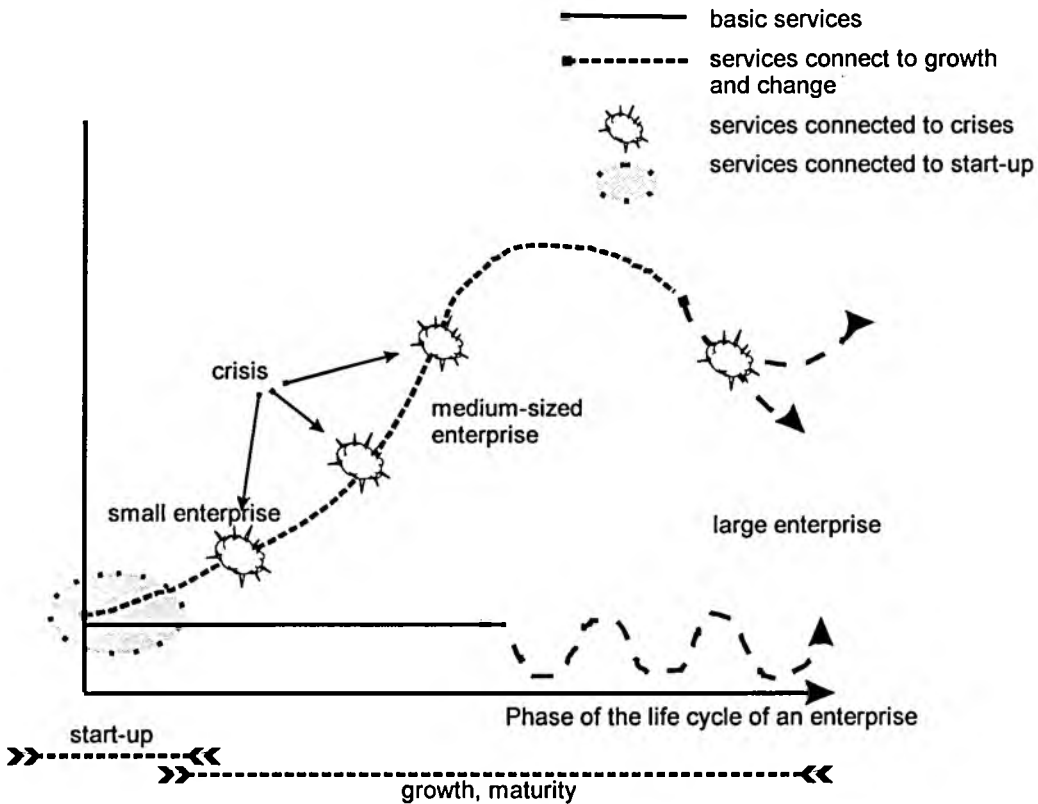
² Donckels - Bouwen - Van Assche - Letouche, *Ondersteunende Dienstverlening aan KMO's (Supporting vendoring of services to SMEs)* Brussels, 1994, Storhammar, *PK-yriitykset yrityspalvelujen käyttäjinä ja asiakkaina (SMEs as users of business services)* University of Jyväskylä. Centre for economic research in Central Finland; 1996, IMK, *Bedrijfskundige kennis en kansrijk ondernemerschap (Business knowledge and successful entrepreneurship)*, IMK Diemen, 1992 and The Danish Agency for Development of Trade and Industry, *Dansk erhvervslivs brug af GTS-nettet (Use of GTS-network in Danish economic life)*, 1995.

³ Duchénaut, *Les dirigeants de PME (SMEs' entrepreneurs)*, Maxima, 1996.

⁴ ABN/AMRO, *Met Kracht naar het Buitenland (Full speed abroad)*, 1991.

External advice connected to crisis is needed in different kinds of problem situations faced by an enterprise (clouds in Figure 4.4). In Chapter 7 of this report, three groups of factors leading to financial crisis are identified: management, financial and external factors. External advice could be of help when an enterprise is facing such situations.

Figure 4.4 Typology of external advice for SMEs



Source: Elaborated from: Hurmerinta-Peltomäki, Leila – Nummela Niina (1997) The Future of Expert Services from SME Perspective: What, How and for Whom? 1st Finnish SME Forum. Turku, February 13-14, 1997.

Bearing in mind this typology, it is possible to identify concrete types of external advice demanded in each phase of the life cycle. Thus, external advice in the start-up phase is used to assist in developing and screening a business idea and strategy or help overcome main difficulties such as requirements related to administrative burdens¹. Advice sought during the first years of operation generally include bookkeeping, marketing and account-

¹ Deloitte & Touche Consulting Group, Brukerundersøkelse av veiledningstjenesten under det norske nærings- og energidepartement (Survey of users of advisory services commissioned by the Ministry of Trade and Energy in Norway), 1996 Oslo and Harrer, Unternehmereinstellungen zur Betriebsberatung (Entrepreneurs' attitudes towards consulting), Wien, 1988.

ing¹. In several countries, first call for external advice involve public authorities and not private consultants².

Meanwhile, external advice in the enterprise's growth phase is often needed not only to help to focus the enterprise and to implement those changes required by growth but also to assist in follow-up processes³. In this stage, growth-oriented enterprises become more active and organised users of external advice since they are more precise about their goals and make better use of available facilities⁴.

Finally, mature enterprises (that is, enterprises that have stable activities and do not aim either to grow or to reduce their activities) use different types of external advice⁵, mostly related to legal affairs and management (i.e. transmission problems).

Table 4.2 Profile of entrepreneurs and enterprises using external advice

Enterprise-related factors	Entrepreneur-related factors	Life-cycle phase-related factors
<ul style="list-style-type: none"> - <i>Size of the enterprise</i>: less use of external advice the smaller the enterprise is. Additionally, small enterprises mainly use advice related to finance, whereas large enterprise request advice on a wider scope of fields. - <i>Sector</i>: manufacturing enterprises make more use of external advice than their tertiary counterparts. - <i>Age of the enterprise</i>: With the exception of start-ups, external advice is more in demand in mature enterprises. - <i>Internationalisation</i> and international orientation of an enterprise increases the use of external advice - Enterprises 'challenged' by the <i>Internal Market</i> use more external advice than those not 'challenged'. 	<ul style="list-style-type: none"> - Highly <i>educated, growth-oriented and opportunistic</i> entrepreneurs use more external advice. 	<ul style="list-style-type: none"> - Start-up phase: search for advice relates to the development and screening of business ideas or to help over administrative problems. - Growth phase: active users of various external advice - Mature phase: selective users of external advice.

Source: ENSR Enterprise Survey 1997.

¹ Aronsson - Ellgren - Forsberg, Efter de första ljuva åren... - En uppföljningsstudie av nystartade företag. (A follow-up study of new enterprises), Stiftelser Forum för Småföretagsforskning, Sweden, 1995.

² IfM Germany, EIM Small Business Research and Consultancy, the Netherlands and Small Business Institute Finland.

³ Nordisk Industrifond, How to qualify Nordic SME-consultants, Oslo, 1997.

⁴ Donckels - Bouwen - Van Assche - Letouche, Ondersteunende Dienstverlening aan KMO's (Supporting vending of services to SMEs), Brussels, 1994 and Kinsella - Clarke - Storey, Fast-Growth Small Firms. Irish Management Institute, Dublin, 1994.

⁵ Lampe, Unternehmensberatung für Klein- und Mittelbetriebe (Consulting SMEs), Wien, 1991.

Table 4.2 summarises the main factors that affect the use of external advice. This classification is based on the results obtained from the ENSR Enterprise Survey 1997.

4.3 BARRIERS OF ACCESS TO EXTERNAL ADVICE

Section 4.3 outlines the main barriers that not only impede/render difficult the use of external advice by SMEs but also impede the full exploitation of the benefits derived from it. Generally, these barriers can be classified - according to their nature and origins - in the following four groups:

a. Barriers related to the resources of the enterprise and the entrepreneur.

Examples of these barriers include high costs of external advice, negative attitude towards external advice, inability of the entrepreneur to express his/her wishes, lack of capacity, entrepreneurial skills and personnel to benefit from external advice and lack of time. High cost is one of the most important barriers against the use of external advice¹. Negative attitude and personnel capacity are important barriers, especially in the smaller enterprises, since the entrepreneur may be unwilling to admit the need for external advice and might wish to solve all the problems himself². Entrepreneurs may strongly believe that consultants cannot tell them anything they do not already know or that the use of external advice is just a waste of time. This attitude may originate from the entrepreneur's own experience or from more general beliefs and/or attitudes³. Finally, some entrepreneurs may not want to use external advice in order to retain their independence⁴.

b. Barriers related to the contents of external advice.

These barriers refer to the suitability and usability of external advice. Most SMEs prefer focused and problem-oriented external advice⁵. In this sense, it is often argued that external advice is not related to the specific needs of SMEs, since external advice is very often regarded as too general or designed for larger enterprises. This barrier might also explain why SMEs find the cost of external advice too high, since they do not appreciate the full advantage of using it.

c. Barriers related to the availability of information.

Small enterprises may not have enough information about the availability and contents of external advice. They do not know what to ask of consultants or where to get external advice⁶. Due to lack of information, enterprises cannot evaluate the costs and

¹ IAPMEI, *As PME's Industriais em Números (Statistics of industrial SMEs)* IAPMEI edition Lisboa, 1996.

² Steyrer, *Unternehmensberatung in Österreich - eine Befragung von Führungskräften (Counselling in Austria - a survey of management capabilities)*, Wien, 1989.

³ Ettinger, *Consultants et PME (Consultants and SMEs)* Ecole de Commerce Solvay Brussels, 1992 and Harrer, *Unternehmereinstellungen zur Betriebsberatung (Entrepreneurs' attitudes towards consulting)* Wien, 1988.

⁴ Europe's 500, *Dynamic Entrepreneurs, The Job Creators*.

⁵ Ziegerer, *Firmengründungen durch Frauen und Männer im Zeitablauf (Start-ups by women and men over time)*. PhD Study, University of St. Gallen, Bamberg, 1993.

⁶ Tordoir, *Het Gebruik van Kennisintensive Zakelijke Diensten, Ontwikkelingen en achtergronden aan de vraagzijde in de Verenigde Staten, Frankrijk, België en Nederland (The use of knowledge intensive business services. Development and background of the demand side in the United States, France, Belgium and the Netherlands)*, Ministry of Economic Affairs, the Netherlands, 1990.

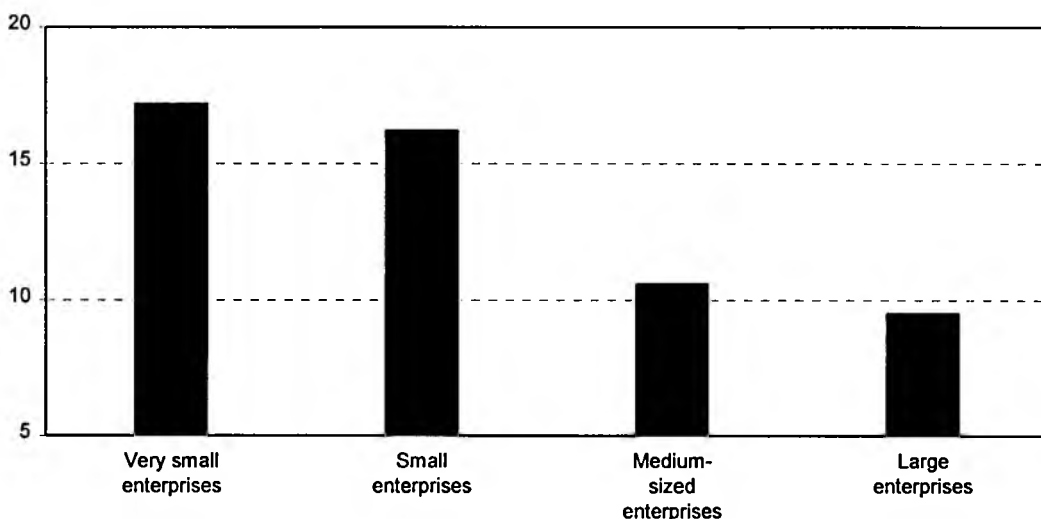
benefits of external advice. The definition of some needs (e.g. managerial needs) may be more difficult than others (e.g. technical needs or core-business-related needs¹).

d. Barriers related to the implementation of external advice.

Too often, external advice is acquired and provided as an occasional, limited consultancy, where a consultant unfamiliar to the enterprise provides the necessary advice within a limited time period. Successful acquisition of external advice is, however, a complex process, which starts with the definition of needs and ends in the implementation and application of recommendations. Many SMEs complain that the solutions provided are too difficult to implement and that further external help is often required in the implementation of such solutions and recommendations².

The ENSR Enterprise Survey 1997 provides some insight into the real importance of such barriers. Thus, the main barriers affecting the use of external advice by SMEs are resource-related (high costs of external advice, 40% of respondents), content-related (advice is not geared towards needs, 26% of respondents; nature of advice too general, 22% of respondents) and information-related (insufficient information on external advice, 17% of respondents). Interestingly also, the ENSR Survey shows that the information-related barriers are more frequently quoted by very small and small enterprises and by tertiary enterprises, whereas manufacturing enterprises seem to be more affected by content-related barriers (related to the contents of the advice, e.g. information not related to enterprise's needs).

Figure 4.5 Percentage of enterprises reporting information related barriers, by enterprise size



Source: ENSR Enterprise Survey 1997.

¹ Sauviat - Peyrache, L'identification et l'efficacité de la relation conseil-entreprise, une comparaison France-Allemagne (Identification and effectiveness of the external advisor - enterprise relationship. A comparison between France and Germany), 1992.

² Roselius, Die strategische Beratung von Firmeneigern (The strategic consulting of business owners) PhD Study, University of St Gallen, 1994 and Ettinger, Consultants et PME (Consultants and SMEs) Ecole de Commerce Solvay Brussels, 1992.

4.4 POLICIES TO INCREASE USE OF EXTERNAL ADVICE AND THEIR EVALUATION

There is considerable debate on the extent and contents of public intervention in the domain of external advice. Notwithstanding this, the available evidence would suggest the existence of a number of national policies intended to increase the use of external advice. Interestingly, most of these policies aim at reducing the costs of external advice and at disseminating information about external advice. In contrast, there are clearly fewer measures aimed at improving the contents or the implementation of external advice. This section analyses the existing policies designed to increase the use of external advice by SMEs. For this purpose, a classification of policies is provided, in accordance with their objectives. Unfortunately, there are few policy programme evaluations available, and such that do exist invariably conclude that more practical and process-oriented services are required by SMEs.

4.4.1 Policies aiming to overcome lack of resources

These policies aim to provide enterprises with resources required for the acquisition of external advice or to remove mental barriers - such as negative attitudes - by providing information or examples of positive experiences. In several countries, public and semi-public organisations offer external advice for SMEs below costs or free of charge. Subsidies are also offered to SMEs for acquiring the help of external advisors. According to the Dutch experience, financial support for acquiring external advice is not enough, since an active approach could also remove existing psychological and financial barriers. Provision of information about external advice is an important support measure¹. It has also been suggested, that subsidies should be given on the demand side and not on the supply side. So, SMEs should pay the full price which can be subsidised. This would minimise market disturbance and educates SMEs about the real costs of external advice².

In Sweden, small enterprises can receive consulting subsidies for buying the services of an external advisor. The aim of the procedure is to stimulate growth in the enterprise via using external advice to develop the competencies of the entrepreneur. External services may be in the form of consulting or training, and the subsidy covers a maximum of 50% of total costs³. In a Mentor Programme existing in several countries, counselling by experienced, mature business people is provided free of charge to small enterprises. Mentors are temporary advisors who help identify and overcome obstacles to growth. They are not professional consultants but volunteers and they do not participate directly in the implementation of required changes⁴.

¹ Knapper - McAlley, *De SMO in het licht van de behoefte aan advies bij het Midden- en Kleinbedrijf (The SMO regulation in the frame of the need for advice by small- and medium-sized enterprises)*, AGB, 1990.

² Enqvist R, *Management consulting of SMEs*, SME Foundation Finland, 1996.

³ Nutek, Sweden.

⁴ Mentor Programme, *A brochure by Forbairt Ireland; Mentor Programme: Review of 1994*, Forbairt Ireland.

4.4.2 Policies influencing the content of external advice

The aim of this type of policy is to enhance the supply of external advice suitable for SMEs. It is argued sometimes that providers of external service may neglect SMEs because of their limited resources and because suppliers cannot readily adjust themselves to the specific needs of small enterprises. The contents of external advice can be developed by either influencing private suppliers or by public provision of external advice.

In Denmark, private institutions providing external service on commercial basis have to be approved by the Danish Ministry of Business and Industry. To get approval, they have to disseminate information efficiently, possess high levels of relevant competencies, be easily accessible and efficiently managed¹. In Finland, the SME Foundation ('PKT-Säätiö') provides training and assistance for consultants working with SMEs as well as disseminates methodologies and experiences to both consultants and their clients. They also qualify SME consultants and assure the high quality of their services².

In Switzerland, relevant SMEs experience exchange groups have been working for many years. The purpose of these groups is to facilitate entrepreneurs in transferring knowledge and benchmarking with other similar enterprises. Groups are useful instruments for SMEs for providing new, useful and practical information and ideas at a low cost³.

4.4.3 Policies enhancing the dissemination and availability of information about external advice

The aim of these this type of policy is to increase the awareness of external services amongst SMEs. Enterprises may not have sufficient relevant information in order to evaluate the contents and price of external advice. Therefore, governments should facilitate or subsidise the provision of information about external advice for SMEs.

In a Dutch project '*Groot helpt Klein*' (Large helps Small) in the region Twente, professional consultants of large enterprises advice SMEs on a temporary basis. The aim of the project is to provide low-cost external advice for SMEs and to simultaneously improve the co-operation between large and small enterprises⁴.

British 'one-stop-shops' were conceived as a means to provide, in one location, all the external advice required by SMEs. One-stop-shops aim to provide an entrepreneur with all the contacts and services required. The French 'Guichet Unique' provide a unified access point for carrying out administrative formalities during the start-up phase. It is also offers information concerning the start of an enterprise⁵.

¹ DTI, Denmark.

² Small Business Institute, Finland.

³ Füglistaller - Zwick, Das Konzept der Erfahrungsaustauschgruppen bei Klein- und Mittelunternehmen (The concept of SME experience exchange groups), In: IGA (1996) Zeitschrift für Klein- und Mittelunternehmen, No. 2, 1996.

⁴ EIM Small Business Research and Consultancy, the Netherlands.

⁵ Aprodi, France.

4.4.4 Policies enhancing the improvement of implementation of external service

These policies are aimed at promoting process-oriented external service for SMEs and not just individual consultations. Most SME consultants are skilful in their own specialist field, but they may lack the knowledge appertaining specifically to the change process in SMEs. A more holistic approach may increase the usability and applicability of external advice to SMEs¹.

Within the Norwegian FRAM programme, advisory services are provided to small enterprises in the manufacturing sector. The aim of this programme is to increase the profitability of SMEs and thus stimulate growth. Consultants participate in selected projects from first analysis phase to the realisation phase of a project. A system to assure the quality of consultants has been developed within the. FRAM project and it is regarded as one of the most successful projects directed at SMEs in Norway².

The Finnish 'ProStart Programme' is aimed at helping the start-up entrepreneur to develop and to evaluate the realisation possibilities of a business idea. Intensive guidance is provided for the potential entrepreneur by a ProStart consultant. In the evaluation of the programme, it has been noticed that more attention has to be paid to the implementation of the business idea. A realisable idea alone is not sufficient in itself and an entrepreneur requires assistance in the practical application of the idea, e.g. in marketing and sales³.

4.5 POLICY ISSUES

A large number of SMEs do not make use of external services. It is therefore suggested that measures should be taken to familiarise more SMEs with the benefits and the possibilities of external services. National SME-oriented policy measures are usually targeted at reducing the cost of external advice or to disseminate information about external services. More attention could also be paid to contents and applicability of external advice. SMEs expect more customer oriented and tailor-made external advice, which should be aimed specifically at their problems.

The capability of SMEs to choose and use external advice should be also improved. Programmes targeted to improve the customer orientation of providers and the capacity of SMEs to acquire external advice could enhance the use of external advice. Additional policy measures could be directed at improving the quality of suppliers of external advice. Thus, programmes for both training and qualifying SME-consultants could be also designed so that formal qualification might make it easier for SMEs to choose between consultants.

Evaluations of programmes to enhance the use of external advice are rare or non-existent. Therefore it is difficult to assess the effectiveness of different measures. The idea of making evaluation a necessary element in the process of giving external advice - e.g. in the form of process consulting - would provide information on the outcomes of ex-

¹ Nordisk Industrifond, How to qualify Nordic SME consultants, Oslo, 1997.

² Rolfsen, Monica Evaluering av FRAM-programmet (Evaluation of the FRAM-programme), SINTEF, IFIM, Trondheim, Norway, 1994, 1994, 1995.

³ Naukkarinen, Jari, Evaluation of the ProStart Programme. Small Business Institute. Turku School of Economics and Business Administration. (in Finnish, forthcoming).

ternal advice and tools to develop new programmes. Evaluation should include both qualitative and quantitative information on the process of external advice itself as well as its outcomes.

Finally, it is important that public provision of external advice should not affect competition in the market. The roles of public, semi-public and private enterprises offering different types of external should be better tuned to the specific needs of SMEs.

5 ECONOMIC GROWTH, EMPLOYMENT AND THE ROLE OF SMEs

Co-ordinated by EIM Small Business Research and Consultancy

MAIN POINTS

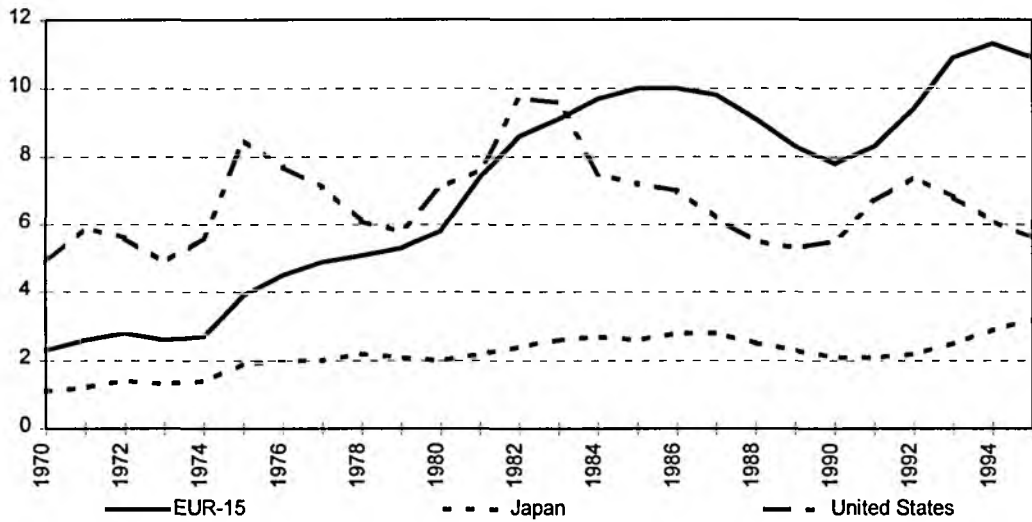
- The employment rate, i.e. the share of employment in working-age population, is around 60% in the European Union (EU) and above 70% in the United States (US) and Japan. The unemployment rate in the EU is around 10.8%, as compared to 5.4% in the US and 2.9% in Japan.
- The stagnation of employment since 1970 in the EU as opposed to the employment growth in the US could, at least partially, be explained by the fact that real wages increased significantly in the EU while in the US it only increased slightly. The diverging growth of real wages is partially due to differences in labour market institutions and related policies.
- SMEs are more labour intensive than large enterprises, i.e. they use more labour to produce similar outputs. An increase of 1% in output, all other factors being constant, generates (in the long-run) an increase in employment of roughly 0.8%. The relationship between output and employment is remarkably stable for different countries, sectors and size classes.
- In most Western countries, the share of SME-related employment has risen during the past two decades. This was mainly due to the restructuring and downsizing of large enterprises and the entry of new firms. SMEs create relatively more jobs than large enterprises, but also destroy more jobs. The net rate of employment growth is almost the same for enterprises of different size. Only in the case of very small enterprises, employment tends to grow faster than in larger enterprises.
- Employment may be increased directly through labour market policies, such as wage moderation, reduction of payroll taxes and training programs for the unemployed. It may be increased indirectly, through stimulating competition, innovation and human resource management.
- New enterprises play an important role in the creation of jobs. In the EU, about one million new enterprises are started each year. Employment growth in existing firms appears to roughly compensate for the employment loss caused by the exit of enterprises. The role of entrepreneurship in the creation of employment can be strengthened, among other things, by reducing the requirements for establishing a new enterprise, by lowering administrative burdens and by creating financial facilities.

5.1 INTRODUCTION

During the last 25 years, the United States (US) and Japan have been much more successful in creating jobs than the European Union (EU) or Europe-19. Currently some 18 million people are unemployed in the EU, as opposed to 7 million in the US and 2 million in Japan. The unemployment rate in the EU is 10.8%, as compared to 5.4% in the US and

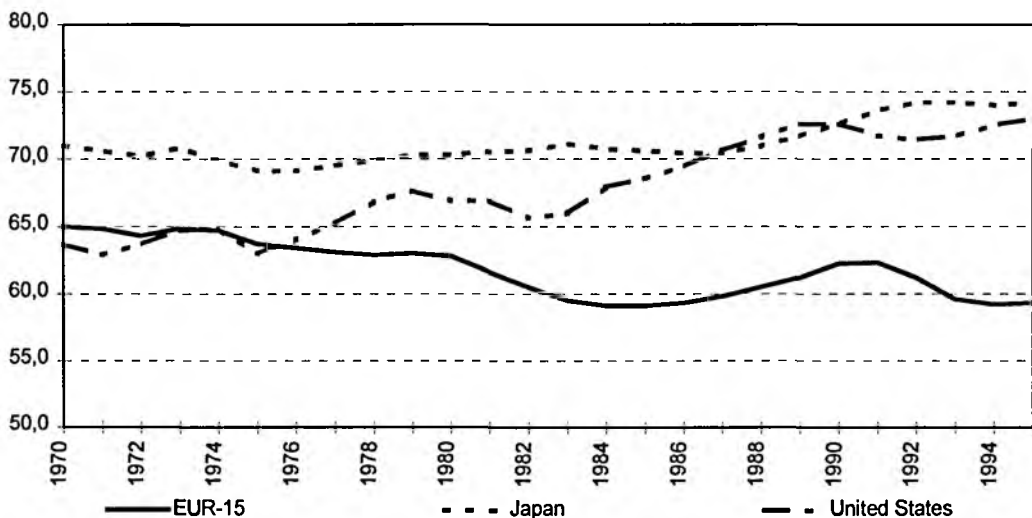
2.9% in Japan. The employment rate, i.e. total employment divided by the size of the population between the age of 15 and 64, is 59% in the EU, as opposed to 73% in the US and 75% in Japan. The unemployment and employment rates of the EU, US and Japan for the 1970 to 1995 period are illustrated in Figures 5.1 and 5.2. Interestingly, with respect to unemployment, beginning with 1984, the US labour market outperformed the EU labour market; previously, unemployment in the EU was below that in the US. As Figure 5.3 shows, during the past 25 years, employment in the EU did not grow as fast as in Japan and the US.

Figure 5.1 Unemployment rate as percentage of civilian labour force, 1970-1995



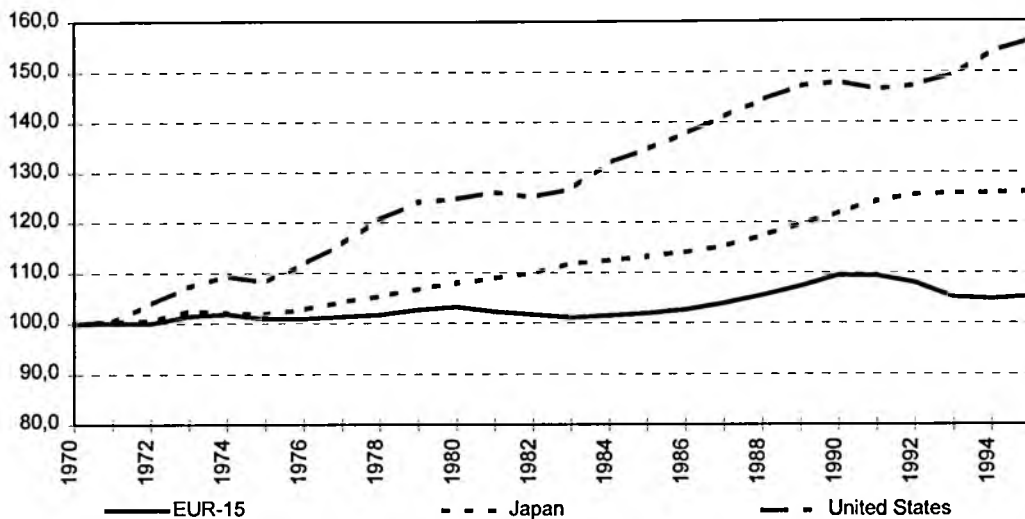
Source: National accounts, AMECO Database of DG II of the European Commission.

Figure 5.2 Employment rate as percentage of working-age population (15-64), 1970-1995



Source: National accounts, AMECO Database of DG II of the European Commission.

Figure 5.3 Total employment (1970=100), 1970-1995



Source: National accounts, AMECO Database of DG II of the European Commission.

Due to persistent high unemployment rates, employment policies have become top priority in the EU. The policies of the EC to further employment are manifold. The 1994 White Paper 'Growth, competitiveness and employment' argues that growth and employment can be enhanced by increasing competitiveness, by developing trans-European networks, and through research and development. Employment can also be increased by improving vocational education and training systems and by reducing working hours and labour costs. The 1995 local development and employment initiatives considered the scope for employment in 17 fields: in every day services, services improving the quality of life, cultural and leisure services and environmental services.¹ The 1996 action for employment in Europe re-emphasised most of the policies proposed in the White Paper. Furthermore, it referred specifically to the role of small and medium-sized enterprises. The Luxembourg Jobs Summit (20-21 November, 1997), will focus on the influence of entrepreneurship, employability, adaptability and equal opportunities upon labour growth.²

The purpose of this chapter is to discuss the role of labour market institutions and SMEs in employment determination.³ In order to assess the impact of labour market institutions and policies, Section 5.2 investigates the reasons why labour demand in the EU did not

¹ European Commission, Growth, competitiveness, employment: the challenges and ways forward into 21st century, White Paper, Office for Official Publications of the European Communities, Luxembourg 1994; European Commission, Action for employment in Europe: A confidence pact, Bulletin of the European Union, Supplement 4/96, Office for Official Publications of the European Communities, Luxembourg, 1996; European Commission, Local development and employment initiatives: An investigation in the European Union, internal document, Luxembourg, 1995.

² European Commission, Guidelines for Member States Employment Policies 1998, Rapid DOC/97/22.

³ An analysis of labour supply and working-age population growth, which play a role in the unemployment rate and the employment rate, is beyond the scope of this chapter. Instead, the focus is on employment. Strictly speaking, employment is equal to the minimum labour demand minus unfilled vacancies and labour supply minus unemployment. As unemployment is relatively high, it is unlikely that labour supply has rationed employment. As the number of unfilled vacancies is relatively small, employment can be assumed to be roughly equal to labour demand.

grow as fast as in the US and Japan. Section 5.3 outlines the contribution of different size classes and entrepreneurship to job creation, whereas Section 5.4 draws some pertinent conclusions.

5.2 THE ROLE OF LABOUR MARKET INSTITUTIONS AND POLICIES

5.2.1 Determinants of labour demand

According to standard economic theory, labour demand increases as the output level increases and decreases as the real wage rate increases and decreases, if technological progress increases productivity. If labour demand is measured in heads, instead of labour years, it increases as working time decreases. Finally, it can be shown that high minimum wages might have a negative impact on labour demand, as it may be an obstacle for employing low productive workers.¹

The impact of real wage rates, output and/or working hours on labour demand is extensively studied empirically. The review by Hamermesh² covers over 100 studies, of which more than 40 refer to the US and nearly 60 to other countries (mostly EU). The impact of real wage rate, output and working hours on employment is summarised in elasticities; the average results are presented in Table 5.1. The long-run elasticity of labour demand with respect to the real wage rate of -0.3 implies that an increase of the real wage rate by one per cent, keeping output and working hours constant, reduces labour demand by 0.3%. This result is due to substitution between capital and labour. An increase of output by 1% increases labour demand by 0.8%, suggesting slightly increasing returns to scale. A reduction of working time by one per cent, keeping hourly wages constant, increases labour demand by roughly 0.5%. The impact is less than 1% due to gains in efficiency. If a reduction of working hours is not correlated by a decrease of monthly real wages, the impact on employment is probably negligible or even negative.³ The evidence on the impact of working hours, however, is more limited than that of real wages and output. The review of the empirical evidence does not suggest that labour demand elasticities differ between the EU and US; the evidence with respect to Japan is too scarce for firm conclusions to be drawn.

Table 5.1 Long-run elasticities of labour demand

determinant of labour demand	impact on labour demand
real wage rate	-0.3
output	0.8
working hours	-0.5

Source: Hamermesh, D.S., *Labour demand*, Princeton University Press, Princeton, 1993.

¹ European Commission, Directorate-General for Economic and Financial Affairs, *Analytical study: Growth, employment and employment-intensive growth*, *European Economy* 62, pp. 31-48, 1996.

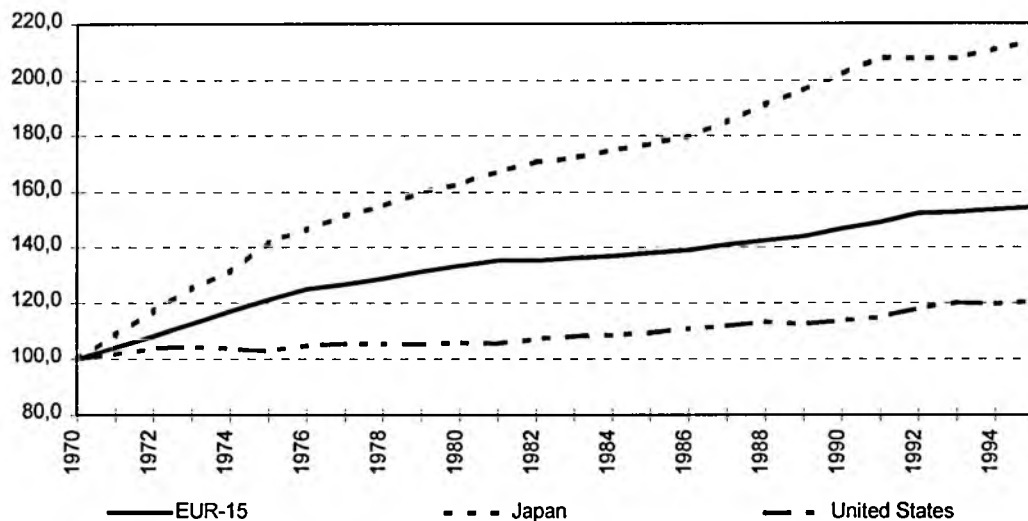
² Hamermesh, D.S., *Labour demand*, Princeton University Press, Princeton, 1993.

³ A widely used method to decrease real wages is to keep nominal wages constant, while prices increase. The impact of a reduction in working hours on employment is discussed more extensively in CPB, *Centraal economisch plan 1994 (Central economic plan 1994)*, Sdu, The Hague, 1994, p. 120.

5.2.2 The impact of wages and output on employment in the EU, the US and Japan

The actual development of real wages and output in the EU on the one hand and the US and Japan on the other, explains, at least in part, the diverging progress of employment. Figure 5.4 shows that real wages hardly increased in the US, increased moderately in the EU and substantially in Japan. The diverging development of real wages might explain the reason why the US created more jobs than the EU. Figure 5.5 shows that output, measured by gross domestic product at constant prices, has grown much faster in Japan than in the EU. The output-growth differential might explain why Japan, during the last 25 years, created more jobs than the EU, despite the doubling of the domestic real wage. Interestingly, output has grown at similar rates both in the EU and in the US.

Figure 5.4 Real compensation per employee, deflator GDP, total economy (1970=100), 1970-1995



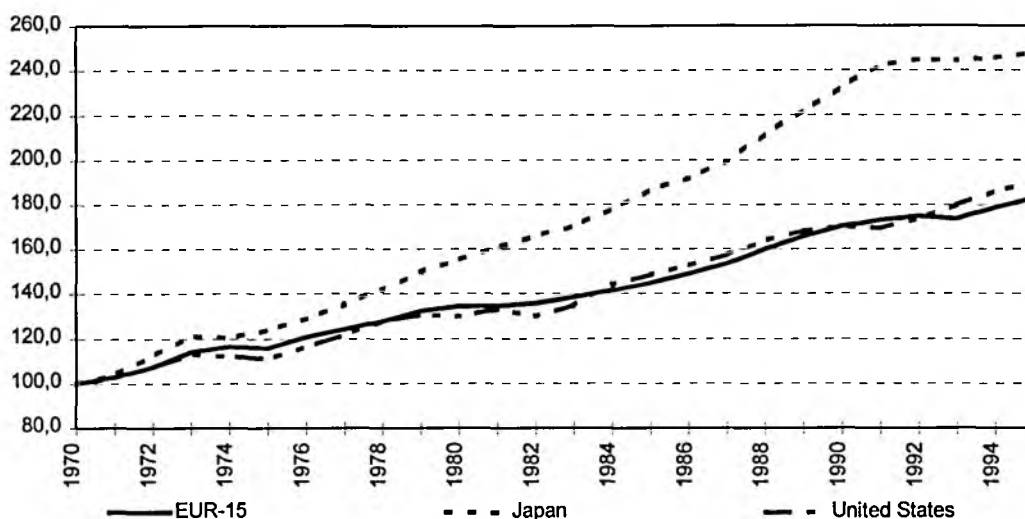
Source: National accounts, AMECO Database of DG II of the European Commission.

Technical progress is not directly observed, but it can be inferred from empirical estimates of labour demand equations. An analysis of OECD data reveals that, in most European countries technical progress is positive, although not always significant, whereas it is insignificantly different from zero in the US.¹ As technological progress enables to produce more output with fewer production factors, this might have also played a role in the diverging patterns of employment growth. Other data show that the wages of low-paid workers decreased more in the US than in the EU: this may have also contributed to the former's success in creating jobs.²

¹ Van Stel, A.J., *Werkgelegenheid en economische groei (Employment and economic growth)*, EIM, Zoetermeer, 1997.

² European Commission, Directorate-General for Economic and Financial Affairs, *Analytical study: Growth, employment and employment-intensive growth*, European Economy 62, pp. 31-48, 1996.

Figure 5.5 Gross domestic product at constant prices, national currencies (1970=100), 1970-1995



Source: National accounts, AMECO Database of DG II of the European Commission.

5.2.3 The impact of institutions on wages, output and technical progress

As argued above, (un)employment is mainly determined by labour costs, output and technical progress. These factors, however, are influenced by institutions and relevant policies. It appears that union membership or union coverage (the share of workers covered by a collective agreement) increase labour costs.¹ Other studies show that high payroll-related taxes and generous social security systems also increase labour costs.² Employment protection regulation increases dismissal costs, which can make employers reluctant to recruit. Active labour market programmes can reduce the mismatch between labour demand and labour supply, and thus reduce unemployment.

The impact of the centralisation of wage bargaining is less clear-cut: both highly centralised and decentralised bargaining appear to result in lower unemployment than intermediate, sectoral bargaining. The main reason is that under centralised bargaining, trade unions take into account that higher wages reduce employment and increase social security contributions. Under decentralised bargaining, employers are reluctant to accept wage increases, as they might have an adverse impact on their competitiveness vis à vis other firms. Under sectoral bargaining, both forces which moderate wages under centralised and decentralised bargaining are less strong: trade unions can shift part of the increases in social security contributions, which are due to sectoral wage increases and sectoral employment reductions, to other sectors, whereas employers do not loose com-

¹ Lever, M.H.C. and W.A. Marquering, Union coverage and sectoral wages: Evidence from the Netherlands, *Empirical Economics* 21, pp. 483-499, 1996; Stewart, M.B., Union wage differentials in the face of changes in the economic and legal environment, *Economica* 58, pp. 155-172, 1991.

² Layard, P.R.G., S.J. Nickell and R. Jackman, *Unemployment: Macroeconomic performance and the labour market*, Oxford University Press, Oxford, 1991; Lever, M.H.C., Union wage setting and unemployment in the Netherlands (1965-1987), *Applied Economics* 23 (10), pp. 1579-1585, 1991; Scarpetta, S., Assessing the role of labour market policies and institutional settings on unemployment: A cross-country study, *OECD Economic Studies* 26, pp. 43-98, 1996.

petitiveness as the wages of competitors are also increased. It should be noted that in open economies, strong foreign competition may discipline employers under sectoral bargaining.¹

Employment is also affected by innovation and investment in human capital. In order to understand the impact of innovation on employment, it is useful to make a distinction between product innovation and process innovation. Process innovation generally increases productivity. At given output levels, process innovation reduces employment. As increases of productivity may lower output prices and enhance product demand, *a priori* the total effect is unclear. Product innovation increases both output and employment. This is confirmed by two studies among manufacturing enterprises in Austria and the Netherlands.² The innovativeness of enterprises depends, among others, upon expenditure on research and development (R&D). Evidence that human resource management improves productivity is provided by studies from the Netherlands and the US.³

There is an increasing body of evidence which argues that product market competition affects employment as well.⁴ First, fierce product market competition reduces both prices and wages, thus increasing output and employment.⁵ Second, product market competition may enhance productivity growth.⁶ This is confirmed by a recent study from the OECD which shows that the process of globalisation necessitates firms to adopt international 'best practices' in order to remain competitive.⁷ As stated before, it is unclear *a priori* whether productivity growth enhances employment. Interestingly, the OECD study shows that on average, the high-technology industries in the G-7 countries exhibited an increase in both productivity and employment, whereas the low-technology industries exhibited a decrease in both productivity and employment. Globalisation increases small enterprise requirements with respect to production technology and international orientation.⁸

¹ Calmfors, L. and J. Driffill, Bargaining structure, corporatism and macroeconomic performance, *Economic Policy* 6, pp. 13-62, 1988; Calmfors, L., Centralisation of wage bargaining and macroeconomic performance: A survey, Working paper 131, Economics Department, OECD, Paris, 1993.

² Wirtschaftsforschungsinstitut, Beschäftigung und Innovation auf Unternehmensebene (Employment and innovation at enterprise level), *Monatsberichte* 6, Vienna, 1995; Van Leeuwen, G. and H.R. Nieuwenhuijsen, R&D-uitgaven en bedrijfsprestaties (R&D expenditure and firm performance), *Maandstatistiek van de industrie 95/8*, CBS, Voorburg, 1995.

³ Boon, M. and B. van der Eijken, Employee training and productivity in Dutch manufacturing firms, research paper 9716, CBS, Voorburg, 1997; Ichniowski, C., K. Shaw and G. Prennushi, The effects of human resource management practices on productivity: A study of steel finishing lines, *American Economic Review* 87 (3), pp. 291-313, 1997.

⁴ For a recent survey, see Geroski, P., P. Gregg and J. van Reenen, Market imperfections and employment, *OECD Economic Studies* 26 (1), pp. 117-156, 1996.

⁵ Lever, M.H.C., The impact of competition on prices and wages in Dutch manufacturing industries, paper presented at EARIE-conference, Leuven, September 1997.

⁶ Nickell, S.J., Competition and corporate performance, *Journal of Political Economy* 104 (4), pp. 724-746, 1996; Lever, M.H.C. and H.R. Nieuwenhuijsen, The impact of competition on productivity in Dutch manufacturing, EIM, Zoetermeer, 1997.

⁷ OECD, Technology, productivity and job creation, The OECD jobs strategy, OECD, Paris, 1996.

⁸ Julien, P.-A., Globalisation: different types of small business behaviour, *Entrepreneurship & Regional Development* 8, pp. 57-74, 1996.

5.3 THE ROLE OF SMEs AND ENTREPRENEURSHIP

5.3.1 Labour-intensity of SMEs

SMEs are, in general, more labour-intensive than large enterprises: in order to produce the same value of output, SMEs use more labour as input (see also Section 1.2). There are three reasons for this difference. First, it is due to sectoral differences: the manufacturing sector is capital intensive, while the average enterprise size is large; the service sector is labour intensive, while the average enterprise size is small. Second, small enterprises pay lower wages than large ones. This difference can partially be explained by the fact that large enterprises hire better educated and more experienced employees than SMEs do. However, even after controlling for differences in quality, it appears that large enterprises pay more. As mentioned before, the higher the wage rate, the lower the optimal employment level. Third, small enterprises have either more difficulty in attracting financial means or pay higher interest rates than large ones. One of the reasons for this phenomenon is the costs, to banks, of gathering information about the financial status of small enterprises, which borrow less than their large counterparts, is relatively high. The difficulty in attracting financial resources results in lower investments in capital goods (e.g. machines and equipment).

5.3.2 Labour demand elasticities by enterprise size

The issue whether labour demand elasticities differ by enterprise size is not well researched. It is not included in the survey by Hamermesh¹. The few empirical studies which have investigated this issue suggest that the real wage elasticity of labour demand is similar for small and large enterprises; thus, an increase in the real wage rate of one per cent has a similar negative impact (in percentages) on labour demand in SMEs and large enterprises.² These studies further suggest that the (long-run) output elasticity of labour demand for both SMEs and large enterprises is around 0.8; the elasticity of SMEs might be somewhat lower than that of large enterprises.^{3, 4} The number of studies which have investigated the elasticity of labour demand with respect to working hours is relatively small. The available evidence suggests that the elasticity of working hours is higher for large enterprises (in absolute terms) than for small ones. This corresponds to the hy-

¹ Hamermesh, D.S., *Labour demand*, Princeton University Press, Princeton, 1993.

² Nguyen, S.V. and A.P. Reznick, Factor substitution in small and large U.S. manufacturing establishments: 1977-82, *Small Business Economics* 5, pp. 37-54, 1993.
Huigen, R.D., A.J.M. Kleijweg, G. van Leeuwen and C. Zeelenberg, A micro-econometric analysis of inter-related factor demand, research report 9403/E, EIM, Zoetermeer, 1994.

³ Nguyen, S.V. and A.P. Reznick, Returns to scale in small and large U.S. manufacturing establishments, *Small Business Economics* 3, pp. 197-214, 1991; Lever, M.H.C., Firm size and employment determination in Dutch manufacturing industries, *Small Business Economics* 8 (5), pp. 389-396, 1996; Van Stel, A.J., *Werkgelegenheid en economische groei: een empirisch onderzoek* (Employment and economic growth: An empirical investigation), EIM, Zoetermeer, 1997.

⁴ This elasticity corresponds more or less to the impact of turnover growth on employment growth discussed in Chapter 12. The impact reported in Chapter 12 is somewhat smaller than the one reported here. The difference is probably due to the fact that Chapter 12 considers the impact of turnover growth in the short-run (within one year), whereas Chapter 5 considers the impact in the long-run (after several years).

pothesis that redistribution of work after a reduction of working hours is more difficult in small firms than in large ones.¹

5.3.3 Enterprise size and employment growth

The share of SMEs in total employment increased during the seventies and eighties in many Western countries, whereas many large enterprises laid off a large number of employees. As unemployment is persistently high, it would be interesting to know why the SME share in total employment has increased and to what extent SMEs can be expected to create jobs.

The increase of the share of SMEs in total employment has to do with changes in production technology, in consumer demand and in the pursuit of flexibility and efficiency.² The emergence of computer-based technology in the area of production, administration and information have decreased the role of economies of scale. The increased standard of living and greater individualism of consumers have led to fragmented markets and shorter product life cycles. Finally, large enterprises downsized their activities and returned to their core business in an attempt to increase their flexibility and efficiency. These factors have led to an increase of the employment share of SMEs.

Closer inspection reveals that there are some methodological problems inherent in any claim that jobs are mainly created by SMEs.³ The potential of SMEs to create jobs can be assessed in three ways:

1. the evolution of the share of SMEs in total employment over time;
2. the net rate of employment growth in SMEs vis à vis large enterprises;
3. gross flows of job creation and job destruction.

These methods⁴ are discussed below:

1. As stated above, in most Western countries, the share of SMEs in total employment has increased during the past two decades. This does not imply that SMEs create most of the jobs. Firstly, the increased share of SMEs may be due to shrinking large firms which in doing so may cross the size class band. This phenomenon is called the size distribution fallacy.⁵ Secondly, the increased share of SMEs might be due to sec-

¹ See Lever, *op. cit.*, 1996.

² Carlsson, B., *The rise of small business: causes and consequences*, in: W.J. Adams (ed.), *Singular Europe, economy and policy of the European Community after 1992*, pp. 145-169, University of Michigan Press, Ann Arbor, 1992.

³ ENSR, *The European Observatory for SMEs, Third Annual Report, Chapter 3, appendix 1*, Zoetermeer, 1995; Brown, C., J. Hamilton and J. Medoff, *Employers large and small*, Harvard University Press, Cambridge, Massachusetts, 1990; Davis, S.J., J. Haltiwanger and S. Schuh, *Small business and job creation: Dissecting the myth and reassessing the facts*, *Small Business Economics* 8, pp. 297-315, 1996; OECD, *Employment outlook, Chapter 3*, OECD, Paris, 1994.

⁴ See Klomp, L., *Empirical studies in the hospitality sector*, Ph.D. thesis, Erasmus University Rotterdam, 1996 and Klomp, L. and A.R. Thurik, *Kleine bedrijven als banenmotor? (Are small firms the engine of employment growth?)*, Van Gorcum, Assen, 1997.

⁵ If growing small enterprises pass the size class interval, the size distribution fallacy may also underestimate the growth of small enterprises. This phenomenon is observed for the Netherlands by Kleijweg, A.J.M. and H.R. Nieuwenhuijsen, *Job creation by size class: measurement and empirical investigation*, research report 9604/E, EIM, Zoetermeer, 1996.

toral changes, e.g. exits from large industrial enterprises and entry into small enterprises in the service sector.

2. Does the net rate of employment growth of SMEs exceed that of large enterprises? Gibrat¹ has proposed that enterprise size does not affect the rate of employment growth. The empirical evidence with respect to Gibrat's law is mixed. If it is tested on a panel of enterprises which remain in business during the period of observation it is generally rejected: small enterprises appear to grow faster than large ones. This result may be due to the way observations are sampled: small firms which shrink and disappear are not included in the sample. If it is tested on a sample including enterprises which enter or exit the market, the deviations from Gibrat's law are relatively small. If it is tested on a sample of enterprises which are large enough to produce efficiently (i.e. which exceed the minimum efficient scale), it is generally accepted.² Only in very small enterprises employment appears to grow faster.³
3. The flows of job creation, due to entry and expansion, and job destruction, due to shrinkage and exit, appear to be larger for SMEs than for large enterprises. In other words, SMEs tend to create more jobs than large enterprises, but also destroy more jobs. The net flow, which is the difference between job creation and job destruction, with respect to enterprise size appears to be nearly constant. Only the smallest enterprises appear to have a higher net flow.

Although the results of these studies are not unanimous, the conclusion of the debate about the relationship between enterprise size and growth seems to be that only very small enterprises create more jobs than large enterprises do. Two remarks should be added. First, the conclusion does not say that all small enterprises grow faster than all large enterprises. The growth rate of firms within one size class and within one industry appears to vary a lot. Besides size, there are other factors which determine employment growth. Second, one of the reasons why very small enterprises grow faster than large ones may be that very small enterprises are often young firms. These firms are subject to a type of selection process: some will exit, others will survive and grow to a size at which they can produce most efficiently.

5.3.4 Entrepreneurship and employment

New enterprises, which are mainly SMEs, play an important role in the creation of new jobs in the long-term. Conversely, employment created by new enterprises is rather unstable, as failure rates of new businesses are quite high (only half survive after five years).

¹ Gibrat, R. *Les inégalités économiques*, Sirey, Paris, 1931.

² For the US, see Davis, S.J., J. Haltiwanger and S. Schuh, *Small business and job creation: Dissecting the myth and reassessing the facts*, *Small Business Economics* 8, pp. 297-315, 1996. See also M.A. Carree and L. Klomp, *Small business and job creation; A comment*, *Small Business Economics* 8, pp. 317-322, 1996. For the Netherlands, however, a significant negative impact of size on growth is reported by Huigen, R.D., A.J.M. Kleijweg and G. van Leeuwen, *The relationship between firm size and firm growth in Dutch manufacturing estimated on panel data*, research paper 9105, EIM, Zoetermeer, 1991.

³ The relationship between enterprise size and employment growth is mainly investigated for enterprises in manufacturing. The higher employment growth in small enterprises does not necessarily hold for the service sector, as enterprises in services can operate efficiently at a low scale. See Audretsch, D.B., L. Klomp and A.R. Thurik, *Do services differ from manufacturing? The post-entry performance of firms in Dutch services*, mimeo., Erasmus University Rotterdam, 1997.

On the other hand, employment in enterprises which survive appears to grow. A Dutch investigation of the performance of new enterprises suggests that employment growth in remaining enterprises compensates for employment losses due to the exit of other enterprises. After 4.5 years, surviving enterprises employed on average 3.2 workers.¹ As the number of new enterprises in the EU is around 1 million a year, the employment potential is considerable. The number of new enterprises could be further increased by reducing requirements to establish a new enterprise, by reducing administrative burdens and by creating financial facilities.² The survival rate of new enterprises could probably be increased by improving the vocational education and training achievements of (potential) entrepreneurs. More research into the determinants of entrepreneurship and the causes of business failure is necessary to assess the potential impact of entrepreneurship on employment creation.

5.4 POLICY ISSUES

The purpose of this chapter is to discuss the role of labour market institutions and SMEs in the creation of jobs. An international comparison for the period 1970-1995 suggests that employment in the EU did not grow as fast as in the US because real wages increased more, whereas output growth was the same. Employment in the EU did not grow as fast as in Japan, because output growth was much lower.

Employment growth in the EU could probably be boosted by increasing labour market flexibility and by improving competitiveness in the output market. With respect to the labour market, policies such as training programs for unemployed, reduction of pay-roll taxes, subsidies for long-term unemployed and providing working experiences to unemployed through public sector employment, in general appear to be effective.³ With respect to competitiveness in the output market, both research and development and human resource management appear to be important.

With respect to enterprise size, production in SMEs appears to be more labour-intensive than in large enterprises. The relative (percentage) change in employment due to changes in either real wages or output appears to be nearly the same for large and small enterprises. Similarly, the relationship between enterprise size and employment growth appears to be stable. Only in very small enterprises employment appears to grow faster than in larger enterprises. The higher growth rate of very small enterprises may well be related to the fact that, on average, these are relatively young. The evidence suggests that removing barriers to entrepreneurship could increase the number of enterprises and jobs.

¹ CBS, Cohortonderzoek nieuwe ondernemingen: situatie per 1 juli 1990 van in 1985 opgerichte ondernemingen (Cohort study of new enterprises: Situation per 1 July 1990 of enterprises established in 1985), CBS, Voorburg, 1991.

² There is some evidence that a reduction of the requirements to establish a new enterprise in retailing in the Netherlands increases the number of shops. See Carree, M.A., P. Fris and A.R. Thurik, De gevolgen van de nieuwe vestigingswet (The impact of the new establishment act), Economisch Statistische Berichten, 24 November 1993, pp. 1082-1086.

³ European Commission, Joint Employment Report, 1997.

6 REGIONAL DEVELOPMENT, SMEs IN LESS FAVOURED RURAL AREAS

Co-ordinated by Agder Research Foundation

MAIN POINTS

- Western Europe is faced by large regional imbalances which are difficult to reduce in a situation characterised by increased globalisation.
- Less favoured rural areas generally have a relatively high share of employees in SMEs. This provides a crude indication that the stimulation of indigenous SMEs and local start-ups may represent a relevant development model in these areas, especially in relation to their difficulties in competing for 'mobile' investments.
- SMEs in less favoured rural areas face specific difficulties. Although difficulties can vary between regions they are often linked to a lack of infrastructure, distance to main markets and poor access to external information. Other important difficulties include restricted local industrial environments and lack of qualified workers.
- The localisation approach presents a possible endogenous development strategy for less favoured rural areas, where the vision is to create dynamic and learning industrial environments consisting of networking enterprises and local institutions. This corresponds with main trends in regional policy within the EU (e.g. the RTP exercise) and its Member Countries.
- Two main policy instruments seem to be important in developing the SME sector in less favoured rural areas. Firstly, to further improve the infrastructure in these areas. Secondly, to improve the local industrial environment in a variety of ways. The latter task calls for a differentiated policy tailored to the specific needs of SMEs in an area, as well as the use of specific regional resources. As the 'industrial support structure' is limited in most less favoured rural areas, there is also a need for broker organisations to bring SMEs into contact with relevant R&D institutions, enterprises etc. in other regions. Moreover, new information technology makes it more possible to develop networks between enterprises in different regions.

6.1 INTRODUCTION: REGIONAL IMBALANCES IN THE EU

Western Europe is faced by enormous differences in levels of economic development, living standards and unemployment between regions. For instance, in 1991 the average gross domestic product (GDP) per head in the ten least prosperous regions in the EU was more than four times lower than that of the ten most prosperous regions. Similarly, unemployment was seven times greater¹.

¹ Figures taken from European Commission, Europe ... Questions and answers. How is the European Union meeting social and regional needs? Luxembourg, 1996.

Nor is there any general trend towards reduced regional imbalances. In the EU the GDP per head - measured in Purchasing Power Standards - converged at regional (NUTS II) level in the years up to the mid 1970s¹. From then on, in many countries, convergence has given way to regional divergence. In most EU countries the fastest rates of growth were recorded in more developed areas and so regional inequalities have increased. This is confirmed by new statistics from Eurostat, demonstrating that enterprises generally develop where high levels of economic activity already exist². In the 1980s, the growth in inequality between regions was particularly marked in Italy, France, Spain and the United Kingdom. Regional inequalities, however, declined in Greece and Portugal.

The map of dynamic and stagnating regions in the EU is quite complex, as are the reasons for both regional growth and decline. The regions showing relative growth are, in many cases dynamic systems of cities and extended metropolitan regions. Some of the fastest growing regions are located in the vital axis that extends from Greater London through Germany and Milan, or in the 'golden triangle'³. This growth is to a large extent centred on the metropolitan concentration of control functions, advanced industrial and service sectors and high-level employment. On the other hand, many peripheral areas rely on branch plants, traditional industrial sectors, local service industries and low-level employment.

This chapter will focus on the possibilities of attaining sustained economic development in Europe's weaker regions by stimulating entrepreneurship and SME growth. Previous Observatory reports have demonstrated the importance of SMEs in employment creation at national level. The third Observatory report subsequently showed that SMEs and especially very small enterprises play a significant and dynamic role in the EU's Objective regions as far as employment is concerned, particularly in comparison to LSEs. SMEs, however, experience specific problems in less favoured areas and these should be taken into consideration by policy makers.

Section 6.2 reveals the criteria for the selection of study regions⁴, while 6.3 examines the specific difficulties faced by SMEs in these regions. Section 6.4 describes two more general challenges regarding the task to reduce regional imbalances in the EU, and finally Sections 6.5 - 6.8 analyse important trends in the development of policy instruments aimed at SMEs in weaker regions. Some policy recommendations are also included in Section 6.8.

¹ Dunford, M., *Regional Disparities in the European Community: Evidence from the REGIO Databank. Regional Studies*, 1993, 27: 727-743. Dunford, M., *Winners and losers: The new map of economic inequality in the European Union. European Urban & Regional Studies*, 1994, 1: 95-114.

² Eurostat (1997), *Enterprises in Europe, Fourth report: Regional Analyses*.

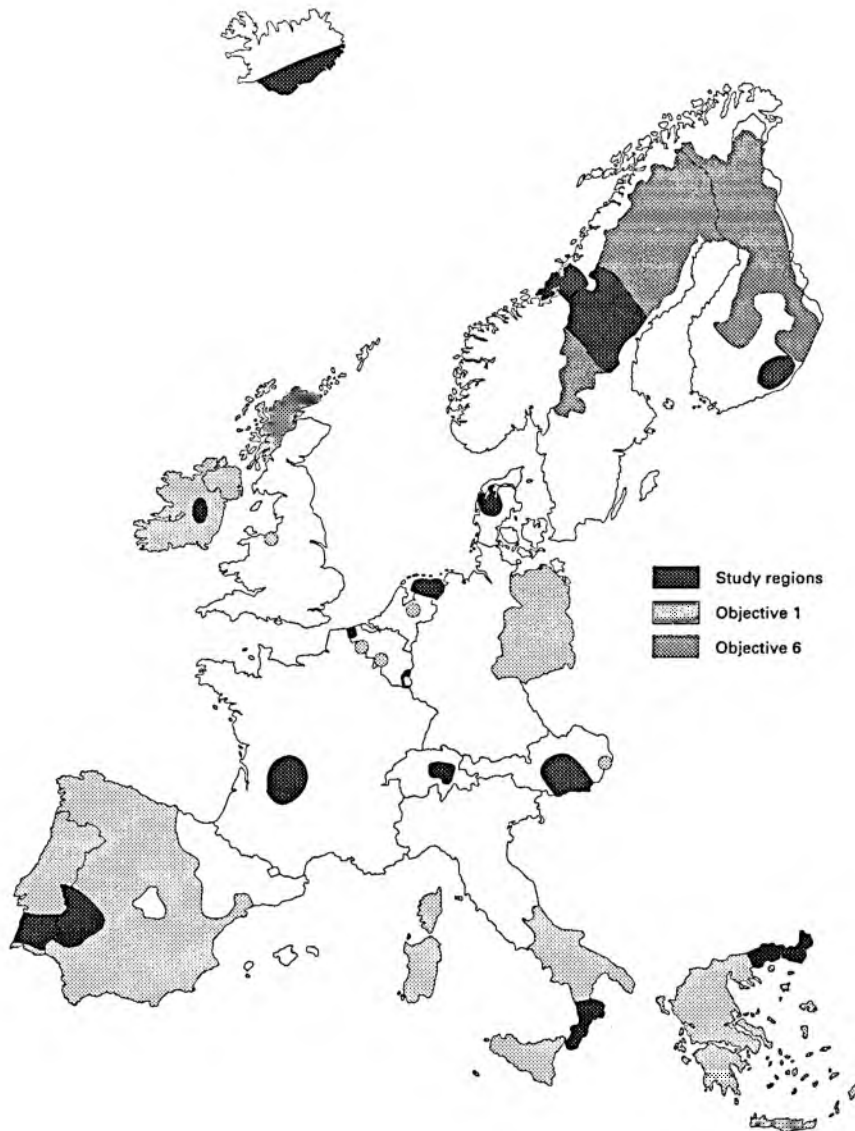
³ Dunford (op. cit.).

⁴ In focusing on a sample of the weakest regions in the countries covered by the Observatory report, this chapter has selected a different approach than the first three reports, which also contained chapters on regional aspects. The subsequent chapter strives for a thoroughgoing understanding of problems faced by SMEs and possibilities for SME development in less favoured rural regions. That task necessitates more qualitative information than obtained in the 'regional chapters' in previous Observatory reports, and also a concentration on a sample of regions.

6.2 SELECTION OF THE STUDY REGIONS

The EU faces a range of regional problems. Accordingly, the Community has defined four types of problem region, adopted as 'objectives' under the Structural Funds. Objective-1 assists the poorest regions measured by GDP. The basic criterion for Objective-1 designation refers to areas defined at NUTS-2 level with GDP per head of less than 75% of the EU average (Figure 6.1). Objective 2 is geared to areas seriously affected by industrial decline and high unemployment. Objective 5b focuses on developing and diversifying the economies of vulnerable rural areas. Objective 6 is in principle an Arctic version of Objective 1, for regions in Finland and Sweden of comparatively low population densities.

Figure 6.1 The location of the study regions and areas designed under Objective 1 and 6*



Source: The figure is partly redrawn from Williams, R. H., *European Union Spatial Policy and Planning*. Paul Chapman, London, 1996 (Figure 7.6).

As it was previously referred, this chapter is concerned with the question of how to achieve sustained economic development in some of the weakest regions in Europe. Thus, and in order to do a thorough analysis, we have selected *one* study region in each country covered by the Observatory report in preference to studying all the designated Objective regions (Figure 6.1). The study regions comprise some of the most rural and least favoured regions in each country¹. It must be emphasised that the study regions are rural and less favoured in relation to *national* averages. Not all regions are necessarily rural or less favoured in a comparative European context. Several of the study regions are large and may contain some areas which could not be described as less favoured.

Table 6.1 compares the industrial size distribution of the chosen study regions with the size distribution of the country as a whole². The majority of the study regions are denoted as 'small enterprise regions', i.e. exhibiting a larger share of employment in both very small and small enterprises than the average rate of the respective countries. This points to a more general picture, in as much as international comparisons point to SMEs as being more important in rural than in urban regions³. For those regions where data are available (Styria, Extremadura and Alentejo), the number of employees in new enterprises is larger than the national average. These regions appear to be dynamic if start-up rates are used as economic activity indicators.

Table 6.1 Categorising the study regions according to the size distribution of private sector enterprises (except primary industry)*

Small enterprise regions	Styria (Austria), Veurne (Belgium), Extremadura (Spain), Limousin (France), Eteia-Savo (Finland), Midlands (Ireland), Crotona (Italy), Friesland (The Netherlands), Alentejo (Portugal), Jämtlands län (Sweden), Nord-Trøndelag (Norway), Zentralschweiz (Switzerland)
Like the national average	Viborg County (Denmark), Rodopi (Greece), Northern rural regions (Luxembourg)
Large enterprise regions	

* A region is denoted a 'small enterprise region' if it has a larger share of the employment in both very small enterprises (0-9 employees) and small enterprises (10-49 employees) than the country as a whole. 'Large enterprise regions' have a larger proportion of their employment in large enterprises (250 and more employees). Regions 'Like the national average' fulfil neither the criterion for a small enterprise nor a large enterprise region.

Source: European Network for SME Research.

¹ In almost every country (i.e. in countries where necessary data are available) one study region is selected according to the following criteria: Firstly, the two most rural NUTS 3 (or NUTS 2) regions in the country are identified, i.e. the two regions with the highest share of the labour force in the primary sector. Secondly, the less favoured of these two regions, i.e. the region with the lowest GDP per capita, is selected as the study region. The choice of NUTS 2 or NUTS 3 level depends on the access of information, and the size of NUTS 2 and NUTS 3 regions in individual countries.

² It is not possible to compare the size distribution among the study regions because different types of data sources with different definitions and different coverage in terms of industrial sectors and size classes are applied. Hence, we compare the study regions with the national average in the same country.

³ OECD, Territorial Indicators of Employment. Focusing on Rural Development, Paris, 1996.

The importance attributed to SMEs in less favoured rural areas is a relatively crude indication that the stimulation of indigenous SMEs and start-ups may be a relevant development strategy in these regions, especially when seen in relation to the difficulties these less favoured regions often have in competing for 'mobile' investments with more urbanised and central areas (cf. Section 6.4). However, one must analyse the extent to which the SME sector and the industrial, social and cultural environment in weaker regions have development potential. Similarly, one must study how any unexplored local potential can be stimulated by public policy instruments. In many less developed rural areas SMEs are viewed as traditional enterprises, with low rates of innovation and serving localised markets.

6.3 SPECIFIC DIFFICULTIES FACED BY SMEs IN LESS FAVOURED RURAL AREAS

Do SMEs in less favoured rural areas face specific difficulties to be aware of in designing policies aimed at SMEs in this type of regions? Table 6.2 gives an overview of the most important difficulties faced by SMEs in our study regions¹. Table 6.2 is used as the basis for a more general discussion of specific problems for SMEs in weaker regions.

Table 6.2 Specific difficulties faced by SMEs in less favoured rural areas*

	Infra-structure	External information	Industrial environment	External finance	Qualified workers	Other problems
Styria (AT)	X				X	
Veurne (BE)					X	
Viborg County (DK)		X	X			
Rodopi (GR)	X	X				
Extremadura (E)	X	X		X		X
Limousin (FR)		X			X	X
Etelä-Savo (FIN)	X				X	X
Midlands (IRL)	X		X		X	
Crotone (I)	X	X		X		X
Northern rural regions (LUX)**	X				X	
Friesland (NL)	X		X			X
Alentejo (P)		X	X			
Jämtlands län (S)	X			X	X	X
South (IS)				X		X
Nord-Trøndelag (N)	X		X			
Zentralschweiz (CH)			X			

* The information in Table 6.2 is based on previous studies and/or interviews with persons in different support and government bodies regionally or nationally.

** Including the Objective 5b region in the north of Luxembourg.

Source: European Network for SME Research.

¹ As crafts are dominated by very small and small enterprises, the same kind of difficulties also applies for this sector. Cf. The European Observatory for SMEs. Fourth Annual Report, 1996. Chapter 2.

In some countries (e.g. Denmark and Ireland) the most important difficulties faced by SMEs are of a national nature, rather than specific to their location in a less favoured rural area. However, less favoured rural economies in general exhibit specific features that affect enterprises in different ways. Problems vary between study regions, in accordance with size differences and specific regional characteristics.

A basic problem for less favoured rural regions involves their relative isolation from national and international economies. SMEs in most of the study regions face special problems caused by a lack of *infrastructure* as well as remoteness from their main markets. These problems are particularly acute in regions of poorly developed transport and communication structures, which pose a special problem for enterprises producing heavy items. Some regions (e.g. Midlands, IRL) lack suitable accommodations and workshops, while Rhodopi (GR) also lacks a social infrastructure (especially in health and education) which hampers the recruitment of specialised personnel and executives.

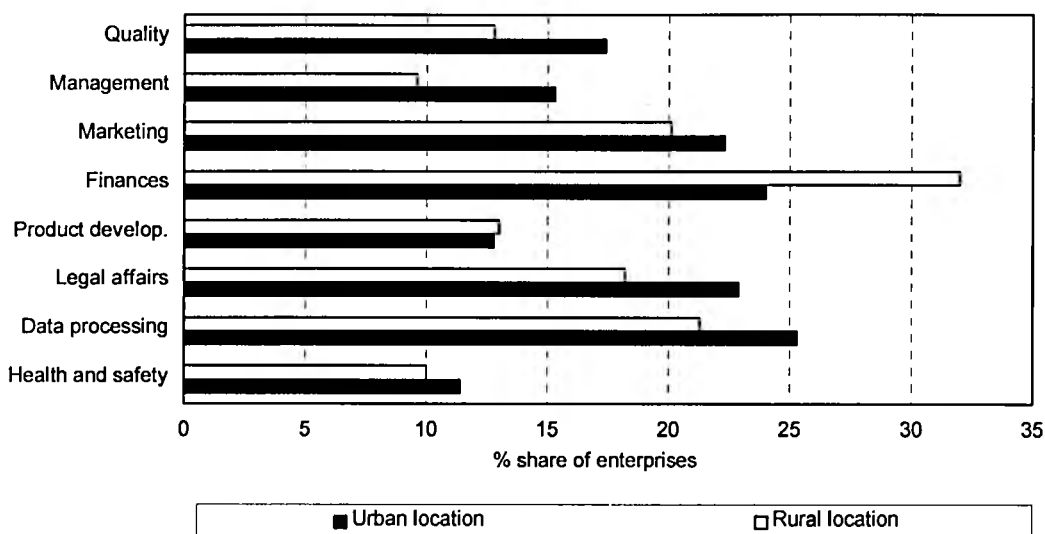
Poor access to *external information* on subsidies and/or supporting programmes and a lack of contact with R&D institutions/service firms constitutes a special problem faced by SMEs in some less favoured rural areas, in particular to those located in the Southern peripheries of Europe. These problems are accentuated by isolation from major urban centres and lack of educated and trained employees. The ENSR Enterprise Survey 1997¹ also indicates that poor access to external information generally may be a greater problem for rural SMEs as compared to urban enterprises. Except for financial considerations and perhaps product development, enterprises in rural areas utilise outside consultants to a lesser extent than their urban counterparts (Figure 6.2). This may reflect a relative lack of relevant consultants in many less favoured rural areas just as geographical distance from service producers could be viewed as a barrier to the use of support services. In some areas (e.g. Nord-Trøndelag, N), however, the problem is linked to a lack of tradition, amongst SMEs, in acquiring information from external sources rather than a lack of access to information. In small countries, such as Belgium and Switzerland, long distances from main markets and access to external information are not perceived as major problems for SMEs.

Restricted local *industrial environments* pose problems for the development of SMEs in several study regions, although different aspects of the environment can be emphasised. Generally, traditions of entrepreneurship and work ethic vary considerably from one place to another. In some regions, self employment and entrepreneurship are values recognised and encouraged by society. Thus, some less favoured rural areas belong to the most dynamic areas within countries and are more successful in generating new jobs than the national averages².

¹ For more information on the ENSR Enterprise Survey 1997 see appendix of Chapter 12 of this report.

² This may imply that dynamic rural regions provide a more realistic policy reference for less favoured rural areas than do urbanised regions. Cf. OECD (op. cit.).

Figure 6.2 Percentage share of enterprises in urban and rural location using outside consultants by field of consultancy, Europe-19



Source: ENSR Enterprise Survey 1997.

In other regions, social mobility and entrepreneurship are viewed negatively, which could affect industrial development. In Alentejo (P) and partly Nord-Trøndelag (N) a predominance of traditional industries and a limited level of co-operation and business associations contribute to the relative lack of vitality and innovative spirit. Typically, Viborg (DK) and Friesland (NL) have relatively few large firms with R&D departments, which can function as 'innovative engines' for the rest of the local industry. More generally, enterprises in less developed rural regions exhibit a comparatively low level of RTD (Research and Technological Development) and a lower capacity to absorb and exploit new technology, reflecting a need for closer contacts with universities and R&D institutions.

Lack of *external finance* is seen as a specific problem for SMEs in only four study regions. This implies that influx of capital, e.g. from regional policy instruments is effective and that new instruments should mainly involve other policy aspects.

Problems associated with recruiting *qualified workers* and/or executives represents an important difficulty for SMEs in seven of the regions under scrutiny. Generally, residents of less favoured rural regions tend to have considerably lower educational levels than individuals living in urbanised regions¹. Lower education levels tend to reflect the types of economic activity prevailing in less developed rural regions, and the lack of qualified jobs has probably led - to some extent - to more higher educated people leaving these regions. The ENSR Enterprise Survey reveals that enterprises in rural areas have greater problems than their urban counterparts in relation to training and work-related requirements, but have, on the other hand, a better motivated workforce (Table 6.3).

¹ OECD (op. cit.).

Table 6.3 Percentage share of enterprises experiencing bottlenecks in their staff recruitment, Europe-19

	Few applications	Poor relationship training - job requirements	Lack of work experience	Lack of motivation	Other bottlenecks
Rural location	14	48	41	22	20
Urban location	20	46	41	27	13

Source: ENSR Enterprise Survey 1997.

'Other bottlenecks' in Table 6.3 indicate traditional difficulties in less favoured rural areas such as a limited local market, and in some areas (e.g. Limousin, FR) a declining and ageing population. In the South region in Iceland insufficient quota holding in the fishing industry, as well as a relatively small home market and increased competition from abroad are perceived as difficulties specific to SMEs.

To summarise, SMEs in less favoured rural areas face a range of specific difficulties. SMEs in rural locations, however, benefit from some advantages. These may include: comparatively low workforce turnover rates, lower payroll and premises costs, more space for expansion and attractive living conditions for owners and other staff¹.

6.4 THE CHALLENGE TO REDUCE REGIONAL IMBALANCES

The task of reducing regional imbalances in Europe also faces other challenges apart from the specific difficulties encountered by SMEs in weaker regions (i.e. issues concerning trends in the economy and in the development of the EC). These development tendencies are reviewed as a further basis for the discussion of relevant policies aimed at stimulating SMEs and entrepreneurship in weaker regions.

Regarding current trends in the economy, the 1990s are characterised by increasing *globalisation* of economic life, i.e. a stronger integration across nation states of the world economy guided by transnational corporations (TNCs). Globalisation trends present some important challenges to Europe's industry in general and to enterprises in less favoured rural areas in particular. These regions may compete, as many do, with other regions in attracting branch plants of TNCs. However, in some industrial sectors TNCs do not locate their plants only in areas where the costs are the lowest. They generally want to locate plants in broader industrial environments, where they can find good subcontractors, an experienced workforce and an adequate scientific and technical infrastructure². It is obvious that less favoured rural areas would have difficulties in attracting branches' of many TNCs. Economic opportunities will therefore have to come mainly from local enterprises.

The achievements of the *Single Market* also presents some challenges to regional development. The working of the Single Market may lead to increased concentration of industrial development and jobs to the most developed parts of Europe, resulting in the worsening of the position held by lagging regions. Enterprises in central areas have better opportunities to utilise economies of scale, which will be further strengthened by the achievement of the Single Market. Enterprises in central areas also benefit from agglomeration

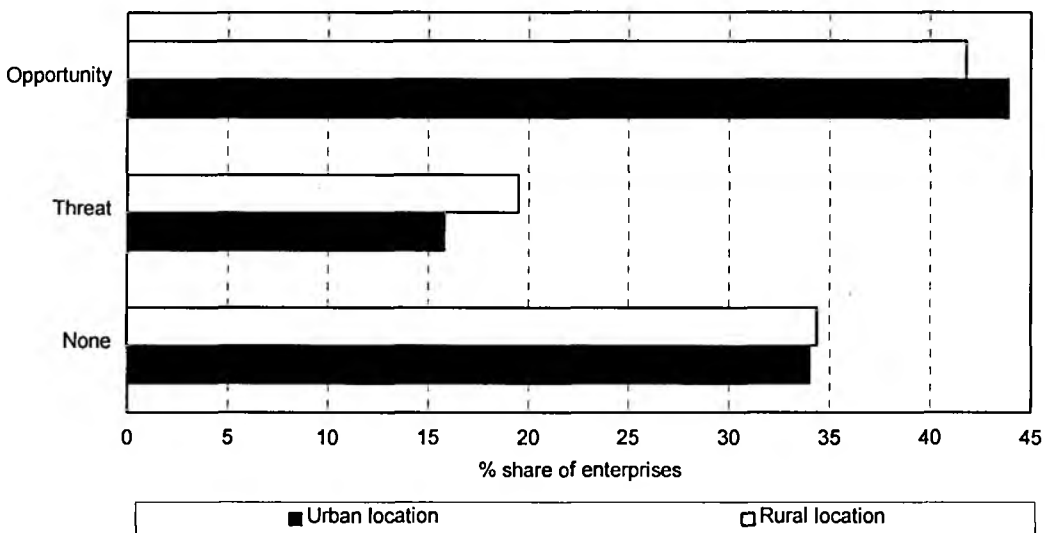
¹ Grindley, A., Rural small firms: Their characteristics, advantages and disadvantages and the support available from the Rural Development Commission. *Business, Growth and Profitability*, 1996, 2: 117-122.

² Arnold, E. et. al., Policies to Support Company Technological Capabilities: Good practices and Opportunities for NFR. Technopolis Ltd., Brighton, 1997.

economies, as they are generally located in more innovative industrial environments, closer to R&D institutions and advanced producer services.

These theoretical arguments are supported by the results of the ENSR Enterprise Survey. According to the survey, enterprises in rural areas face more threats and fewer opportunities from the European Single Market programme than enterprises in urban areas (Figure 6.3). Interestingly, however, craft enterprises in rural areas benefit from more opportunities and fewer threats from the Single Market than their urban equivalents.

Figure 6.3 Percentage share of enterprises in urban and rural locations, regarding the European Single Market on balance as opportunity and threat



Source: ENSR Enterprise Survey 1997.

6.5 POLICIES AIMING AT SMEs IN LESS FAVOURED RURAL AREAS

What then are the possibilities for stimulating SME development and entrepreneurship in the weaker regions in Western Europe? Generally, two kinds of policy instrument have had a particular effect on less favoured rural areas: farm policy and unemployment benefits. These kinds of instrument belong to the so called 'broad' regional policy, (i.e. policy designed for specific sectors in society, but which have regional outcomes). This section concentrates on 'narrow' regional policy, i.e. those specifically aimed at certain geographical areas. 'Narrow' regional policy always includes some support for businesses, although this varies between countries. There are basically three ways of creating jobs in SMEs: creating new enterprises, expanding existing ones and relocating enterprises from other areas.

The main focus of regional policy in the EC as well as in many countries since the 1980s has been on the first and especially on the second of these alternatives. The focus has been on the promotion of endogenous development and SMEs, mainly using 'supply-side' intervention to raise the competitive potential of less favoured regions¹. The strategy is

¹ Amin, A., Big firms versus the regions in the Single European Market, in Dunford, M. and G. Kafkalas, Cities and Regions in the New Europe, Belhaven, London, 1992.

first and foremost geared to upgrading transport and communication networks (especially in Objective 1 regions). A gradual increase in indirect measures designed to improve the economic environment for SMEs and start-ups can also be noticed. Thus, the transfer of technological know-how to enhance the technological capabilities of SMEs is stimulated, as well as the upgrading of local skills bases through support for vocational training and incentives for local entrepreneurship.

Turning to this chapter's study regions, policies aimed at SMEs are devised and implemented by a wide variety of players and via many different instruments, and also integrating funds from regional, national and EU level. Although financial assistance for SMEs and start-ups is still very important (e.g. in Limousin, FR), the main trend in the study regions is the increased importance of 'soft' investments. These include training, advice and motivation for entrepreneurs, promotion of inter-firm co-operation between SMEs and different types of competence centre. The investments also encourage the diffusion of new technology - by establishing business centres, local technology parks and transfer centres.

Table 6.4 Example of important policy instruments aimed at SMEs in some of the study regions

Region	Important policy instrument
Styria (AT)	Different technology centres, Infrastructure Project, Aid for Young Entrepreneurs, Seed financing, ERP-Industry and Trade Support, Support for Tourism
Viborg County (DK)	Focus on growth-oriented entrepreneurs, provision of capital to enterprises, and management education
Rodopi (GR)	Construction of roads and establishment of an institution providing services for SMEs
Extremadura (E)	Business support programme, including financial assistance to SMEs and 'soft' measures as diffusion of information
Etelä-Savo (FIN)	Education to enhance entrepreneurship and local risk finance for SMEs
Midlands (IRL)	County Enterprise Boards, to develop indigenous enterprise potential
Nord-Trøndelag (N)	Financial incentives for start-ups, motivation and education of entrepreneurs, and recruitment higher education graduates to SMEs

Source: European Network for SME Research.

Table 6.4 gives examples of important policy instruments aimed at SMEs in some of the study regions¹. In Styria (AT), new initiatives by local authorities focus upon increasing the competitiveness of technologically oriented SMEs through the use of technology parks and technology transfer centres. The Business support programme in Extremadura (E) deals with four key areas: promoting inter-firm co-operation between SMEs, supporting the diffusion of information to regional SMEs, providing support for industrial products (especially design) and providing financial assistance to SMEs. In Etelä-Savo (FIN) the Leader II programme, for instance, promotes R&D, education, advice services, marketing,

¹ That is policy instruments picked out as important by the regional support system, business organisations or partners in ENSR. Instruments are regarded as important if they are used by most firms or create 'good' results in enterprises. In many regions it is not possible to separate the most important instruments because of lack of information.

co-operation and international networks in the food industry, which is important in the region. Furthermore, two focal points of SME development in the region are education to enhance entrepreneurship and the supply of risk capital for SMEs.

6.6 EXAMPLES OF SUCCESSFUL MEASURES

What characterises successful measures aimed at SMEs in less favoured rural areas is an important factor to be considered. Although policy instruments are introduced in specific territorial contexts, there are important matters to be learned from successful measures. However, the identification of successful instruments and 'success criteria' is problematic due to a lack of ongoing evaluation.

Two different measures, identified as successful, are presented below. Although the aims, target groups and instruments differ, there seem to be some common success criteria in the two measures. Both measures include all-round support to entrepreneurs and SMEs respectively, including financial, technical and non-technical advice. In addition, these measures provide active follow-up of entrepreneurs and firms, as well as long-term involvement. This probably points to more general success criteria in these kinds of measures, as entrepreneurs and small firms often require advice and guidance during start-ups and during the course of a project. This may also include support and advice that entrepreneurs or firms themselves do not recognise as needed. This kind of support and advice is likely to be very important in less favoured rural areas, where R&D institutions, private service firms etc. are less common than in urbanised areas. Thus, the programme 'First stop shop to SMEs' in Objective 5b regions in Luxembourg exhibits many similar characteristics to the two examples of successful measures. This instrument comprise consultancy and assistance to SMEs in administrative, financial and technical fields¹.

The *Enterprise Project* in Italy has been operating for ten years and aims to develop entrepreneurship amongst young people (18-35 years) in disadvantaged areas. The instruments include financial support, external tutoring, training, advice and monitoring. There is a continuous relationship between case handlers and entrepreneurs, from the preparation of a business plan and until the new firm is established. The survival rate of new enterprises in the last ten years was 82,2%, which seem to be very high compared to European average as displayed in the Third Annual Report (Chapter 2).

The *Innovation and New Technology Programme in Northern Norway* aims to promote new activities in Northern Norwegian companies (in practice almost all SMEs) which have the ability and drive to innovate. This programme has also been running for ten years. The programme is first and foremost concerned to provide financial support to innovation projects in SMEs (80% of total programme funds). Other instruments are 'Technology advisory contracts', to strengthen co-operation between centres of competence and firms, and the organisation of trade gatherings and courses to increase competence and establish co-operative networks between firms. The programme has identified and reached an appropriate target group of firms that are capable of carrying out innovation and that achieve results.

¹ This is a relatively new initiative and long-term outcomes should be analysed before it can be described as successful.

6.7 LOCALISATION AS AN ALTERNATIVE DEVELOPMENT STRATEGY

What then are the most relevant development strategies aimed at SMEs in less favoured rural areas? The chapter demonstrates that the selected study regions are quite different and thus may need different types of SME policy. However, one can basically distinguish two main groups of policy approaches, which are not necessarily mutually exclusive¹.

The first group may be denoted exogenous strategies or 'regional development from above'. This strategy basically aims to attract enterprises and/or investments from other regions. The strategy is not especially relevant as a SME policy instrument in weaker regions. A main reason for this is that relatively few SMEs actively search for a place to locate the business². SMEs most often established themselves and grow in the location where the entrepreneur(s) work and live and alternative localities are rarely considered. Thus, exogenous strategies are relatively ineffective in the stimulation of local entrepreneurial climates and to raise the potential for local technological development which could foster new enterprises and stimulate the growth of existing SMEs. Another reason is the detection of low multiplier effects from some external investments, as branch plants inserted into lagging regions rarely developed backward and horizontal linkages into the local economies.

The other main group of strategies is the endogenous ones or 'regional development from below'. This strategy entails the stimulation of local start-ups and the creation of local networks between enterprises (including local institutions such as colleges and research institutions) with the aim to stimulate the creation of unique local competence bases as keystones for endogenous development. This strategy also includes co-operation with competent firms and institutions outside the region to avoid 'lock-in' situations.

The last 10-15 years' endogenous strategies have mainly been based on experiences from several success-stories of networking communities such as Italian industrial districts or the Silicon Valley experience³. The concept of 'industrial districts' and the neighbouring concept of 'innovative milieu' are often used to denote and analyse this kind of localised production systems. These concepts emphasise the local framework and the spatially embedded character of industrial change. Specialisation of tasks and well-established trustful co-operation are crucial. Such characteristics lead to high synergy in regional economies, generate localised dynamic processes of collective learning and increase the innovative ability of firms.

An important question, however, is how realistic a solution this kind of endogenous, small firm-based growth is for less favoured rural regions. Small firm areas as industrial districts do exist in several less favoured rural areas, but they are rare and incipient⁴. There are certainly some thresholds: a certain number of firms in the same industry, etc. necessary

¹ Cf. Stöhr, W. B. (ed.), *Global Challenge and Local Response. Initiatives for Economic Regeneration in Contemporary Europe*. Mansell, London, 1990.

² Storper, M. and Walker, R., *The Capitalist Imperative. Territory, Technology, and Industrial Growth*. Basil Blackwell, Oxford, 1989.

³ However, the long term vitality of for instance Italian industrial districts in a more globalised economy is much debated. Cf. Harrison, B., *Lean and Mean. The Changing Landscape of Corporate Power in the Age of Flexibility*. Basic Books, New York, 1994.

⁴ European Commission, *Cohesion and the development challenge facing the lagging regions*, Luxembourg, 1995.

to generate the necessary local, dynamic and learning industrial environment. In addition, many of the conditions for success in the most dynamic small-firm areas - such as a well developed institutional support framework for small firms and social traditions encouraging the accumulation and exchange of know-how, skills and information - are not readily transferable to the majority of less favoured rural regions¹.

6.8 POLICY ISSUES

Despite reservations regarding the possibility of emulating success stories, the relatively large number of SMEs in most of the less favoured rural regions and the difficulties these regions have in competing for 'mobile' investments make endogenous strategies the most relevant ones for many of these regions. Considering the characteristics and specific difficulties facing the SME sector in the less favoured rural regions, two main policy instruments seem to be most important. These instruments are partly in accordance with current trends in regional policy in both the EU and the Member States.

The first main policy instrument is to further improve infrastructure in the less favoured rural areas, which is a principal consideration in EC regional policy. The other main instrument is to improve local industrial environments in a variety of ways. This aims to address the causes of low endogenous economic growth in rural areas, such as low innovation potential.

To achieve competitiveness, enterprises - wherever they are located - must constantly alter their products, adopt new methods of production and explore new markets. However, traditional SMEs often lack the competencies and/or resources needed to carry out their own research and development, introduce new technology and train their employees. Furthermore, this type of enterprise may have difficulties in defining their particular needs for support services, might lack opportunities to partake in wide-reaching networks or may have problems financing their technological development². Most traditional SMEs do need external advice and consultancy, ad hoc training of management and employees and help from intermediary organisations to acquire technological knowledge from research institutions.

These services must be local and tailored to the specific needs of SMEs and entrepreneurs in an area, as well as be specific to the existing social and cultural conditions. It is often pointed out that small enterprises are more dependent than large ones on the local economic environment for their development. This reflects a need for a decentralised political base allowing for differentiation in policy³. Thus, a primary goal of rural development policies aimed at SMEs should be to create local institutional conditions in which SMEs can develop their competitive strength by improving their learning ability⁴. Thus, one main

¹ Amin, A., (op. cit.).

² Shapira, P. and J.D. Roessner, Evaluating industrial modernisation: introduction to the theme issue. *Research Policy*, 25:181-183, 1996. Tödtling, F., The Uneven Landscape of Innovation Poles: Local Embeddedness and Global Networks, pp. 68-90 in Amin, A. and N. Thrift (eds.), *Globalisations, Institutions, and Regional Development in Europe*. Oxford University Press, Oxford, 1994.

³ Hassink, R., Technology Transfer Agencies and Regional Economic Development. *European Planning Studies*, 4: 167-184, 1996.

⁴ Cf. Hallin, G. and A. Malmberg (op. cit.).

objective of the Commission's Regional Technology Plan (RTP) exercise launched in 1994 is precisely to encourage less favoured regions to define a commonly agreed, bottom-up strategy which is attuned to the nuances of their regions¹.

It is a difficult task, however, to build a creative industrial environment in many of the less favoured rural areas. In these areas there may be few local firms with which to co-operate and also few service firms and R&D institutions to support them. Hence broker organisations may also have an important task in bringing traditional SMEs in such areas in contact with R&D-institutions and service firms in other, often more central, regions. Moreover, the development of information technology (such as the Internet) has made it more possible for groups of enterprises to collaborate and create flexible and linked systems. These systems may be locally oriented as in regional clusters of SMEs or the system may comprise enterprises from different parts of the world. Thus, ENCATA (European Network of Centres for the Advancement of Telematics in urban and rural Areas) is an experimental project by the EC aiming to diffuse knowledge and experience on the use of Telematics for regional development.

¹ Morgan, K., The Learning Region: Institutions, Innovation and Regional Renewal. *Regional Studies*, 1997, 31: 491-503.

7 FAILURES AND BANKRUPTCIES

Co-ordinated by *OBSERVA PME-KMU*

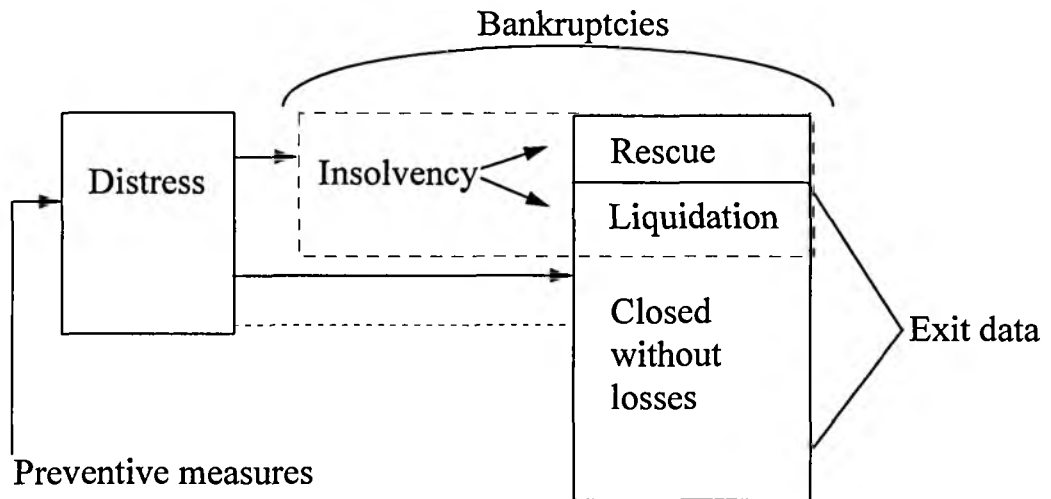
MAIN POINTS

- The common conception that bankruptcies are weakly procyclical is supported by time series analysis over the 16-year period 1980-1995. The number of bankruptcies surges in a depression, with a one year lag, but does not fall back to its original level in a recovery. The current rise of bankruptcies is strongly correlated with the economic slowdown of the early 1990s.
- Very small enterprises (i.e. those with up to 9 employees) are less bankruptcy-prone than larger enterprises.
- Businesses in which the owner is personally liable for all debts are less bankruptcy-prone than the rest.
- Bad luck aside, failure (and in particular, bankruptcy) is a symptom either of an inability of the entrepreneur to recognise changes in the business environment, or of insufficient resources to carry out the appropriate response. Two categories of failure can be identified:
 - Bankruptcy as a consequence of initial errors that cannot be corrected as a result of inadequate resources - this category covers mainly young enterprises.
 - Bankruptcy as a consequence of seduction with past success: older, successful, medium-sized enterprises do not link current difficulties to changes in their environment fast enough. As a result of failure to make the appropriate adjustments their reserves become exhausted.
- Failure seldom has a single cause; it involves a complex set of factors which are virtually impossible to rank in importance.
- The recent growth of bankruptcy rates throughout Europe has led legislators in a number of countries to redraft bankruptcy legislation to provide more scope to prevention and to provide insolvent enterprises with a better chance of recovery.
- Statistically speaking, bankruptcies amount to some 15% of closures. However the statistics on asset and job losses from bankruptcies are biased. They fail to capture job losses where workers have been fired before the bankruptcy procedure has commenced, and asset losses where claims have been dropped because of asset-insufficiency.

7.1 CONCEPTS AND DEFINITIONS

No internationally accepted definition of 'bankruptcy' exists. In some countries the term is used to mean the declaration 'insolvency' of an enterprise (e.g. France), in others to mean the 'liquidation' of the enterprise following the initiation of an insolvency procedure (e.g. Austria). In order to avoid any misinterpretation the terms 'insolvency declaration', 'rescue measures' and 'liquidation proceedings' will be used instead of 'bankruptcy' wherever possible.

Figure 7.1 Theoretical conceptual framework



Source: Observa.

Figure 7.1 puts 'bankruptcy' in the context of the economic and legal processes to which it belongs. It suggests, among other things, that rescue possibilities may be offered at different stages of the process. It also shows that a situation of distress can lead to closure without losses to third parties and without insolvency proceedings. Depending on national legislation, insolvency can lead either to compulsory liquidation (as in Luxembourg), or to rescue (as, in Portugal). In most countries, however, insolvent enterprises have the possibility of opting for a rescue package and delays (as in the Netherlands, and Belgium). The consequences for the enterprise of being declared insolvent also vary across countries, but seem to depend on whether the enterprises have the possibility of being rescued before such a declaration. In Iceland, for example, an enterprise can seek protection from creditors - by payment suspension - when they feel a danger of insolvency; but should it fail to do so, and the insolvency procedure be initiated, the enterprise will automatically be liquidated.

To add to the complexity of the issue - which in reality extends beyond the scope of the above diagram - one has to stress that even the legal liquidation of an enterprise does not necessarily coincide with its economic dismantling. Some national laws - mostly where bankruptcy legislation has recently been revised - explicitly emphasise the possibility of an insolvent enterprise, with appropriately restructured capital and staff, being sold as an entity. In Austria, the Netherlands, Germany (a reform of 1996), Finland (1993), Portugal (1996), France, and to some extent in Norway, the sale of the business entity has been declared the prime objective of liquidation procedure.

7.2 INSOLVENCY AND LIQUIDATION IN NATIONAL LEGISLATION

In Table 7.1 an attempt is made to classify a legal framework according to two criteria: (1) by the kind of balance it strikes between the competing stake holders groups; and (2) by the degree of intervention of the authorities in the proceedings.

7.2.1 Type of balance

Each legal system tries to strike a balance between the two often conflicting interests of creditors and the employees. The interest of creditors is to recover their claims to assets, if necessary, by dismantling the enterprise and selling it off piecemeal. Employees, by contrast, tend to favour the preservation of the business as going concern, even if some of the claims of creditors have to be abandoned to the latter's detriment.

The late payment problem lies exactly at the cross-roads of the dilemma with which legislation is confronted. A legal framework facilitating the ultimate or even temporary postponement of commercial debts protects insolvent enterprises, but, indirectly, encourages late payment. A recent study argues that this in turn hinders growth in some four out of ten SMEs and even threatens the survival of one third of enterprises¹. This analysis suggests that the interests of creditors and of the enterprise tend to converge rather than conflict when the scope of analysis is raised from micro- to the macro-economic level.

Despite the above issues, laws are designed to function at a specific level. In consequence each legal system strikes a different balance between creditors' and enterprise's interests and adopts different means to achieve it.

7.2.2 The degree of intervention

The degree to which the public authorities are involved in the bankruptcy procedure is a significant issue as intervention may imply high direct and indirect costs, and may induce distortions in competition, favouring enterprises that benefit from rescue packages. In Table 7.1 we denote a low level of intervention by 'X' defined as when the authorities do not interfere with the operations of the insolvent enterprise and restrict their role to a purely legal intervention. We denote a high level of intervention by 'XXX', defined as when the state grants support to insolvent enterprises through advice or reorganisation, or some other form.

Table 7.1 Main characteristics of national bankruptcy legislation

Country	Degree of intervention	Interests protected	Justification of the classification
Austria	XXX	both enterprise survival and cred. interest.	Compulsory preventive measures with early warning ratios. Various reorganisation measures. Under liquidation the enterprise is sold as a whole, provided this is feasible.
Belgium	XX	enterprise survival	Preventive measures exist (Commission for Preventive Enterprise policy). Definitive postponement of debt is possible. Reorganisation is possible with management assistance.
Denmark	XX	creditor's interests	No preventive measures. Debtor must find agreement within 3-5 months to avoid liquidation. Severe personal consequences. Composition and reorganisation are possible.

continued

¹ Intrum Justitia, European Payment Habits, Survey, Amsterdam 1997.

Table 7.1 Main characteristics of national bankruptcy legislation (continued)

Country	Degree of intervention	Interests protected	Justification of the classification
Finland	XX	creditor's interest	No preventive measures. Reorganisation is possible but only to protect interests of creditors.
France	XXX	enterprise survival	Preventative measures exist. Three different rescue schemes are available, of which a reorganisation plan is one. May last up to 15 years.
Germany	X (X)	until 1996 cred. from 1996 ent. survival	No preventive measures. Reorganisation is possible. Legal framework changed in 1996. Until then, enterprises were sold piecemeal at short notice. The goal of new legislation is to keep the enterprise intact for as long as possible.
Greece	X	creditor's interest	No preventive measures. In case of insolvency, in 95% of cases fixed assets are sold.
Ireland	XX	both ent. survival and creditor's interest	No preventative measures. Reorganisation under the control of a Receiver is possible. But main objective to ensure debts are paid. Therefore part or all of assets may be sold.
Italy	XX	both ent. survival and creditor's interest	No preventive measures. Reorganisation is possible if court considers crisis temporary. If not, enterprise is liquidated.
Luxembourg	X	creditor's interest	No preventive measures. Personal consequences for owner are severe. No reorganisation plan. Liquidation follows quickly in case of insolvency.
Netherlands	XXX	enterprise survival	No preventative measures. There is more than one creditor needed to initiate a procedure against an enterprise. Rescue and reorganisation possibilities are numerous.
Portugal	XXX	enterprise survival	No preventative measures. Substantial support if potential cash flow is positive. Four rescue and reorganisation possibilities are available.
Sweden	XXX	creditor's interest	No preventative measures. A creditor may ask for the claim enforcement service even before a declaration of insolvency, i.e. without waiting that all claimant are known. Rescue is possible.
Spain	XXX	both enterprise survival and creditor's interest	Preventative measures exist. Severe personal consequences. If liabilities are greater than the assets, the enterprise is liquidated - unless there is an agreement with creditors. Intervention by regional government is possible.
United Kingdom	XX	both enterprise survival and creditor's interest	Preventative measures exist. One objective is to push administrators to apply for assistance. Rescue possibilities exist. Administrators may be dismissed (CCDA) and made personally responsible.

continued

Table 7.1 Main characteristics of national bankruptcy legislation (continued)

Country	Degree of intervention	Interests protected	Justification of the classification
Iceland	XX	creditor's interests	Preventative measures exist. The enterprise may ask for postponement of debt before legal insolvency, but when a creditor opens the proceedings the enterprise is liquidated.
Liechtenstein	XX	creditor's interests	No preventative measures. Postponement of debts is possible, Administrator may run the business
Norway	XXX	creditor's interests	Preventative measures exist. The enterprise may ask for postponement of debt before the legal insolvency, but as soon as a creditor opens the proceedings the enterprise is liquidated.
Switzerland	XX	enterprise survival	No preventive measures. Reorganisation is possible with a two years' postponement of debts. An administrator may run the business.

Source: Observa - Compiled on the basis of the information provided by ENSR partners.

Table 7.1 shows that it is rare for countries to equally protect creditors' and enterprise's interests. It also indicates that countries have relatively sophisticated forms of legislation, indicated by the high level of intervention (and correspondingly high costs) of public administration.

7.3 RESCUE POSSIBILITIES

Rescue possibilities may take a number of forms that extend from the most common, namely, a temporary postponement of debts, to the least common, a ten year restructuring plan. In Iceland, Luxembourg, Austria, France, the Netherlands, Belgium, Sweden, Norway, and Germany rescue is available even before the actual insolvency declaration. Indeed, by asking for a moratorium, the enterprise in difficulty is temporarily protected, partially or completely, against the claims of creditors. In most cases, however - typically in Italy, Denmark, Spain, Finland - the rescue plan follows an insolvency declaration. New laws tend to make the rescue options available at different phases of the liquidation proceedings. In some cases rescue is even possible - but under very specific circumstances - after the decision to liquidate has been taken.

Moratorium

A temporary debt moratorium is the most frequently encountered measure and exists in almost all countries. For example in Germany it is known as the *Vergleichsverfahren*, in Liechtenstein the *Nachlassstundung*, in Luxembourg the *concordat préventif à la faillite*, in Iceland the *Greidslustöðvun*, in Norway the *Tvangsakkord*, in Belgium the *agreement*, in the Netherlands the *moratorium*, in Spain the *suspension de pagos*, in Austria the *Ausgleich bzw. Zwangsausgleich*, in Switzerland the *sursis concordataire*, in Finland and France the *règlement à l'amiable* and in Italy the *amministrazione controllata*.

Reorganisation

Effective reorganisation measures following a formally approved plan are more infrequent. A few countries apply such measures. These include Belgium (*agreement procedure*), Finland (*velkasaneeraus*), France (*redressement*), Netherlands (*throughstart*), Portugal (*gestao controlada*). Austria has recently implemented a new measure called *Reorganisationsverfahren* - commencing in 1997 - which introduces the concept of early warning ratios. Enterprises not satisfying these ratio-driven criteria are obliged to reorganise even before they become insolvent. Experience will demonstrate whether the benefits of this system are higher than its administrative costs.

Reorganisation in Finland: 'velkasaneeraus'

The purpose of Finland's Reorganisation law is to provide a legal framework for economically viable enterprises to avoid 'unnecessary' bankruptcy. The official/administrator is expected to propose a plan within four months to deal with the situation. This reorganisation plan consists of a statement of the conditions of the business and a review of the operations during the planned period of reorganisation. If the company cannot follow the reorganisation plan, the reorganisation procedure may be discontinued or a ruling on the enterprise may be made in bankruptcy.

After a reorganisation plan has been decided upon, the enterprise has a reasonable time to adapt itself to the plan's requirements. During this period debts are frozen or need not be fully repaid. The duration of the plan is variable; it can be as short as 2 years (as in Portugal) or as high as 10 years (as in France). These measures imply the supervision of an external tutor or adviser. In the case of Belgium, the commissioner appointed has to be familiar with the management of enterprises and with bookkeeping. However, in practice it proves difficult to attract highly qualified professionals to take up these jobs. In consequence the organisation measures do not bring the necessary valuable external advice.

External advice

Recent trends in bankruptcy legislation involve the support of enterprises in difficulty by the provision of advice. Most of the countries creating new legislation in the last three years have adopted this approach (e.g. Finland, France, Portugal and Switzerland). Similar moves are also currently observable in Germany and Austria.

Evaluations of rescue measures

Evidence from Austria shows that in 1996, 63% of rescue procedures resulted in the recovery of the enterprise. However this success rate should not be extrapolated to other countries. Austria, which has four different rescue measures, has a particularly high degree of public intervention. It is therefore particularly difficult to evaluate the success of recent legislative changes - especially the introduction of advice - because of both their newness and complexity.

7.4 QUANTITATIVE DATA

7.4.1 Closures

The Fourth Annual Report of the European Observatory for SME showed that the economic meaning of the term 'exit' is far from harmonised across the countries of Europe-19 (see Figure 7.1). 'Closure' figures may cover simply 'liquidation' or encompass any kind of formal dissolution of enterprise; for example, through changes in the business' name or legal form. This latter definition applies to Austria, Belgium, Finland, Italy, Luxembourg, Liechtenstein and Switzerland. Despite these caveats, some statistical findings can be stated:

- 'Liquidations' represent only 15% to 20% of closures;
- The broader the definition of 'closure' the greater would be the proportion of closures to the total enterprise population. The closure rate varies greatly across countries ranging from 13% in Germany to 1% in Portugal, Spain and Luxembourg;
- High closure rates go along with high birth rates, mainly because national definitions are usually either rather broad or rather narrow. For this reason the net closure rates¹ across countries lie in a narrower range between -1% (Iceland) and +4% (Germany and the Netherlands).

7.4.2 Trends in insolvency and liquidation since the 1980s

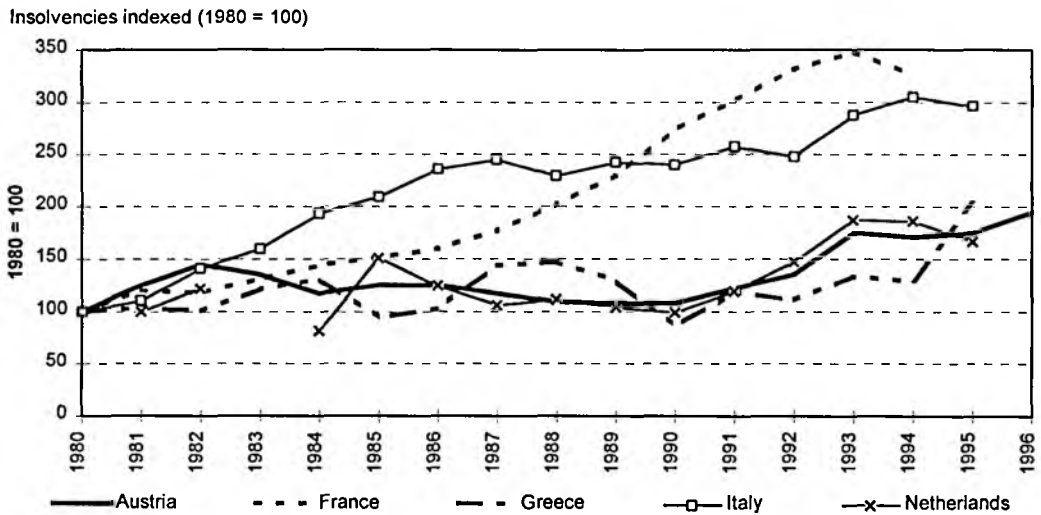
National statistics are collected at various stages of the legal proceedings towards insolvency and liquidation, making them difficult to compare. Countries such as Belgium, Denmark, France, Greece, Italy, the Netherlands and Norway count commencements of insolvency procedures; whereas Finland, Ireland, Luxembourg, Portugal, Spain, Sweden, the United Kingdom and Iceland report the number of actual liquidations. Only Austria was able to provide a 'full' set of data covering insolvency openings, liquidations and rescue operations.

Austrian data show that more than one half of the opened insolvency proceedings are dropped because of insufficient assets. This suggests that in countries where only 'liquidation' figures are compiled, the corresponding numbers are lower by some 50 units than those using 'insolvency' data, since there are cases in which insolvency does not lead to legal liquidation and claims are dropped. The same problem is encountered in data concerning asset losses. Finally, with job losses the problem is even greater, since jobs lost are counted at the moment of the formal liquidation, whereas enterprises usually reduce their workforce well in advance of this event.

Another statistical problem relating to comparisons of liquidation or insolvency data arises from the fact that the treatment of self employed differs across countries. Thus insolvencies of the self employed may be counted either as insolvency of private persons or as insolvency of enterprises. Therefore, in Figures 7.2 and 7.3 national data of indexed growth rates (1980 = 100) are compared rather than absolute numbers.

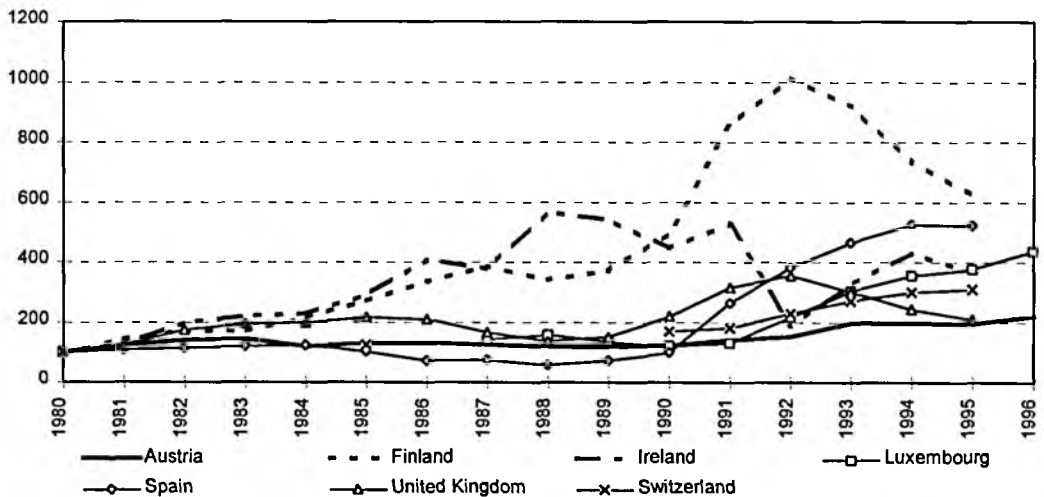
¹ Defined as births *minus* closures.

Figure 7.2 Opening of insolvency proceedings, 1980-1996



Sources Insolvency: Austria: Statistics by Kreditschutzverband of 1870; Belgium: Graydon Belgium; France: until 1989 ANCE - Observatoire (opening of proceedings), from 1990 INSEE (revised opening of proceedings); Germany: Statistisches Bundesamt Wiesbaden, Greece: NSSG-Statistics of justice; Italy: Istat and Cerved Data; Netherlands: Centraal Bureau voor de Statistiek.

Figure 7.3 Liquidations of enterprises indexed (1980=100), 1980-1996



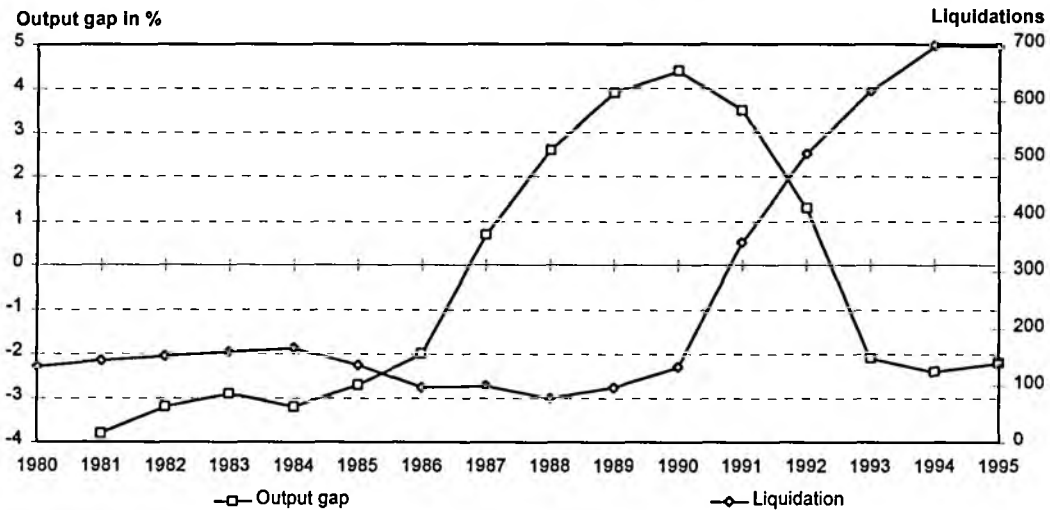
Sources: Liquidation: Austria: Statistics by Kreditschutzverband of 1870; Finland: Small Business Database/Small Business Institute and Federation of Finnish Enterprises; Ireland: Companies Report, published by Stationery Office, Dublin; Luxembourg: Mémorial STATEC; Portugal: MOPE; Spain: Instituto Nacional de Estadística; Sweden: Statistics Sweden; Switzerland: Office fédéral de la statistique, statistique des faillites.

The common perception of a correlation between the business cycle and the volume of liquidation is corroborated in this data. Insolvency and Liquidation both rise sharply with the economic slowdown. However, numbers do not fall back significantly in recent upswings. This fact may be explained by the growth of the stock of enterprises in a recovery:

a constant volume of liquidations implies a fall in relative terms, which is the quantity of interest. A long term study carried out by INSEE of France and analysing the reasons for failures from 1820 to 1988 shows that the average annual growth rate of insolvency is of the order of 1.5%.

The relationship between the phases of the business cycle and liquidation was apparent in most countries, but for reasons of space we illustrate with a single example, namely, that of Spain.

Figure 7.4 Liquidation and output gap in Spain, 1980-1995



Source: Instituto Nacional de Estadística, and OECD economic outlook.

7.4.3 Characteristics of insolvent and liquidated enterprises

As shown in Table 7.2, only a few countries were able to provide data on insolvencies and liquidations by size class. In all five cases, Very small enterprises (up to 9 employees) represent the bulk of insolvency or liquidation. This does not mean, however, that very small enterprises are more likely to fail than those in other size classes. On the contrary, the proportion of very small enterprises among insolvent and liquidated enterprises is lower than their share in total enterprise population. Very small enterprises seem to be more resistant to insolvency than small enterprises (with 10 to 49 employees).

In the Netherlands, very small enterprises comprise 90.5% of total population whereas their share in total insolvency is only of 80.9%. On the other hand, small enterprises represent 7.5% of Dutch enterprises but 18.2% of insolvencies - more than double the proportion. In Italy the ratios are 94.4% and 83.4% respectively. The only country where the share of very small enterprises in liquidation is higher than their proportion in the economy as a whole is Sweden. The difference in this case is a mere 2.4%.

Table 7.2 Insolvencies or liquidations by size class, 1993

	size class: number of employees					Unknown	TOTAL
	0/1 to 9	10 to 49	50 to 99	>100	>200		
<i>Belgium</i> , insolvencies	5,637	431	43	24			6,135
% insolvencies in size class	92	7	1	0			100%
% enterprises in size class	96	3					
<i>Finland</i> , liquidations	5,738*	754	43	32			6,567
% insolvencies in size class	87	12	1	1			100%
% enterprises in size class	94	5					
<i>Italy</i> , insolvencies (1994)	13,352**	2,344	232***		88		16,016
% insolvencies in size class	83	15	2		1		100%
% enterprises in size class	94	5					
<i>Netherlands</i> , insolvencies	3,590	806	39			918	5,353
% insolvencies in size class	81	18	1				100%=4,435
% enterprises in size class	91	8					
<i>Sweden</i> , liquidations	17,457	1,137	89	41			18,724
% liquidations in size class	93	6	0	0			100%
% enterprises in size class	91	8					

* Finland: size class is 1 to 9 employees, self employed are excepted from liquidation statistics.

** Italy: size class is 1 to 9 employees, self employed are excepted from insolvency statistics.

*** Italy: size class is 50 to 199 employees.

Sources: Insolvency: Belgium: Graydon Belgium; Italy: Istat and Cerved Data; Netherlands: Centraal Bureau voor de Statistiek

Liquidation: Finland: Small Business Database/Small Business Institute and Federation of Finnish Enterprises; Sweden: Statistics Sweden.

Data on enterprises estimates by EIM Small Business Research and Consultancy, adapted from Eurostat (DG XXII). Enterprises in Europe, Fifth Report. Brussels/Luxembourg (forthcoming).

Five countries could provide information about the age of liquidated or insolvent enterprises, and Switzerland provided an estimated distribution. With the exception of Portugal, the data confirm that young enterprises are particularly at risk. Data from Sweden, Luxembourg and Denmark provide a very similar age distribution for liquidation or insolvency: 60% existed for less than 6 years, 30% to 40% existed for less than 3 years. But as data on the age distribution of the stock of enterprises do not exist, it is not possible to state whether the age distribution of failed enterprise differs from that of the total enterprise population.

The liquidation of enterprises over 50 years is not frequent (4.97% in Portugal in 1996). This, however, does not mean that SMEs do not face transmission problems; it indicates more probably that the closure of mature enterprises does not lead to losses for third parties. Therefore, these cases do not enter the insolvency statistics.

Private liability seems to be a deterrent to insolvency. In consequence, enterprises without private liability become insolvent earlier in their existence than others. The different personal and financial consequences for the owner account for this fact. As many very small enterprises are based on unlimited liability, their under-representation in the set of insolvent enterprises may be explained by their legal form.

Insolvencies and bankruptcies by sector

Insolvencies and liquidations by sector as compared to national sectoral distribution*

Manufacturing		Construction		Tertiary sector		Total**
in % of total insolvencies or liquidations	in % of enterprises in the sector	in % of total insolvencies or liquidations	in % of enterprises in the sector	in % of total insolvencies or liquidations	in % of enterprises in the sector	
3	13	n.a.	6	97	80	1
n.a.	6	13	9	34	86	6
18	13	17	12	57	73	1
18	13	15	13	58	73	6
17	10	19	13	64	87	60
29	6	3	17	67	76	
34	16	n.a.	10	58	73	15
1	7	13	7	83	86	
15	10	13	9	69	80	5
38	15	8	15	22	69	
33	10	16	10	49	80	
8	11	11	11	65	77	11
28	14	13	18	53	68	
20	11	37	20	36	69	3

*Applies to 1993 except Denmark, Norway and Sweden.

**Does not equal to 100% in some cases because parts of insolvencies or liquidations could not be attributed to a sector and are registered as others. In the case of Italy: 1066, for Belgium 3270, for Portugal 88.

***Enterprises 1993 Eurostat (new dataset).

Source of liquidation: Austria: Statistics by Kreditschutzverband of 1870; Finland: Small Business Database / Small Business Institute and Federation of Finnish Companies; Ireland: Companies Report, published by Stationery Office, Dublin; Luxembourg: Mémorial STATEC; Portugal: MOPE; Spain: Instituto Nacional de Estadística; Sweden: Statistics Sweden; Switzerland: Office fédéral de la statistique, statistique des faillites.

Source of insolvency: Austria: Statistics by Kreditschutzverband of 1870; Belgium: Graydon Belgium; France: until 1989 ANCE - Observatoire (opening of proceedings); INSEE (revised opening of proceedings); Germany: Statistisches Bundesamt Wiesbaden, Greece: NSSG-Statistics of justice; Italy: Istat and Cerved; Netherlands: Centraal Bureau voor de Statistiek.

As shown in Table 7.3 manufacturing and construction enterprises have in recent years been more prone to insolvency and liquidation than those of the service sector. In some countries, however, - for example, Portugal and Greece - there are relatively few construction enterprises in financial difficulty, whilst in others (e.g. Austria) almost all liquidation take place in the service sector.

7.5 FACTORS EXPLAINING FAILURES¹

7.5.1 European surveys on failures and bankruptcies

Despite the effort spent in identifying the ingredients of success, until now the 'golden path' to success has yet to be discovered. The same is true for failure factors: a general 'model' of enterprise failure is still not developed. This being said, knowledge of factors relevant for an explanation of failure is even poorer as the field has attracted much less interest and effort.² As a consequence, the number of studies devoted to identifying factors in failure is rather limited. This is also true in comparison with purely quantitative assessments of the number of exits.

Information gathering about the factors relevant to failure is hampered by two serious difficulties:

- When studying the causes of failures, one has to go beyond insolvency as such and search for the factors and events that contributed directly or indirectly to the underlying financial distress;
- Once an enterprise has failed, it ceases to operate altogether. The previous managers and directors are no longer involved with it, or face serious problems that make it difficult (and costly) for the researcher to reconstruct the last years of the 'normality' of the enterprise.

Three broad groups of methods are used in the field:

- Studies with an empirical basis exclusively derived from published financial information on failed enterprises;
- Studies with an empirical basis exclusively derived from failed enterprises themselves, either through an in-depth study of their track record, or via interviews or questionnaires;
- Studies deriving their evidence from third parties, that, at one stage or another of the failure process, have been in with these enterprises (i.e. advisers or accountants).

Not only the methods employed vary from study to study, but also enterprise populations and periods covered differ. Some studies are limited to one sector (construction or retail, for instance) while others take a more comprehensive viewpoint. In addition to the above-mentioned sources of disparity, no study surveyed provides an international or comparative perspective.

Two additional methodological weaknesses of failure analyses make a meaningful synthesis of the area extremely difficult. On the one hand, almost all such studies work with a distinct typology of failure factors that is either unidimensional (finance, as in the UK or

¹ Sources are mentioned in Table 7.4.

² The identification of success factors comprises the core of the management literature.

Spain; management, as in Iceland) or multidimensional (France; Switzerland; Austria). On the other hand, studies work with different hypotheses that are only validated by the study that formulated them, rather than being cross-validated by other studies. Also, only in a handful of cases (Germany, Switzerland) are failure factors either ranked in terms of importance or eliminated for lack of relevance.

7.5.2 Populations at risk

Statistically speaking the probability of failure is higher for enterprises with a identifiable set of characteristics. However it can be argued that none of the characteristics is a factor of failure per se, but merely acts to accentuate the negative consequences of any internal dysfunction on the survival of the enterprise. The following populations may be considered particularly vulnerable:

- *Young enterprises.* Across the board, more than 50% of failed enterprises have been trading for less than 10 years whereas their surviving contemporaries probably account for less than 20% of the total number of active enterprises. In other words, the risk of failure during the first 10 years of trade is 2-3 times higher than that risk in the following years (Netherlands).
- *Enterprises in sectors and regions exposed to structural change.* In varying degrees and at different times, European economies have been exposed to a structural pressure (for example, the fishing industry in Iceland; the textile industry in Switzerland). These pressures have resulted in an above average rate of failures in specific industries. Enterprises in sectors or industries under structural pressure are therefore more exposed to a risk of failure than their counterparts in the rest of the economy.

7.5.3 A variety of factors

Studies attempting a comprehensive analysis of the determinants of failure reach a common conclusion: very rarely can enterprise failure be attributed to a single factor or cause (Iceland -1996). According to a French study 13% of failures can be attributed to a single cause; in a related Swiss study the proportion is 17%. These studies suggest that in at least half of cases (54% for Switzerland and 70% for France) between two and four causes have been major contributors to failure.

Among 'single-cause failures', factors such as conflict among directors or partners, bad luck and fraud come to the fore. These cases however probably do not account for more than 10% of all failures. In order to understand the factors underlying the remaining 90% of cases, one has to carefully disentangle the effects of a variety of factors. These can be classified into up four rather different groups:

- *External factors:* These encompass (a) changes in market or industry structure (entry of new products, growth of competition, maturation of existing products, structural change, and high exit barriers for the industry); (b) inadequate product or production capacity; and (c) regulatory changes (changes in tax, professional requirements, and environmental standards). Factors (a) and (b) may be related to phases of the business cycle;
- *Financial problems linked to an inability to absorb external shocks due to an inadequate capital base.* These shocks include: (a) a rise in interest rates or other fixed costs; (b) changes in exchange rates; (c) increases in settlement delays, or in bad payment ; or (d) shifts in banks' credit policies;

- *Bad management.* This is potentially an all-encompassing class of factors; therefore, care is needed when listing the indicators of 'bad management' to avoid including *ex post* evidence as an 'explanation'. Genuine factors include: (a) lack of a business policy; (b) inappropriate cost-accounting methods; (c) errors in cost or market forecasts due to (inter alia), lack of experience; and (d) an inadequate management structure;
- *Other possible factors.* These include: (a) small legal and financial consequences of failure to the owner; (b) bad luck, fraud, and negligence on the part of agents involved with the enterprise; and (c) personal problems with key enterprise personnel;

Table 7.4 is an attempt to rank by importance the four classes of failure factors mentioned in the collected European surveys. This attempt is made despite the very high diversity of methods used and enterprise populations surveyed in the studies.

Table 7.4 Selected findings of European surveys on causes failure and bankruptcy*

Country	External factors	Financial problems	Bad management	Others
Austria (1990-1996)	3	2	1	4 (m)
Belgium (1980s)	3	1 (f)	1 (i,j)	
Finland (1988-1992)	1 (a)	2	n.a.	n.a.
France(1995)	1	2	3	4
Germany (1990s)	1 (a,b)	3	1 (i,j)	4 (n)
Greece (1980s)	3 (b)	2 (f)	1	n.a.
Iceland (1985-1995)	1 (a)	2 (d)	1 (l)	n.a.
Ireland (1970-1990s)	3	2 (e,g)	1	n.a.
Italy (1990s)	2	1 (f)	1 (i)	n.a.
Luxembourg (1992)		2 (d)	1 (i,j)	3 (l)
Netherlands (1990s)	2 (t)	2 (f)	1 (j)	4 (m)
Norway (1991-1992s)	n.a.	n.a.	1 (k)	n.a.
Spain (1990-1994)	n.a.	1 (d,f)	n.a.	2 (l)
Sweden (1990s)	1	n.a.	n.a.	n.a.
Switzerland (1995/1996)	1	2	3	4 (m)
United Kingdom (1970s and 1980s)	3	1	2 (h)	4 (n, l)

* Numbers in brackets indicate approximately the period of observation; classes of factors are ranked by decreasing order of importance (with 1 being the most important); letters in brackets indicate the specific factor within the class (see list above) that has been identified by the country studies - the absence of a letter means that either no specific factor has been identified within the class or that more than one factor has been identified.

List of factors:

- changes in markets or industry structure;
- inadequate product or production capacity;
- regulatory changes;
- rise in interest rates or other fixed costs;
- changes in exchange rates;
- an increase in settlement delays;
- shift in bank credit policies;
- a lack of business policy;
- inappropriate cost accounting;
- errors of cost or markets forecasts;
- inadequate management structure;
- low legal and financial consequences for the owner;
- bad luck or fraud;
- personal problems of the key person in the enterprise.

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Sources of the surveys:

- Austria: Kreditschutzverband von 1870 (KSV), Statistik über die Ursachen der Insolvenzen (Statistics on the causes of bankruptcies), Wien 1990-1996
- Belgium: Donckels, R. De Startersgids (Guide for Starters) Brussels, Roularta Books, 1992.
- Finland: Juha-Matti Junnonen, Financial Factors Distinguishing Survivors from Failures amongst Small Finnish Construction Firms in 1988-1992, 1992
- France: Anne Gazengel et Philippe Thomas, Les défaillances d'entreprises (Bankruptcies of enterprises), in les cahiers de recherches, édition CCIP, groupe ESCP, 1992 and Philippe Thomas, La sinistralité des entreprises (The failure risk of enterprises), ESCP, 1995.
- Germany: Monika Paulini und Eva May-Strobel, Insolvenzen im Mittelstand (Bankruptcies in Middle Class), 1996; and, Helmut Rödel und Bernd Weiss Insolvenzzrisiken bei Geschäftspartnern frühzeitig erkennen und vermeiden (Early recognition of bankruptcies risks) 1995; and, Rolf Ziegler, Walter Kiefl, Peter Preisdorfer, Betriebliche Neugründungen: Chancen, Risiken und Probleme (Start-ups: Chances, risks and problems), 1990.
- Greece: A. Prodistis, Investigation of the possibility of an evaluation model of small and medium-sized enterprises in Greece, PhD Thesis of the University of Thessaloniki, Thessaloniki, 1984 (in Greek)
- Iceland: Arni Jon Arnason, Orsakir rekstrarerfideilka fyrirtaekja (The Causes of Financial Distress) M.Sc. econ. At the University of Iceland.
- Ireland: Jozef Konings and Patrick P. Walsh, The Effective Exchange Rate and the Life Expectancy of Manufacturing Plants in Ireland (1973-1994) paper presented at the conference of Irish Economics Association. 1997; and, Bastow Charleton and co., The Causes of Failure in Industrial Projects in Ireland and Suggestions for Action, a report of the Industrial Policy Review, Dublin stationary office, 1992.
- Italy: Sergio Sciarelli, La crisi di impresa: il percorso gestionale di risanamento nelle piccole e medie imprese (Enterprise crisis: the revival of small and medium enterprises), Cedam, 1995.
- Luxembourg: Interministerial Working Group, Rapport sur les causes de l'accentuation des Faillites prononcées au cours de l'année 1992, 1993 (Report on the causes of the increase of bankruptcies during the years 1992, 1993).
- Netherlands: Robert P. Blom, Failliet, Graydon Nederland BV, Amserdam/Den Haag, 1996; and, F. Uxem, J. Bais and A. Bruins, Starters na het eerste jaar (Starters after the first year), EIM Small Business Research and Consultancy, Zoetermeer, December 1996; and, Statistics Netherlands (CBS) Faillissementsstatistiek 1994 (Bankruptcies 1994), and, A.J.M. Kleijweg and M.H.C. Lever, Entry and Exit in Dutch Manufacturing Industries, EIM Small Business Research and Consultancy, November 1994.
- Norway: Morten Huse and Elisabeth Ljungren, Konkurs og styrer (Bankruptcy and boards), Nordlandsforskning, Bodø, NF-rapport 21/1992
- Spain: d. Camino and C. Cardone, Riesgo e Insolvencia en la Empresa Espanola (Risk and Insolvency in the Spanish Enterprise) in *Economia Industrial*, no 293, Septiembre-Octubre 1993, pp 45-58; and, D. Camino, Ciclo Economico, Crisis y Recuperacion de la Empresa Espanola (Economic Cycle, Crisis and Recovery of the Spanish Enterprise) in *Economistas*, no 64, 1995, pp. 135-145.
- Sweden: P. Davidsson, L. Lindmark, L. Olofsson, Näringslivsdynamik under 90-Talet (Business dynamics during the 90's'), 1996, Sweden
- Switzerland: Paul H. Dembinski, avec Margrit Habersaat et Helga Unterlerchner Causes des faillites des entreprises suisses (Causes of bankruptcy of Swiss enterprises), Juillet 1996
- United Kingdom: Graham Hall, Reason for Insolvency Amongst Small Firms - A Review and Fresh Evidence, in *Small Business Economics*, 4: pp. 237-250, Kluwer Academic Publishers, Netherlands, 1992; and Kevin Keasey and Robert Watson, The 1986 U.K. Insolvency and Company Directors' disqualification Acts: An Evaluation of their Impact upon Small Firm Financing Decisions, in *Small Business Economics*, 6: pp 257-266, Kluwer Academic Publishers, Netherlands, 1994.

Table 7.4 clearly suggests that most of the studies surveyed identify lack of good management practices as the main single class of causes of enterprise failure. Financial and market problems seem to play a secondary role in most cases¹.

¹ Nevertheless, an European survey on late payment carried out by Intrum Justitia has shown that late payment may threaten on the survival of enterprises in 33% of cases.

The wide consensus as to the contribution of 'inadequate management practices' to enterprise failures paradoxically does not bring us any closer to an understanding of the anatomy of failure. Indeed this conclusion, to some extent at least, is too simplistic: it rests on the premise that the main task of management is to solve problems and maintain the enterprise in good shape. The conclusion following from this premise is therefore that any unsolved problem is a management failure. By analogy, any traffic accident would thus be a driver's failure, or any patient death would appear as a doctor's failure. As one writer puts it, by blaming inadequate or bad management for failures we are still short of understanding failure factors. While everyone agrees that 'bad management' is a prime cause of failure, no one agrees what 'bad management' means nor how it can be recognised except after the company has collapsed - then everyone agrees how badly managed it was. Such a simplistic conclusion does not take into account the fact that most of the failures have multiple causes.

Textbooks of management tactics identify three factors necessary to a successful 'manoeuvre': degree of preparation, speed of execution and resources at hand.

Other things being equal, enterprises differ objectively in the amount of resources they can use to modify or change their business practice. These resources are usually negatively correlated with the age of the enterprise and positively correlated with its size. The 'degree of preparation' refers to the anticipatory qualities of the management. Evidence from various sources suggests that this is related to experience on one hand but to imagination, the capacity to respond to entirely new situations, on the other. As experience is a function of management age¹, imagination is not (it may even be inversely correlated with age). If good management requires a balance of both experience and imagination, the most exposed enterprises are where management is totally inexperienced, or those where a 'business as usual' practice has developed into a general practice. Speed of execution, the last factor, is the true management issue.

In conclusion, among failing enterprises two important groups seem to emerge:

- Failure as the result of initial errors: young enterprises fail because of initial strategic errors and because their resources (time and money) are insufficient to correct these errors²;
- Failure as the result of past success: older - medium-sized - successful enterprises fail to identify changes in the economic environment and do not adapt while exhausting their reserves.

While a lot is done to foster the management quality in start ups, less seems to be done to enhance the awareness of change among the ageing - small, family - enterprises trading in sectors under pressure.

¹ See for example, Robert Cressy, 'Are Business Startups Debt-rationed?', *The Economic Journal*, September 1996.

² See Robert Cressy, 'Small Business Failure: Failure to Fund or Failure to Learn?', in Acs, Z. and Karlsson, B. (Eds), *Entrepreneurship, SMEs and the Macro Economy*, Cambridge University Press, 1997 (forthcoming).

7.6 POLICY ISSUES

What can or should be expected from policy measures in the field of insolvency/liquidation prevention?

The available evidence suggests that a clue to the answer lies in the phases of the business cycle. A package of measures designed to obviate business cycle downturns would probably be the ideal way to stabilise the number of insolvencies and liquidations.

In the realm of bankruptcy legislation, it is worth stressing that policy-making bodies - especially in periods of recession - might be tempted to extend rescue possibilities in the hope that these measures would save jobs. Such temptations should be resisted, until it is clearly established that the proposed measures would not have a negative - indirect - effect on payment practice. Indeed, it should be borne in mind that the consequences of such measures may differ depending on the level of analysis: at the micro-level they may be positive whilst at the macro-level, disastrous.

Comparative evidence surveyed here suggests that the lower the personal 'costs' of insolvency or liquidation, the higher the rate. This suggests that policy measures should refrain from lowering the personal exit costs. Although high exit costs will not prevent an enterprise from failing and closing down, they may contribute to the minimisation of associated losses to third parties, including employees.

A number of countries have recently introduced legislation allowing for the possibility of external advice and early rescue. All through 'earlier the better' seems to be a currently fashionable concept, for the time being the period of observation is too short to draw final conclusions on the efficiency of these measures.

8 HEALTH AND SAFETY IN SMEs

Co-ordinated by Centre for Small and Medium Enterprises Warwick Business School

MAIN POINTS

- Over the last 30 years, the stated objectives of the European Commission's policy in the field of labour conditions and health and safety at work has been to continuously improve the overall work environment and to considerably reduce both accidents and occupational diseases.
- Despite substantial progress made over this period, the aggregate statistics on 'casualties' remain high, with about 6,000 fatalities occurring each year as a result of work accidents. A further 10 million workers incur injuries or suffer from occupational diseases.
- Variation of accident and disease levels through time reflects the phases of the economic cycle, with downturns being associated with lower levels, and booms with higher levels, as employment levels vary with the cycle.
- Recorded accident and disease rates do not always have a systematic relation to enterprise size. In some countries (e.g. Sweden and Austria) both tend to rise with enterprise size, suggesting that 'small is beautiful'. In other countries (e.g. France, Italy and Spain) accident rates are declining with size.
- However, the statistics are influenced by reporting rates, which are also likely to vary systematically with enterprise size. The most accurate data is therefore on fatality rates, and these fall with size in Italy.
- Sectoral, gender, age and employment contract effects need to be taken into account when interpreting the effect of enterprise size on health and safety.
- In most countries the construction sector is most exposed to accidents.
- Longitudinal data from Austria, Greece and Finland would suggest that enterprise costs relating to the implementation of relevant legislation have increased considerably in the last two decades.
- The Framework Directive of 1989 requires all enterprises in the Union to conduct a risk assessment (an assessment of accident and disease exposure of the workforce). The ENSR Enterprise Survey 1997 indicates that between one quarter and one third of enterprises, had at the time of the interview, done a risk assessment. However, in those enterprises that had not, the failure to do so was not through lack of information, which was regarded as adequate.
- Large enterprises are three times as likely to have done a risk assessment than very small enterprises. They are also more likely to have viewed the information required as adequate.
- Size class differences matter more than country differences in the enterprise's decision to carry out a risk assessment.

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- The most important reasons for not doing an assessment was the misperception that the Directive was 'not applicable' to the enterprise. A significant proportion also felt that they were 'not obliged' to do one. Less than 10% said that cost was the reason for not complying.
- There is an urgent need for all countries to monitor costs relating to the implementation of health and safety legislation and to identify relevant training and skill needs. In this respect also benefits have to be taken into account

8.1 INTRODUCTION

Over the last 30 years, the stated objectives of the European Commission's policy in the field of health and safety at work has been to continuously improve the overall work environment and to considerably reduce both accidents and occupational diseases. However, despite the substantial progress made over this period of time, the aggregate statistics on 'casualties' for the Member States of the European Union remain high. Thus, from a EC-wide total of 122.4 million economically active individuals, a total of 4.3 thousand accidents at work led to an absence of more than three days¹, where the number of fatalities as a result of work accidents was about 6,000 in 1993. These figures reflect a huge cost in terms of both human suffering and consequential loss in economic output. For example, in 1992 the direct costs of work accidents and occupational diseases in the Community were estimated by the Commission to have amounted to over 27 billion ECU².

With this background in mind Section 8.2 examines occupational diseases and safety-related incidents/accidents, using for this purpose comparative data provided by Eurostat and national databases. Section 8.3 examines factors affecting the frequency of occupational diseases and safety-related accidents, their frequency relation to sector of economic activity, gender and age of the working population and to enterprise size. Section 8.4 investigates the impact of legislation upon working conditions in SMEs and Section 8.5 the costs of implementing health and safety measures at work. Finally in section 8.6 special attention is paid to the implementation of the 1996 risk assessment EC directive, specially intended to improve working conditions in SMEs.

¹ Statistics in Focus, Accidents at Work in the European Union in 1993, Eurostat, Luxembourg, 1997. This European Statistics on Accidents at Work is based on the Framework Directive of 12 June 1989 on health and safety at work (89/391/EC), which stipulates that all employers within the European Community must provide data relating to accidents at work leading to an absence of more than three days. On the basis of the data accumulated, Eurostat and DG V (Employment, Industrial Relations and Social Affairs) have compiled this statistics. Nevertheless, it should be noted, that data collection difficulties and shortcomings in some of the member countries could mean that the total number of accidents at work and related socio-economic costs are very likely to be understated.

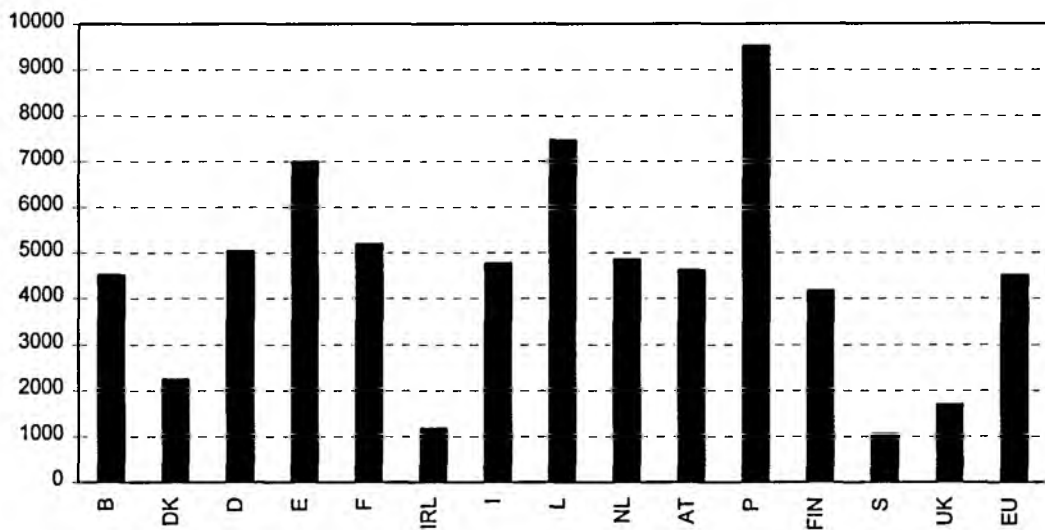
² European Commission, 1995, Health and Safety at Work: Community Programme, 1996-2000, Luxembourg: EC Directorate-General V.

8.2 OCCUPATIONAL DISEASES AND SAFETY-RELATED INCIDENTS/ACCIDENTS IN THE EU

Unfortunately cross-country comparisons are fraught with difficulty, due to differences in national definitions, notification rates and hence availability of relevant data¹. However, comparative data on accidents at work leading to an absence of more than 3 days, published recently by Eurostat² displays some clear patterns (see Figure 8.1).

The available evidence shows that the number of accidents at work per 100,000 persons in employment significantly differs by country, where Portugal, Luxembourg and Spain display the worst accidents records of the Union, specially in comparison to Ireland, Sweden or the UK. Several reasons might be pointed out to explain these differences, such as the sectorial specialisation of the country, the age and level of qualification of employees or the level of economic development of the country.

Figure 8.1 Accidents at work leading to an absence of more than 3 days per 100,000 persons, 6 major common branches, 1993*



* See Eurostat's Statistics for methodological details. Data for Greece is not available.

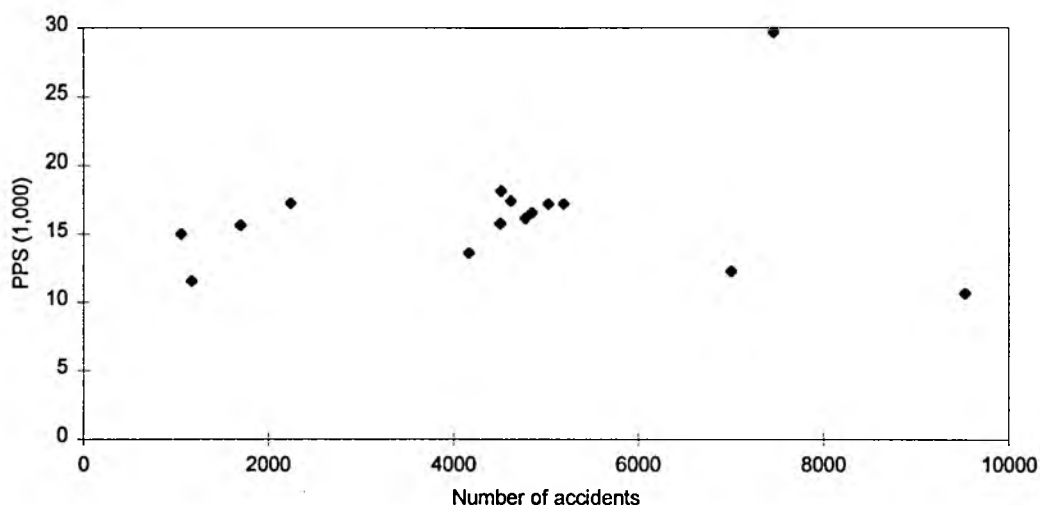
Source: Eurostat statistics in Focus, Accidents at Work in the European Union in 1993, Luxembourg, 1997.

In this sense, it could be argued that the most industrially developed countries might show a higher concern for health and safety matters and reflected therefore in a lower record of accidents per head. However, as Figure 8.2 shows, the available data for 1993 does not suggest the existence of a clear relationship between these two variables.

¹ European Foundation for the Improvement of Living and Working Conditions (EFILWC), 1994, Euro Review - Bulletin on Research in Health and Safety at Work, Issue 1994/1 and 1995/1, Dublin: EFILWC.

² Eurostat, op. cit. The figures quoted above must be interpreted with caution, despite being normalised for known reporting differences. Eurostat information indicates, for example, that only 9 Member States consider their work-related accident/incident notification system to be relatively complete. In other countries only a proportion of non-fatal work accidents/incidents are notified to the relevant authorities. For various reasons, in some countries notification rates are not yet available.

Figure 8.2 Accidents and Purchasing Power Standards (PPS)* distributed by EU country, 1993



* PPS is a measure of economic welfare adjusted for differences in purchasing power of national currencies. Source: Eurostat statistics in Focus, Accidents at Work in the European Union in 1993, Luxembourg, 1997.

Interestingly a detailed analysis of individual country's safety at work records suggests, in line with the above regularity, that during recessionary times, when unemployment increases, accidents at work decline in proportion to the reduction in the size of the working population¹.

Evidence collected in Finland² suggests that two recessionary periods have caused significant falls in the rates of fatal accidents at work due to proportional reductions in the number of employed individuals. Economic recovery and growth effectively increased the number of economically active individuals, causing a proportionate increase in the number of fatal accidents. Interestingly, accidents on the way to and from work followed very similar trends. This "economic condition" hypothesis is also supported by the Spanish experience³. During the time period 1990-1996, total labour-related accidents declined from an all time high of 706,713 in 1990 to 537,625 in 1994. Subsequently, the upward economic cycle in 1995 and 1996 resulted in an increase in the number of labour-related accidents, reaching 616,237 by the end of 1996.

Notwithstanding this, a long-term downward trend can be noticed in certain countries. Examples include Portugal and the Netherlands. In Portugal⁴, during the time period 1988 to 1994, fatal accidents have more than halved, showing a total reduction of 56.6%. Non-fatal accidents (with the exception of work-related driving) have decreased considerably in

¹ It should be noted, however, that the mean notification rate estimated by the individual Member States differ significantly across the EU and in some cases are not available at all. Thus, meaningful comparisons are difficult to achieve across the whole of the European Union.

² Industrial accidents, Statistics Finland, Labour market statistics, 1997.

³ Spanish Ministry of Labour and Social Affairs.

⁴ DEMESS, Estatísticas de Acidentes de Trabalho.

the last six years (an average reduction of 17%). In the Netherlands¹, the overall number of industrial accidents have declined from 69,671 in 1982 to 64,657 in 1992. However, other countries show an opposite trend (i.e. Finland², where the number of fatal accidents have increased from 124 per hundred thousand employees in 1980 to 137 in 1994).

8.3 FACTORS AFFECTING THE FREQUENCY OF OCCUPATIONAL DISEASES AND SAFETY-RELATED INCIDENTS/ACCIDENTS

A number of factors affecting the frequency of occupational diseases and safety-related incidents/accidents have emerged from country-level data. These relate to the sector of activity, gender and composition of the workforce, and the size of the enterprise.

Sector of Economic Activity

The Eurostat study of accidents at work in 15 Member States³ shows that incidence rates tend to vary considerably according to the sector of economic activity (see Table 8.1). Accidents at work in the construction sector exhibit the highest incidence rate at 2.2 times the overall probability. Manufacturing also exhibits a higher than average incidence rate.⁴

Table 8.1 Number of accidents per 100,000 persons in employment. Incidence rate mean estimate for 6 common branches in the EU, 1993*

	Work accidents with more than 3 days' absence	Fatal work accidents
Manufacturing	5,054	5.0
Construction	9,885	17.0
Wholesale and retail trade + hotels and restaurants	2,868	3.3
Financial intermediation + real estate, renting and business activities	1,827	3.5
Total	4,505	6.1

* See Eurostat's Statistics for methodological details. Data for Greece is not available.

Source: Eurostat statistics in Focus, Accidents at Work in the European Union in 1993, Luxembourg, 1997.

This sector dimension is also confirmed at national level. In the United Kingdom⁵, a 1994 survey of industrial injury rates confirmed that safety-related accident/incident rates vary considerably with economic activity. As a proportion of a specific workforce, the mining and quarrying sector displayed the highest industrial injury rates, followed by transport & communications and the manufacturing sector. In Denmark⁶, average rates for occupa-

¹ CBS, Statistiek der bedrijfsongevallen (Statistics of 1982 industrial accidents) and Vademecum gezondheidsstatistiek (Vademecum health statistics), The Hague 1994, 1995.

² Industrial accidents, Statistics Finland: Labour Market Statistics, 1997.

³ Eurostat, op. cit.

⁴ Because of lack of data, Eurostat does not give an incidence rate for the transport and communications sector, although it indicates it is likely to be high as accidents reported for this sector are a high % of total accidents reported.

⁵ Matlay, H., Safety-Related Issues in the Small Business Sector, Working Paper no. 4, The Second Foundation, Oxford, 1994.

⁶ Danish Technological Institute (DTI).

tional accidents and diseases for the 1993-1995 period show that accident rates are particularly relevant in the manufacturing sector, and specially in the manufacturing of food, beverages and tobacco sector (1.5 times higher than the average for manufacturing sectors).

Gender and age of the working population

The Eurostat (1997) data shows that, on average, men are more likely to be involved in work-related accidents. In 1993, the number of men involved in accidents was 5,936 per 100,000 men in employment, whereas this ratio was only 1,881 in the case of women. In case of fatal accidents, gender-related disparities are even more marked: in 1993 incidence rates for men stood at 8.7 per 100,000 men at work as compared to 0.9 for women. Several reasons might explain these gender differences. Men are more likely than women to undertake work in high risk sectors, commit their labour for longer hours and generally involve themselves in better paid but riskier work. Few women, for example, work in the construction and mining sectors. A number of studies in France, Germany, Switzerland¹ and the United Kingdom suggest that women are better represented than men in part-time² and home-based work (the latter often being self employed and therefore part of the SME sector), which significantly reduces the exposure to accident risks.

Table 8.2 Number of accidents per 100,000 persons in employment per sex and age. Incidence rate mean estimate for 6 common branches in the EU, 1993*

	Work accidents with more than 3 days' absence	Fatal work accidents
Men	5,936	8.7
Women	1,881	0.9
<26 years	5,830	3.6
26-45 years	4,290	5.1
46-65 years	3,841	8.9
>65 years	3,609	17.5
Total	4,505	6.1

* See Eurostat's Statistics for methodological details. Data for Greece is not available.

Source: Eurostat statistics in Focus, Accidents at Work in the European Union in 1993, Luxembourg, 1997.

As Table 8.2 shows, the incidence rate for work-related accidents in 1993 appears to decline steadily with age. Most frequently involved were workers under the age of 26: 5,830 accidents per 100,000 individuals. By comparison, accident rates for the 26-45 years and 46-65 years categories were significantly lower at respectively 4,290 and 3,841 per 100,000 individuals. Several plausible hypotheses have been suggested by commentators to explain these figures: lack of experience and/or training, high-risk jobs and frequency of changes in work environments. In this sense, the French³ evidence points out that manual workers, in particular unskilled/unqualified individuals (mostly males), are twice as likely to have an accident at work than semi-skilled or skilled workers.

¹ Statistisches Jahrbuch der Schweiz (Statistical yearbook of Switzerland). Bundesamt für Statistik, 1997.

² See also Chapter 3 of the Third Annual Report of the European Observatory for SMEs.

³ OAT 1992 & UNEDIC 21.12.91.

It should be noted, however, that the seriousness of accidents appears to increase with the age of the employees. Fatal accidents at work, in particular, showed an upward trend at 3.6 per 100,000 for employees under 26 years of age, rising to 5.1 for those in the 26-45 years range, and to 8.9 and 17.5 respectively for 46-55 years and the over-65 years categories.

Enterprise Size

Data from France, Italy and Spain suggest that smaller enterprises show worse accident records. Table 8.3 shows that in 1992, in France most working-related accidents were found in establishments employing 10 to 49 employees. Thereafter, the accident rate declines with enterprise size. Notwithstanding this, important sectorial differences can be found, specially in the consumer goods industry (where most accidents were found in very small establishments) and in the food industry (where establishments between 50 and 499 employees have the highest levels of accidents. An explanation for these results could not be found.

Table 8.3 Index of accident rates by size of establishment in France, 1992

	Enterprise size				Total
	1-9 employees	10-49 employees	50-499 employees	500+	
Food industry	33	116	127	117	100
Intermediary industry	120	130	108	44	100
Equipment industry	129	239	89	49	100
Consumer goods	135	121	87	58	100
Building industry	112	115	79	28	100
Commerce	69	122	116	89	100
All	91	127	102	50	100

Source: OAT 1992.

Data from Italy (see Table 8.4), broken down both by enterprise size and by accident type, cast some light on the relevance of the reporting issue: fatal accidents and serious accidents are less likely to be subject to reporting bias. After an initial rise irreversible body damages and fatal accidents in Italy fall steadily with size. For example, for fatalities, the accident rate (per 1000 workers) for large enterprises is about one third, and those for irreversible bodily damage about one half of, those experienced by the smallest-size category¹.

¹ This pattern also holds for total accidents in Italy, so that the reporting accuracy may be rather high in this country. The mean rate per 1000 for all industries is 31.98.

Table 8.4 Variation of accident rates by accident type and size of enterprise: Italy, 1995. Rates per 10,000 employees

	Enterprise size					Total
	1-15	16-30	31-100	101-250	250+	
Accidents with reversible bodily damage	246	453	461	425	238	306
Accidents with irreversible bodily damage	12	18	15	11	6	11
Fatal accidents	0.7	0.8	0.6	0.4	0.2	0.5
Total	259	472	477	437	244	320

Source: INAIL.

As Table 8.5 shows in Spain fatal accidents are more likely to occur the smaller the enterprise is.

Table 8.5 Average number of accidents per 10,000 employees by establishment size class and by type of accident in Spain, in 1995

	Insignificant	Serious	Fatal	Total
6-50 employees	715	13	1	730
more than 50 employees	634	9	1	643

Source: Spanish Ministry of Labour and Social Affairs.

The reasons for lower accidents rates in large enterprises would be that they could afford, with a larger workforce, to employ specialised health and safety personnel to deal with preventive issues and measures. Also, larger enterprises are more unionised, and greater attention is likely to be paid to them in the media. Finally, some countries have some small business exemptions from regulations, making it easier to disregard them (see Section 8.4).

However, quantitative data from a number of European states also reveals an apparent divergence from the 'large is beautiful' hypothesis suggested above¹. In Sweden² for example, data indicate that enterprises with the *lowest* accident and disease rates are in the *smallest* size class with respectively 4 and 2 per thousand of the workforce affected. This rises steadily to peak 10 and 4 per thousand of the workforce at a size of 250 employees. After that, rates fall to 8 and 4 respectively. Meanwhile, the Austrian³ evidence suggests that both small (ranging from 1 to 19 employees) and the largest enterprises (more than 500 employees) tend to be safer than intermediate size levels, where the highest rate of work accidents occur in enterprises of 100 to 199 employees. Both results are difficult to explain in economic terms, and do not seem to arise from differences in the product composition of small and large enterprises within the same sector

Having in mind these results no conclusions can be found that smaller enterprises seem on average to be more accident-prone than large enterprises.

¹ Some of these statistics were reported in the Third Annual Report of the European Observatory for SMEs.

² NUTEK.

³ Allgemeine Unfallversicherungsanstalt - AUVA.

8.4 THE IMPACT OF LEGISLATION UPON WORKING CONDITIONS IN SMEs

In general, most of the EC regulations on working conditions have been, or are in the process of, being implemented by Member States and complemented in national regulations to ensure a safer and healthier working environment, in accordance with social, technical and economic developments in the European Union in general, and in the member countries in particular. Most individual countries have passed legislation aimed at improving working conditions since the 1960s. These have established general and specific principles and duties regarding work-related safety, hygiene and health.

In some countries there are special regulations for SMEs in Health and Safety laws. Some examples are given here. In Portugal, Decree Law No. 347/93 establishes penalties which increase in magnitude in proportion with the number of exposed workers. The difference in penalties, however, is not large enough to allow smaller enterprises to disregard the spirit of the law. Decree Law 441/91 ensures that the number of safety, hygiene and health representatives are in proportion to enterprise's size. In each enterprise a specific number of workers must be covered by a representative, regardless of the size of the enterprise. Similar laws in Austria are routinely submitted to representatives of employers, employees and relevant Chambers or Associations. Thus, no laws can be passed without prior consent from employer/employee representatives, regardless of the size of their enterprises.

In a number of countries, health and safety measures are determined both by laws and by contracts based upon collective bargaining. In many countries, these cover enterprises of all sizes, as enterprises who avoid them can be liable to prosecution and/or substantial punitive expenses. The legal framework in Switzerland caters for the prevention of both accidents at work and career-related sickness, regardless of the size of an enterprise. Under the labour law (ArG) an employer is compelled to take the necessary measures to ensure appropriate working conditions. The labour law legislates specifically for general health provisions, minimum requirements for enterprise licensing, work times, breaks and special protections for young and female employees.

8.5 THE COSTS OF IMPLEMENTING HEALTH AND SAFETY MEASURES AT WORK

Very few of the 19 countries covered by this report have so far attempted to collect and analyse centrally data relating to the costs of implementing health and safety measures at work. However, studies carried out in some countries (e.g. the United Kingdom¹) show that the magnitude of costs directly linked to health and safety measures can significantly affect the degree of implementation in the workplace. In addition longitudinal data from Austria², Greece³ and Finland suggest that the costs relating to the implementation of relevant legislation has increased considerably in the last two decades. In Italy⁴, a recent

¹ Matlay, H., and Hyland, T., Vocational Education and Training In the SME Sector, Falmer, 1998 (forthcoming), and Matlay, H. and Scanlon, K, Health and Safety in the small business sector, chapter in Preston, R., Organisational learning in learning organisations, Falmer Press, 1998 (forthcoming).

² Institut für Gewerbe und Handwerksforschung (IfG).

³ IKA.

⁴ Reported by Istituto Tagliacarne, Rome, 1997.

survey has established that about 90% of entrepreneurs cited a lack of financial resources needed for the implementation of safety programmes. More than half of the managers surveyed remarked on a lack of relevant training and competencies needed for the effective implementation of health and safety projects. About a third of entrepreneurs claimed that a shortage of skilled employees considerably limited their implementation efforts. As a direct result, at regional level in Italy, a number of relevant incentives have been adopted, including preferential lending schemes and managerial training and counselling programmes. There is an urgent need for all countries to monitor costs relating to the implementation of health and safety legislation as well as to identify relevant training and skill needs. These factors could have a crucial influence upon the degree of implementation of relevant, voluntary and/or compulsory legislation.

It should be taken into account however that the implementation of health and safety measures at work also have benefits. First of all of course for the people themselves (more safe working conditions, less accidents, stress, more attractive working environment). Secondly there are the benefits for the enterprise: e.g. less costs of sickness and other absenteeism, better PR). And thirdly for the society as a whole the legislation will mean less medical costs, costs of revalidation etc. The willingness of enterprises to implement health and safety legislation can be increased if these benefits are clearly explained and, as far as possible, quantified.

8.6 THE FRAMEWORK DIRECTIVE: A CASE STUDY

In this section the implementation of the EC directive regarding working conditions is studied. This directive leads to an important contribution to improvements in health and safety in the Union.

The Framework Directive which was adopted in 1989 requires business owners to carry out a risk assessment (RA) for their enterprise. The purpose of the RA is to identify and counteract health and safety risks at work. The ENSR Enterprise Survey¹ carried out in the framework of this year's report was used to ask questions regarding (i) enterprises' awareness of the need to carry out an RA; (ii) implementation of the RA; (iii) reasons for non-compliance.

Only about 26% of the enterprises surveyed throughout Europe-19 had done an RA at the time of interview. Table 8.2 shows how these rates vary with enterprise size, sector and country group.

¹ More technical information on the ENSR survey is provided in the Appendix to Chapter 12 of the Report.

Table 8.6 Risk assessments (RA) carried out, and adequacy of information to do so. By enterprise size, sector and country cluster (%)

	Enterprises who did perform RA (% of enterprises)	From those with adequate information (% of enterprises)
<i>Size class</i>		
1-9	22	80
10-49	37	90
50-249	57	86
250 and more	67	100
<i>Sectors</i>		
Manufacturing	38	83
Trade	19	83
Services	22	85
<i>Country groups*</i>		
The European Centre	28	71
The Northern Periphery	27	94
The Southern Periphery EU countries and Ireland	38	83
The Non-EU countries	25	99
<i>Total</i>	27	83

* The European Centre: France, Germany, Italy, Belgium, Luxembourg, the Netherlands.
The Northern Periphery: Denmark, Sweden, Finland and the United Kingdom.
The Southern Periphery EU countries and Ireland: Spain, Portugal, Greece, Ireland.
The Non- EU countries: Switzerland, Norway, Iceland, Liechtenstein.
More information on these country groups is provided in Chapter 12 of this report.
Source: ENSR Enterprise Survey 1997.

What is clear from this table is that large enterprises are almost three times as likely to have done a risk assessment than very small enterprises (64% versus 22%). Of those who did carry out risk assessment, almost all report sufficient information to do so, varying from 80% to 90% by size class.

Table 8.6 also shows that in the 'Southern periphery EU countries and Ireland' relatively more enterprises perform a risk assessment. On average, enterprises are slightly less likely perform a risk assessment in the non-EU than in the EU countries.

Risk assessment is carried out by almost 4 out of 10 enterprises in manufacturing, whereas in trade and services this is only done by about 2 out of 10 enterprises.

Future intentions

Almost 20% of the enterprises that had not yet done a risk assessment at the time of the survey intend to do so in future. This figure varies from 10% for the very small enterprises to between 25% and 28% for larger enterprises. Interestingly, over half (56%) of the 'non-conformists' (enterprises that had *not* done an assessment at the time of the survey) considered that they had adequate information to carry out the RA (ranging from 55% for

smaller to 70% for larger enterprises). Of the reasons offered for not doing an assessment, the most important and mentioned by over half of respondents (58%), was that they felt the assessment was 'not applicable' to their enterprise. One quarter, however, felt they were 'not obliged' to do one; and only 9% said that cost was the reason for not complying. The intention to carry out a survey, given they had not done one, is also a function of size of enterprise, with only 10% of very small enterprises intending to do so, rising to 28% of large enterprises with a similar intention. Thus large enterprises were three times more likely to 'conform' in the longer run, if their intentions are to be believed.

Information adequacy

Whilst information received (from whatever source) was overwhelmingly (83%) regarded as adequate to the task, the use of, and reaction to, particular information sources was varied. The largest sources of information used by enterprises performing RA, were governments and health and occupational safety service/enterprise safety services both used by one third of enterprises. Employers' organisations/sector organisations were also significant sources of information, with one in five enterprises using them. However, there is a divergence between sources used and sources preferred, as shown in Table 8.7

Table 8.7 Sources of information used and preferred in percentages of enterprises who did and did not carry out a Risk Assessment (RA)*

Sources of information	Enterprises who did perform RA (% of enterprises)		Enterprises who did not perform RA (% of enterprises)	
	Used	Preferred	Used	Preferred
Government	32	24	44	14
Employers and sector organisations	19	8	24	19
Chambers of commerce	7	26	7	36
Health, occupational safety organisations	32	18	26	11
Private consultants	16	29	22	8
Colleagues, friends	7	-	1	-
Other	14	16	8	2
Do not know	2	6	-	22

* As more answers were possible, the figures do not total to 100%.
Source: ENSR Enterprise survey 1997.

Among enterprises who did perform RA, chambers of commerce and private consultants did not supply information in most of the cases, although (along with Government) they were given the highest preference, after the event. Government, employers and sector organisations, together with health and occupational safety organisations, were used as sources of information much more than actually the users, in retrospect, preferred. The same is true for enterprises that had not performed a RA at the time of the survey (see Table 8.3.) The preference for chambers of commerce as sources of information may be due to the status of these organisations in the eyes of the very smallest enterprises.

Costs

It was hypothesised that the economic costs, measured by the average number of days taken to do an assessment by enterprises, would affect the decision to carry out an assessment. To gain an idea of the influence of enterprise size on the cost of assessment we calculated the number of man-days and the costs in ECUs per worker by enterprise size¹ (Table 8.8).

Table 8.8 Costs of Risk Assessment by enterprise size, 1997

Size (employees)	Number of days spent on risk assessment per worker		Average cost per worker (ECU)	
	Mean	Standard deviation	Mean	Standard deviation
All enterprises	1.0	1.7	22	326
1-9	1.0	1.2	11	47
10-49	1.2	2.6	54	608
50-249	0.2	0.4	0.4	2.7
≥ 250	0.1	0.4	4	40

Source: ENSR Enterprise Survey 1997.

Whilst statistically robust conclusions cannot be derived from Table 8.8, the following hypotheses can be tentatively formulated:

- the time taken (per worker) to perform an RA, as expected, falls with size of the enterprise;
- cost measured in monetary units has a much more ambiguous relation to enterprise size.

It is therefore still an open question whether there are in fact economies of scale (decreasing unit costs with size) in the provision of health and safety in the workplace². However, the relation of costs to an enterprise's decision to perform an assessment is unclear (indeed the interviews suggest that costs were not the major determinant), and, from the above data, lack of information also does not appear to be a major factor, it can be concluded that motivational factors might be the most important consideration on which to focus.

8.7 POLICY ISSUES

Cross national comparisons of accident and disease rates are fraught with difficulty due to poor quality (e.g. differences in reporting) and comparability of data (e.g. varying definition of an accident). These statistics need to be significantly improved if effective cross national policy in this area is to be designed. In designing policy account must be taken of the fact that variation of accident and disease levels reflect the phases of the economic

¹ These figures should be interpreted with caution since they have a high standard deviation.

² An additional reason for supposing that there are such economies is that the statistics reported here strictly measure the *variable* cost of a RA. Once the fixed costs of doing the RA are taken into account the picture might well again change, with a movement towards an inverse relationship once more. Fixed costs might include of course the need to get information about the requirements for an RA and how to perform it. They may also include some items of fixed capital.

cycle, with downturns being associated with lower levels, and booms with higher levels, as employment varies with the cycle. Recorded accident and disease rates in the Union do not always seem to have a systematic relation to enterprise size. Thus once again, better statistics are required to devise an enterprise size-related health and safety policy, reflecting the fact that existing statistics are influenced by reporting rates, which seem to vary systematically with enterprise size. Apart from size, sector, gender, age and employment contract effects need to be taken into account in policy design. In some countries disease rates and accident rates are positively correlated, implying that diseases may be partly responsible for accidents and vice versa. The policy implication of this finding is that targeting diseases will also reduce accidents. The more accident-prone individuals were found to be men and manual workers. In addition the data show that the number of accidents is higher among younger people but the accidents are more serious among older people. With regard to sectors, the construction sector is more exposed in most Europe-19 states to accidents. It may therefore be argued that diseases seem to be concentrated in sectors and demographic characteristics of the workforce rather than countries. Data from Austria, Greece and Finland would suggest that the enterprise costs relating to the implementation of relevant legislation have increased considerably in the last two decades. This suggests that addressing costs (and benefits) must be a component in any effective policy initiative in this area. Regarding implementation of the EC Framework Directive, the ENSR Enterprise Survey 1997 indicates that between one quarter and one third of enterprises had at the time of interview done a risk assessment. However, in those enterprises that had not, the failure to do so was not through lack of information, which was regarded as adequate. Large enterprises are twice as likely to have done a risk assessment than very small enterprises. They are also somewhat more likely to have viewed information required as adequate. This again emphasises the importance of the size dimension to policy. We also find that size class differences matter more than country differences in the enterprise's decision to carry out a risk assessment, implying that enterprise size is a critical dimension of policy formulation. However, the most important reasons for not doing an assessment in the survey reported above was the misperception that the Directive was 'not applicable' to their enterprise. More detailed information on the motivational factors operating here should be obtained if the risk assessment directive is to be implemented effectively. There is also an urgent need for all Europe-19 states to monitor costs relating to the implementation of health and safety legislation and to identify relevant training and skill needs. Apart from that the benefits for enterprise at implementing health and safety legislation should be clearly and, as far as possible, quantified. These factors could again have a critical influence upon the degree of implementation of relevant, voluntary and/or compulsory legislation. Finally, very few of the Europe-19 states have so far attempted to centrally collect and analyse data relating to the costs of implementing health and safety measures at work. This issue needs to be addressed as a matter of some urgency in the coming years.

PART III ENTERPRISE POLICIES

9 ENTERPRISE POLICIES DIRECTED AT SMEs AND CRAFT

Co-ordinated by Institut für Mittelstandsforschung Bonn (IFM Bonn)

MAIN POINTS

- New developments in SME policy are still strongly influenced by high unemployment rates and the need to achieve sustainable economic growth. Given the key role that SMEs are seen to have in this context, most countries concentrate their efforts at the reduction of administrative burdens, the improvement of financial environments, labour-related issues, internationalisation and the enhancement of R&D and innovation.
- In this context, new developments focus on improving the effectiveness of existing measures as well as introducing new support programmes. In the latter case a tendency towards qualitative rather than quantitative support (in the form of subsidies) can be acknowledged.
- This especially holds true for initiatives geared towards improving the business environment. Such initiatives appear to aim mainly at the simplification of administrative procedures. This includes the modification or even the abolition of existing business related administrative burdens such as registering, licensing and merging outlets of authorities to 'One-stop Shops'. In most of the countries improvements to the business environment also include reforms of the tax system.
- Apart from training support, start-ups are offered new credit-lines, loan guarantees and related allowances. Social security rebates for young enterprises add to the range of recently implemented measures.
- Efforts made to improve the financial environment focus mainly upon improving SMEs' access to risk and venture capital. Apart from the recent establishment of secondary markets in small firm shares, new initiatives are generally geared to channelling private capital into the SME sector by means of guarantees.
- Attempts have been made to alleviate perceived shortages of scientific personnel by introducing tax allowances and wage subsidies for staff engaged in R&D. New measures also attempt to improve SMEs' R&D-related competitiveness by stimulating the collaboration of SMEs with research centres and universities. The diffusion of new technology is supported by cash transfers.
- New initiatives, particularly focused on increasing exports to Latin America and to Eastern and Central Europe, are also in evidence.
- A tendency is noted to centralise information sources into One-stop Shops. This is done either physically, at local level, or via the Internet. These measures are also geared towards improving SMEs' access to data on foreign markets.
- Unemployment is a persistent problem in most countries, and a wide range of new initiatives have been introduced to address this problem. They include the injection of 'flexibility' options into labour market regulations. Tax rebates on recruitment of personnel, reduced social security contributions (SSC) by employers and allowances for training courses are aimed at the unemployed.

9.1 INTRODUCTION

New developments in SME policy are still strongly influenced by overall high unemployment rates and a desire to achieve sustainable economic growth. Given the key role that SMEs are perceived to have in this context, most governments concentrate attention on reductions in administrative burdens, improvements in financial environments and labour-related issues, as well as in fostering the process of internationalisation and the enhancement of R&D and innovation.

In this respect, lower tax revenues and a struggle to meet the Maastricht criteria can narrow a government's room for manoeuvre. Most governments have met this challenge by improving the effectiveness of existing measures instead of implementing new and generously funded schemes. Nonetheless, new schemes and programmes have also been established for this purpose. These will be presented in Section 9.2, including an indication as to whether these are related to the Multi-Annual Programme¹. Section 9.3 focuses on existing measures and on those considered to be successful by the individual countries covered in this report.

9.2 NEW DEVELOPMENTS IN NATIONAL SME POLICY

Although most of the 19 countries covered by this report are currently facing high unemployment rates combined with dissatisfactory growth rates, this has not resulted in a unilateral approach to SME policy. Thus, considerable SME-related differences between countries still remain. Such differences might reflect specific socio-economic conditions and/or the variety of approaches employed by individual countries to support, enhance and develop their SME sectors. A standardised presentation may offer an overview of new developments in this field. Table 9.1 provides an overview of actual/planned new developments by fields and countries for the July 1996 to April 1997 period.² As stated before, new measures or schemes have only been implemented when considered necessary and should be viewed as extension to existing SME policy frameworks. In some countries, such as *Liechtenstein*, *Switzerland*, *Iceland* and to a certain degree *the United Kingdom*, SME-related policies can be viewed as components of general economic policy rather than selective or focused policy-making. In other countries, such as *Belgium* or *Germany*, the federal structure empowers regional authorities to pursue selective policies in favour of SMEs. Due to the complexity and diversity of regional SME policies, the new developments presented below are restricted mainly to national and federal policies.

¹ Commission of the European Communities: Maximising European SMEs full Potential for Employment, Growth and Competitiveness, COM, 1996 (98).

² Earlier periods are covered in previous Observatory Reports.

Table 9.1 Implemented and planned national actions by fields and countries, 1996-1997

Country	Business environment	Financial environment	Internationalisation & Information		Labour, training & Innovation		
	Administrative Burdens	Late payment	Finance	Internationalisation	Information	Labour	Innovation
AT	X		X	X		X	X
B	X		X	X		X	
D	X		X	X	X		X
DK	X		X	X	X	X	X
FIN	X		X	X	X	X	X
F	X	X	X	X	X	X	X
GR			X	X	X	X	X
IS			X	X		X	
IRL	X	X	X	X	X	X	X
I	X	X	X	X	X	X	X
FL	Only general economic policies; no direct support measures for SMEs						
L	X		X	X		X	X
NL	X		X	X	X		X
N			X		X	X	X
P	X		X	X	X	X	X
E	X		X	X	X	X	X
S	X			X	X	X	X
CH	X		X	X		X	X
UK	X	X			X	X	X

Source: ENSR, 1997. Note: X indicates implemented or planned action.

As shown in Table 9.1, most countries have introduced or are planning new measures, or have modified existing ones. Their general aim is to improve the overall business environment by introducing support measures in specific fields. In this context, the influence of the Multi-Annual Programme is still unclear. For instance, measures geared towards reducing administrative burdens often have their roots in committees set up long before the current Multi-Annual Programme was formulated. Other measures might relate to this programme, but have not been implemented because of it. Nonetheless, most measures can be categorised according the fields distinguished in the Multi-Annual Programme.

9.2.1 Business Environment

New developments geared towards improving the business environment mainly consist of simplified administrative procedures.¹ These include the modification of existing business-related administrative procedures - such as registering, licensing (*Italy, the Netherlands,*

¹ See also Chapter 2 of this Report.

Portugal, Finland) and merging outlets into 'One-stop Shops' or concentrating contacts in one address (*Belgium, Denmark, Finland, Portugal, the United Kingdom*). Modifying or abolishing regulations is another path that individual governments have pursued. In this context the Belgian¹ government announced the modernisation of its establishment law. This should entail setting standards, regrouping related professions, stimulating practical experience and a new 'apprenticeship' leading to an establishment licence. The government is also discussing whether to set up a service that is to evaluate the impact of regulations and their corresponding costs for enterprises. The service is thought to be located at the Prime Minister's office. Other countries (*Austria, Italy², the United Kingdom*) have been or currently are reducing the volume of regulations SMEs have to comply with. In *Austria³* the Gewerbeordnung, a framework of business acts, was modified in 1997, reducing the number of trades subject to specific regulation from 153 to 84 (see also Chapter 2). In *the United Kingdom*, more than 1,000 pertinent regulations had been abolished by 1997. A further 150 licensing laws are currently under review and 70 have actually been highlighted for abolition. In *Sweden* a committee investigating barriers to SME growth aims at making suggestions that will eventually reduce them by 25%. *France* is currently implementing reduced reporting requirements for statistical purposes (by about 30%). In *Italy* and *Ireland* similar modifications cover SME accounting requirements. Reductions have been legislated in *Italy⁴* whereas in *Ireland* it has been decided that the statutory audit requirements on private limited companies and co-operatives with an annual turnover of less than 134,000 ECU will be removed entirely. Reduced accountancy reporting requirements also affect SMEs in *the United Kingdom*, with full reporting exemption applying (from March 1997) to SMEs with a turnover of less than 490,000 ECU.

In most countries improvements to the business environment also included reforms and modifications of the tax system. Whilst still under current investigation in *Germany, Italy* and *Switzerland*, tax rate reductions favouring SMEs have been legislated for in *Ireland⁵*, *Luxembourg⁶* and *Spain⁷*. Other measures are geared towards simplifying tax reporting by enabling electronic declaration (*Finland, France, Denmark, Sweden*), reducing the number of forms (*France, Spain*), improving their language and details (*Ireland⁸*) and simplified VAT collection procedures (*Switzerland*).

Table 9.2 provides an overview of major tools applied for improving the business environment, by the countries covered in this report.

¹ See Draft Programme Law for SMEs.

² See BASSANINI Decree, converted into Act No. 59 on March 15th 1997 and into Act No. 127 on May 15th 1997.

³ See Gewerbeordnungsnovelle 1997 (§§ 94; 124; 127 GeWo).

⁴ See Act No. 662 and decree No. 695, both December 1996.

⁵ Recent budgets have reduced the rate on profits for companies whose profits are below a certain amount.

⁶ The stepwise tax reduction is one measure of the action plan in the context of the Initiative in favour of SMEs decided upon in April 1996 and implemented in December 1996.

⁷ See Law 13/1996 dated Dec. 31st, 1996.

⁸ In the context of the 'Partnership 2000' initiative.

Table 9.2 Major tools applied for improving the Business Environment

Modification of existing regulation	(i.e. licensing, reporting, shorter response periods and clearer language for forms)
Reduction of regulatory requirements	(i.e. licensing, reporting, permits)
Modification of the tax system	(i.e. more transparent, electronic declaration, lower rates)

Source: ENSR, 1997.

9.2.2 Financial Environment

Late payment

Only a few countries have taken measures to correct problems of late payment, an issue that particularly affects SMEs¹. Only in *Ireland*² does this refer to late payment by public authorities. From 1998 onwards these will be to settle their accounts by the date specified in a written contract or, if this is not written at the latest within 45 days after delivery or after receipt of an invoice for payment. In *the United Kingdom* the policy has changed with the new government, which now plans a statutory right to charge interest on outstanding amounts. Under certain conditions small firms will be exempted from having to pay interest. In *France* two measures are geared towards late payment in the private sector. The 'Chartres de bonne Conduite' - a publicly initiated but voluntary charter of good behaviour - enables enterprises which promise to comply with payment deadlines to sign up and thus be listed. This initiative is sponsored by the business sector and should this charter fail there is the possibility of new legislation to deal with the matter. The second measure is still a pilot project. It empowers enterprises at risk from late payment to call upon commercial and industrial courts to mediate in case of disputes. Payment can be facilitated within one week. These measures illustrate how controversial the question relating to legislation on late payments is being discussed. This holds true especially for the private sector of an economy. For instance, in *Italy*,³ an act to reduce payment deadlines to 60 days for the subcontracting sector is still pending.

Finance for start-ups

The situation is different when it comes to new or modified programmes and schemes geared towards enhancing business start-ups. Although the applied instruments, mainly subsidised loans, guarantees and allowances, are not new, a number of countries have widened their portfolio of start-up support. *Austria*,⁴ for instance, implemented a new savings account that tops up founders' savings by 14% (max. 55,000 ECU) and a new credit line of (at most) 110,000 ECU at 6% interest. The latter is also available in *Finland*⁵, with 60 mill. ECU earmarked for subsidised loans aimed at start-ups both in the

¹ See European Commission, Commission Recommendation on payment periods in commercial transactions, May 12th 1995, in: Official Journal of the European Communities, No. L 127/19.

² Prompt Payment of Accounts Act, 1997.

³ Act No. 367 proposed in 1996.

⁴ Implemented in July 1996, responsible authority Beurges Förderungsbank.

⁵ See Pienlaina programme introduced in April 1996 but operating only since 1997.

manufacturing and the service sectors (a support policy that attracted a budget increase of some 25 mill. ECU) only recently. A similar measure is also available in Greece¹ which offers founders who cannot fully finance their business start-ups an allowance of up to 159,700 ECU. In Belgium² a reduction of social security contributions and a new guarantee line reducing the risk on start-up loans are planned for business founders. Similarly, in France, BDPME,³ together with CDC, have set up a new start-up fund. For the same purposes, a new risk capital fund has been established for techno-start-ups in the Netherlands.⁴

Other Financial Assistance

Apart from financial start-up support, various other measures offer financial assistance to SMEs. These are most commonly linked to specific sectors or business activities and therefore are not accessible to all SMEs. Common instruments available to SMEs include: access to risk and venture capital, allowances and grants and loan guarantees.⁵ As to the latter Denmark⁶ now offers guarantee facilities to development agencies that have equity in excess of 2.7 mill. ECU and which invest in SMEs. Previously this type of facility was restricted to agencies with an equity of at least 6.7 mill. ECU. A sectoral approach is followed by Kera Ltd. in Finland,⁷ which has widened the scope of its guarantees towards SMEs in the service sector. In Italy,⁸ SMEs facing a large share of short-term debt can convert it to medium-term debt via a new guarantee fund funded by a reserve of 52 mill. ECU. Additionally, loans for investments can be secured via a further fund furnished with 26 mill. ECU. The Italian government has also allotted 182 mill. ECU to banks and financial institutions for them to grant participative loans to SMEs. A guarantee fund geared towards SMEs lacking collateral for loans has been established in Portugal⁹. It aims to secure 25-50% of the loan risk not covered by collateral. In the Netherlands¹⁰ special facilities for innovative SMEs are provided under the existing loan guarantee scheme. Increasing the equity of SMEs with less than 250 employees is also the aim of a new guarantee scheme in Austria,¹¹ according to which investments of up to 18,500 ECU

¹ See Programme for stimulating/supporting candidate entrepreneurs.

² This action is part of a draft Programme Law for SMEs that has been approved by the SME Cabinet Council on April 25th 1997.

³ BDPME is the result of a merge between CEPME, which is an SME bank, and SOFARIS, which is a guarantee fund.

⁴ See 'Technostarterfonds'.

⁵ New tax redemptions are mostly linked to employment.

⁶ See Revision of the 'Lov om statsgaranti til udviklingsvirksomhed', dated Spring 1997.

⁷ Kera Ltd. is a Finnish state owned risk financing company; the service sector is included in its guarantee scheme since beginning of 1997.

⁸ See decree No. 636 of the Minister of the Treasury dated November 1996 which also gave full application to Act No. 237 from July 1993.

⁹ This is offered by SGEEB, a state run guarantee fund, since September 1996 and is due to expire by December 1999. Further guarantees are offered to young entrepreneurs aged less than 35 in the context of the SAJE programme implemented in January 1997.

¹⁰ See: 'The Borgstellingsregeling MKB' - SME loan Guarantee.

¹¹ See: Eigenkapitalgarantien, BÜRGES Förderungsbank des Bundesministeriums für wirtschaftliche Angelegenheiten Ges.m. b.H.

are granted a 100% guarantee with 50% guarantee for successive investments. The guarantee may be valid for up to 10 years.

Risk and venture capital can also be used to support SMEs. *Belgium*,¹ for instance, tries to channel private risk capital into SMEs with less than 100 employees by granting investors substantial guarantees. Furthermore, it is planned to reduce the tax rate on dividends from shares of SMEs to 15%.² The *Greek* government is currently formulating a new institutional framework for venture and seed capital³ that will add to existing interest rate subsidies for various kinds of investments and a subsidy on private investments in SMEs. In *Spain*,⁴ a new credit line aimed at innovative SMEs has been developed by ENISA, a public firm which specialises on enhancing innovation. It offers mainly participative loans to this type of enterprise. In *the United Kingdom*, a pre-finance service to help SMEs raise finance for innovative projects was established in 1996.

The major tools applied for improving the financial environment are listed in Table 9.3.

Table 9.3 Major tools applied for improving the financial environment

Subsidised loans	(often linked to specific investments or to start-ups)
Loan guarantees	(cover on average some 75% of a loan)
Guarantees for Venture Capital & participative loans	(offered by agents or individuals)*
Second markets	(participation rate of SMEs is still low)

* By offering default guarantees and/or tax reductions to private investors in SMEs, this tool can channel private capital into SMEs and thus reduce the burden on public budgets.

Source: ENSR, 1997.

9.2.3 Innovation and R&D

Measures geared towards enhancing innovation and R&D in SMEs often include financial support. This is the case in *Spain*⁵ where, in the context of the Atyca Initiative, 394 mill. ECU have been earmarked for financing SME technological and innovative projects during the 1997 to 1999 period. Tax allowances and wage subsidies for staff engaged in R&D can also be used as incentives to further innovation in SMEs. For instance, in *the Netherlands*,⁶ a partial wage subsidy in form of a tax allowance is available for staff engaged in R&D. Since 1 January 1997 this measure is also applicable to software development. The ceiling of this type of allowance has been increased from 5 mill. to 7.5 mill. ECU per individual enterprise. Additionally, the Dutch government has decided to

¹ This measure is restricted to the Flemish region and is part of the 'Decreet tot regeling van toekenning van een waarborg als verliesgarantie voor het verstrekken van risicokapitaal'.

² See Draft Programme Law for SMEs.

³ According to Art. 1 of Law 1775/88 venture capital is still restricted to high-tech investments. This will be changed by either a new law or a modification of Art. 1; the subsidy on private investments was governed by Law 1892/90.

⁴ See Empresa Nacional de Innovación SA; the credit line is due to operate by mid 1997.

⁵ See: 'Iniciativa de Apoyo a la Tecnología, la Seguridad y la Calidad Industrial, Atica' presented in March 1997.

⁶ See 'Wet vermindering afdracht loonbelasting en premie voor de volksverzekeringen, onderdeel speur- en ontwikkelingswerk (WSBSO)', implemented in 1994 but furnished with a budget of 200 mill ECU for 1997.

continue the KIM programme¹, within which enterprises can receive financial support for hiring graduates who have completed Higher Vocational Training or relevant university courses.

Wage subsidies are also available in *France*². Geared towards NUTS II regions, these are intended to encourage SMEs to hire post-doctoral staff in order to improve their overall innovativeness. Similar support is available in *Norway*³, where an allowance is available to SMEs which employ graduates in order to increase their innovative capacity. Improvements in SME innovative competitiveness can be stimulated through co-operation with research centres and universities. Such co-operation could encourage the diffusion of new technologies. Many of the member countries are currently following this path. *Austria*,⁴ for instance, has earmarked 35.7 mill. ECU for its Research Promotion Fund. It also supports the improvement of the technological infrastructure in SMEs via co-operative research and technology transfer. In *the Netherlands* the 'Bedrijfsgerichte Technologische Samenwerkingsprojecten (BTS)' has been established. This scheme replaces four others (PBTS, IT regeling, T&U regeling and the BTOC) aimed at stimulating technology in SMEs and to assure that public and private research are linked. The scheme is open not only for projects in which enterprises co-operate with research organisations, but also for projects in which innovative work is subcontracted to third parties. The Danish Ministry of Business and Industry together with DTI are currently supporting the establishment of 5-10 regional innovation centres in *Denmark*⁵. Their task will be to provide innovative entrepreneurs with specialised training and access to R&D and capital, as well as to initiate a range of innovative projects. *Finland*⁶ is pursuing a similar aim and has made 12 mill. ECU available to promote venture capital for R&D activities. Furthermore, a new pilot project (initiated in September 1997) is aimed at improving co-operation and networking between enterprises and research institutes through establishing business links. Further institutional approaches are being followed in *Portugal*⁷, where AICE provides technical assistance to nascent firms. Furthermore, *Luxembourg*⁸ has allocated 0.08% of GDP to a newly formed research fund, and *Switzerland*⁹ has earmarked 12.3 mill. ECU for the transfer of technology. Similarly, *Sweden*, has granted research institutes 2.5 mill. ECU for visiting exchanges with the aim

¹ Kennisdragers Midden- en Kleinbedrijf (KIM), see also Section 9.3.2.

² This is a pilot project that started in 1997. 30% of the wage is financed by the region and 20% by government. See 'Bourses post-doctorales'.

³ See 'SMB kompetanse', implemented in 1997. The measure is funded with 2.25 mill. ECU per year and expires in 2000.

⁴ These actions are part of the 'Technologieoffensive' decided upon in July 1996.

⁵ See Danish Technological Institute for Technology (DTI); 4 mill. ECU have been allotted to this initiative.

⁶ The budget is co-ordinated by Tekes (Technology Development Centre) that operates under the Ministry of Trade and Industry.

⁷ AICE was implemented in September 1996 and is a framework of sub-programmes designed for new and innovative enterprises.

⁸ This initiative had been announced in the framework of the fiscal and economic measures favouring the future development of enterprises in May 1997.

⁹ The 'Technologietransfer' initiative is not new but has been strengthened considerably through the injection of a further 12.3 mill ECU.

to improve SME access to R&D. In *the Netherlands*¹ four participation funds for techno start-ups have been set up. These funds will provide risk capital and encourage participation in techno-start-ups. *France*² offers subsidies for feasibility studies, which cover up to 60% of total costs and 45% of implementation costs. Interest-free loans of up to 152,000 ECU are available for this purpose. Similarly, *Greece*³ subsidises up to 65% of investments geared at improving and modernising product quality systems. In addition to consultancy and advice, an allowance worth 7,800 ECU can be granted as a contribution towards patent costs in *Germany*⁴. Forbairt is currently investigating appropriate measures to strengthen the diffusion of technology in *Ireland*⁵; the current plan is to develop a national technology brokerage. In *Italy*⁶, the government went through the archives of R&D support measures and restored a number of initiatives that date back as far as 1965. This entails reactivating the programs that now provide for subsidised loans for R&D investments, better access to relevant information and shorter admission periods.

Table 9.4 provides an overview of the major tools applied for improving the environment for R&D and innovation.

Table 9.4 Major tools applied for improving the Environment for R&D and Innovation

Tax allowances	(commonly linked to innovative projects)
Wage subsidies	(commonly for R&D staff)
Guarantees for Venture Capital	(when invested in innovative projects or firms)*
Creation of public research centres	(participation rate as share of SMEs still low)
Stimulation of networks and co-operation	(mostly between research centres and firms)

* By offering default guarantees and/or tax reductions to private investors in SMEs, this tool can channel private capital into SMEs and thus reduce the burden on public budgets.

Source: ENSR, 1997.

9.2.4 Internationalisation

Practically all countries have implemented measures such as guarantees, short-term loans or foreign trade offices to foster the internationalisation of their economy. In most cases this is geared towards exports. Nonetheless, foreign enterprises are welcomed as investors. Trade barriers still exist and new ones are still apparently being created within the Internal Market. For this reason the government in the Netherlands has plans to set up a new 'compliance unit' to which new trade barriers can be reported.⁷ Alongside this

¹ 'Technostartersfonds'.

² This is part of the recently introduced ATOUT-Drop scheme. Subsidy limit for feasibility studies and implementation is 45,700 ECU each.

³ See Law 1892/90.

⁴ See Patentinitiative, implemented autumn 1996. Next to this federal measure, several initiatives have been taken on regional level such as the Patentinitiative Nordrhein Westfalen that offers a similar service.

⁵ See Office for Science and Technology (1996): The White Paper on Science Technology and Innovation, p. 5, Dublin.

⁶ Old but restored actions are the 'Sabatini Act - 1329/65', Law 46/82, Law 317/91 and Law 488/92. The reinforcement of these acts has been suggested by the 'Bersani Proposal' that although not yet accepted is partly effective already.

⁷ See The Compliance Unit, Dutch Ministry of Economic Affairs.

measure the enhancement of exports is also being continuously pursued in *the Netherlands*, where a measure to foster Dutch investments in Eastern Europe is currently being investigated. This also holds for *Austria* which wants to increase its share of exports from 22% to 25% of GDP by offering more support to exports targeted at Latin America and Eastern Europe. The latter policy is also pursued in *Belgium*, which recently passed a bill ruling that 75% of the expenses induced by technical training of east Europeans are subsidised. This is restricted to SMEs with less than 100 employees and them taking in east Europeans in order to foster their exports to Eastern Europe and Latin America. *Denmark*¹ is following a more general approach by offering a wage subsidy for an export trainee.

Stimulating non-exporting SMEs to export is also an aim in *France*², where BDPME and COFACE now offer such SMEs participative loans in order to lower their initial financial risk. COFACE has additionally set up four new export insurances. Similarly, *Iceland* has merged two export guarantee funds now providing guarantees for investments in equipment abroad. Likewise, in *Luxembourg*³ appropriate measures to reduce the impediments related to exporting services are being investigated. This also is the case in *Ireland*⁴ where An Bord Trachtála, the Irish Trade Board, is to treat service firms the same way as manufacturers when it comes to supporting and assisting the development of export projects.

Specific facilities are available in *Spain*⁵ which now offers a tax relief for measures geared towards internationalisation. As in the case of R&D, the government in *Italy*⁶ has earmarked a number of actions for revitalisation that date back as far as 1977. This entails providing them with capital, and, in some cases, involves a modification of the act. According to a recent decree, the restored Ossola Act will provide exporting SMEs with subsidised short-term loans covering up to 85% of the export value in order to alleviate their risk of late payment in foreign trade. *Sweden* has allotted 2.2 mill. ECU to fostering exports by promoting unemployed export experts to SMEs and making the database of the Export Council available via the Internet. Additionally, the ALMI business partners, a network of regional development agencies, now offer export courses.

In Table 9.5 the major tools applied for improving environment for internationalisation are listed.

¹ See Eksportudviklingsprogram.

² It is stressed, that these new measures are in line with the objectives C1 & C6 of the Multi-Annual Programme.

³ This is part of the Initiative in favour of SMEs decided upon in April 1996.

⁴ See 'Partnership 2000' paragraph 6.20; according to this, the Board has the target to more than double the exports from Irish indigenous service firms over the next 5 years.

⁵ This is part of a Strategic Plan to increase the number of exporting SMEs by 2,000 by the year 2000.

⁶ Old but now re-vitalised measures are the 'Ossola Act - Law 227/77' restored by the decree No. 87 from 1997 that has changed the refunding of the Act and Act 100/90 on the society for foreign joint ventures (SIMEST).

Table 9.5 Major tools applied for improving environment for internationalisation

Export guarantees	(commonly offered by state run agents)
Wage subsidies	(commonly for export related staff)
Subsidised loans	(commonly for investments abroad)
Training	(on export related matters)
Allowances	(mostly for export projects)
Information	(commonly on foreign markets)

Source: ENSR, 1997.

9.2.5 Information

The access to business-related information on national initiatives or foreign markets is becoming ever more crucial for SMEs, of which a growing proportion faces increased competition. Most governments have already reacted by improving the overall access to information. New measures are mainly geared towards centralising information sources in the sense of One-stop Shops, either physically, at the local level, or via the Internet. In *Norway*¹ a new initiative offers consultancy and financial support to developing and implementing information technology - also necessary for access to information sources - in SMEs. In this context *Germany*² is planning to make information on all federal support measures geared towards SMEs available via the Internet. A similar initiative is being developed in *the United Kingdom*, the 'Enterprise Zone' is planned to be a new Internet web site connecting SMEs to approved information providers. In *Denmark*³ the Danish Ministry of Business and Industry in fact has already established an information hotline. It is run by DTI and offers information on all business related issues. It also includes research services and a sector-specific discussion forum for entrepreneurs. The same holds for *Finland*⁴ whose Ministry of Trade and Industry only recently set up an Internet home page offering information & services. Likewise, in *Sweden*,⁵ NUTEK is setting up a home page with links to support agencies.

Furthermore, in *Finland*⁶ the Ministries of Trade and Industry, of Agriculture and of Labour decided to merge 77 outlets to 15 local Employment and Economic Development Centres - a kind of One-stop Shop for all kinds of government information. A similar initiative has been set up in *France*, where One-stop Shops with a special focus on start-ups, and offering access to information on a local level, are being opened. *Luxembourg*⁷ has established a 'Guichet-unique' offering a wide range of reorganised services. This is also

¹ See BIT-programet.

² This was announced by the secretary of state in charge of SMEs in February 1997.

³ See 'Ervervsministeriets Hotline' initiated by the Danish Ministry of Business and Industry in 1996.

⁴ See Ministry of Trade and Industry.

⁵ See The National Board for Industrial and Technical Development, Stockholm.

⁶ See: Työvoima-ja elinkeinokeskuksiin kohdistuu suuria odotuksia. Sisävuoro 1/97. Työvoima-ja elinkeinokeskusten sisäinen tiedotuslehti (Employment and Development Centres will face great challenges, Sisävuoro 1/97. Internal information magazine of Employment and Economic Development Centres).

⁷ This is part of the Initiative in favour of SMEs realised in the framework of LEADER II.

planned in *Belgium*¹, where centres functioning as 'Guichet-unique' will offer information and advice on all kinds of administrative formalities. *Ireland*², that already has a well functioning information system, has now widened the scope of these services to incorporate the service sector. Improvements have also been decided upon in *Italy*³ that intends to improve and simplify the access to information on foreign markets for SMEs; major actors are Chambers of Commerce and the Institute for Foreign Trade, both are subject to some restructuring currently. In *Switzerland*, an official information and counselling agency addresses enterprises wishing to set up business activities in this country. It is run by the Swiss Federal Office for Industry and Labour, in close co-operation with the Swiss cantons and the Swiss embassies and consulates abroad. PYME: Area de Información, a centralised information service for SMEs, has been established in *Spain*⁴. As a One-stop Shop the agency provides all kinds of information relevant to SMEs as well as counselling on a wide range of topics such as business start-up, access to databases, other support measures or internationalisation. And finally in *Greece*⁵ a measure recently implemented offers SMEs using external information and consultancy sources a 50% contribution to the related expenses.

The major tools applied for improving the information environment are presented in Table 9.6.

Table 9.6 Major tools applied for improving the information environment

Centralised information supply	<i>(mostly via One-stop Shops)</i>
Electronic information supply	<i>(via the Internet)</i>
Facilitated access to information	<i>(via centres on the local level)</i>

Source: ENSR, 1997.

9.2.6 Labour

Unemployment is a prevailing problem in most of the countries studied. Reasons for this are commonly seen in the efforts made to meet the Maastricht criteria, entailing that necessary tax reductions are not made, and the lacking flexibility of labour markets. In this context SMEs are believed to be a prime source of job creation, thus most of the countries have implemented additional measures to stimulate job creation in SMEs. The applied instruments range from injecting flexibility options into labour market regulations, tax redemption on recruitment, reduced social security contributions (SSC) to allowances and training courses.

Austria for instance, since recently offers financial support for training courses in SMEs with less than 250 employees. Additionally, enterprises recruiting their first apprentice can benefit from a holiday for the respective social insurance contributions for 3 years. Similar

¹ See Draft Programme Law for SMEs.

² See 'A Government Strategy for Services'.

³ See Bersani Proposal and Act 580/93 that was issued in 1993.

⁴ See PYME: Area de información.

⁵ This measure is restricted to SMEs with less than 20 employees.

applies in *Belgium*¹ that offers a reduction of SSC for employing labourers. The benefit is linked to the share of labourers in total staff (max. 0.66) multiplied by 500 ECU plus a further one time 500 ECU. Further more enterprises recruiting their second and third employee can benefit from stepwise SSC reductions ranging from 75% for the second employee in the first year to 25% in the third year.² *Belgium*³ plans a tax allowance for hiring low skilled workers and a grant worth 3,730 ECU for every additional job created. A redemption of SSC is also possible in *France*⁴, but only if it is accompanied by recruitment at 90% of standard weekly working hours. Additionally, but restricted to areas hampered by high unemployment, SMEs with less than 50 employees can benefit from SSC and income/corporate tax exemptions in France. This measure is operational since January 1st 1997 and is geared towards reducing unemployment within the target areas. The French government is currently discussing to extent the SSC exemptions to the textile and leather sector for enterprises committing themselves to maintain or increase their employment.

Other countries such as *Iceland* have tried to make the labour regulations more flexible by opening the collective bargaining to permit firm-level negotiations on specific issues like working hours. The social partners in *Germany*⁵ have partly gone the same path and are currently investigating further openings for firm level negotiations. A similar development is also taking place in *Finland*. In this context *Italy*⁶ has allotted some 208 mill. ECU to stimulate the use of part-time contracts that under certain conditions can even undercut minimum wage levels. Standard full-time contracts can also be a hindrance to job creation. In *Spain*⁷ the new labour regulation, primarily geared towards modifying old regulations, includes similar provisions to those adopted in Italy. Next to fiscal relief for employing workers elder than 45, permanent contracts⁸ can now be cancelled at a notice of 33 (previously 45) days per year in-the-firm (up to a maximum of 24 months). This initiative is geared towards increasing the number of permanent contracts, and shouldered by a 9% reduction of SSC (max. 9 points) for recruitment under these conditions.

Allowances for recruiting graduates with less than 3 years work experience (*Norway*) are additionally available. In *Portugal*⁹ these allowances can reach up to 12 times the minimum salary for jobs created in SMEs with under 50 employees. In the autumn of 1997 the *Swedish* Government will introduce a new system, allowing 6 months leave or absence for individuals starting up a new business, provided they will not compete with

¹ See 'Maribel Programme', adjusted in 1997; it offers slightly better conditions for enterprises with less than 5 employees.

² See 'Plus two and plus three plan', implemented 1997.

³ See Draft Programme Law for SMEs. In the context of this programme it is also intended to reinforce the SSC redemption on salaries less than 1,550 ECU (minimum salary).

⁴ See 'Loi Robien' dated 11.06.1996.

⁵ See 'Fiächentarifvertrag der Chemie Industrie' and 'Bündnis für Arbeit'.

⁶ See 'Patto per il Lavoro' and the Annual Budget Law, Act No. 662, 1996.

⁷ See The New Labour Regulation (Estatuto de los Trabajadores) passed May 16th 1997.

⁸ For young people (18-29 years old), unemployed: for more than one year or elder than 45 or handicapped and for workers with temporary or fixed contracts.

⁹ See 'RIME Programme', implemented in October 1996. It will expire in December 1999.

the enterprise they are employed with. Furthermore, additional courses and training facilities have been established in *Sweden*;¹ for this purpose 9 industrial development centres (IDC) are being set up to enhance job creation by supporting training but also product and process development. Business Links in *the United Kingdom* have set out to increase their activities in networking, information and consultancy with a view to job creation. Following the approach of not supporting enterprises directly, 37 mill. ECU have been earmarked to improve the apprenticeship environment in *Switzerland*. The aim here is to reduce corresponding burdens (e.g. involved in-house training), for SMEs, thus stimulating them to offer more apprenticeships to the youth.

Major tools applied for improving, the labour environment are presented in Table 9.7.

Table 9.7 Major tools applied for improving the labour environment

Reduction of Social Security Contributions	(commonly linked to recruiting from the disadvantaged shares of the workforce i.e. unemployed, youth, handicapped or also firm-size)
Tax redemption on employment	(for recruiting staff)
Relaxation of labour regulations	(mostly related to labour contracts, minimum wages and collective bargaining)
Training courses	(commonly for unemployed, case wise also hands-on training at potential employers)

Source: ENSR, 1997.

9.3 SUCCESSFUL MEASURES IN SELECTED POLICY FIELDS

Most countries have implemented new measures geared towards supporting SMEs by one way or the other. Nonetheless, the economic structure and size of these countries varies with corresponding variation in the theoretical principles and the corresponding institutional approach by which economic policy is pursued. Some countries such as *Iceland*, *Liechtenstein*, *Switzerland*, and, to a certain degree *the United Kingdom*, simply prefer to create a framework providing for good business conditions rather than operating a selective and active support policy for SMEs. Although most of the remaining countries do pursue a policy clearly designed for SMEs, the corresponding measures have rarely been evaluated. Furthermore the existing evaluations do not always indicate whether formulated targets have been reached by the measures. For this reason, a comprehensive overview of successful measures, not to mention best practices, appears to be impossible, at least for the time being. Hence, the measures presented below can only be considered as a range of options.

9.3.1 Financial Environment

The measures geared towards improving the financial environment are often designed either for start-ups, for investments related to modernisation or to growth. The first of

¹ The Swedish government allotted some 22 mill ECU for the establishment of these centres in January 1997.

these is applicable to *Germany*¹, which offers a scheme called 'Eigenkapitalhilfeprogramm' (EKH). The scheme is principally open to all business founders below 55 years of age and lacking the necessary financial means to start their business. It is also open to entrepreneurs with enterprises no more than 2 years old. The program consists of a loan of up to 385,000 ECU in a form that adds to existing equity rather than debt (participative loan). The loan does not require common collateral. The loan duration is 10 years with an interest rate that gradually increases to a ceiling of 5% due from the fifth year onwards. The measure is run by the Deutsche Ausgleichsbank and considered to be successful because of its positive impact on strengthening the notoriously weak equity base of start-ups. Also geared towards start-ups is 'Naisyrittäjälaina' run by Kera Ltd. in *Finland*², and designed to promote female entrepreneurship by offering a subsidised loan to women starting up in business or becoming self employed. Although only introduced in January 1997 Kera Ltd. granted 695 loans by April 27th and the organisation stresses that 627 jobs have been created by this scheme. The average loan size was some 12,155 ECU, with a fixed term duration of 5 years. The original budget of 8.6 mill. ECU was exhausted by April and has been refurnished with further 6.9 mill. ECU only recently.

A fairly old, but apparently successful, measure is offered in *Greece*.³ According to this scheme (which formally expired in summer 1993, but in practice still operates), commercial banks were obliged to earmark 10% of their deposits for low interest loans to manufacturing SMEs that the government guaranteed. The corresponding fund, these instruments were pooled in, accounts for 1 bill ECU. If this sum is not allotted to SMEs via loans, whilst still guaranteed by the state, it has to be deposited at the Bank of Greece at nil interest. Hence, commercial banks either offer loans themselves or transfer their share to other banks for this purpose. An even older scheme known as the Sabatini Act still operates successfully in *Italy*.⁴ According to this scheme SMEs with less than 250 employees can receive a subsidised loan when purchasing or leasing production equipment or machinery. The credit line is managed by Mediocredito Centrale and therefore co-operates with other banks. Interestingly, the loan, with a duration of max. 5 years, is only granted for a bill of exchange issued by the purchaser and then discounted by Mediocredito Centrale, thus enabling the purchaser to pay for the equipment immediately. According to surveys carried out on this scheme, some 44.7% of enterprises questioned had actually been granted financial assistance under the Sabatini Act⁵. Mediocredito Centrale reports that 36.6% of capital went to specialised sectors, 34% to traditional sectors, 32.5 to scale sectors and 13.3 to high-tech.⁶

¹ The EKH in fact was the model for a similar loan scheme called 'Nyföretapartan' that was introduced in Sweden in 1993 and for 'Perustamislaina' a start-up loan run by Kera Ltd. in Finland.

² Kera Ltd. is granted 8.6 mill. ECU p.a. for this scheme, that is designed to expire by December 2001.

³ See Bank of Greece Monetary Committee's Decision 197/1978. The number of loans granted under this Act reached 13,600 in 1993, 15,002 in 1994 and 8,177 till September 1995.

⁴ See Sabatini Act - Act 1329/65.

⁵ See G. Corbetta - P. Dubini - Bocconi University - Basic Research (forthcoming) - Le politiche di facilitazione alla nascita e allo sviluppo delle piccole e medie imprese: una valutazione della loro coerenza teorica e della loro efficacia come ausilio al riposizionamento strategico-organizzativo delle aziende di minore dimensione, a research covering the years 1995-1997 and co-ordinated by Prof. G. Mussati and Prof. G. Brunetti.

⁶ Mediocredito Centrale - Ministero dell' Industria (1997): Indagine sulle imprese manifatturiere, Roma (Note: applied sector definitions include crossing boundaries).

In *the Netherlands*¹ a scheme called the 'Borgstellingsregeling MKB' that due to a change had been referred to previously, offers SMEs with less than 100 employees (and start-ups) a loan guarantee for all kinds of measures related to business expansion. In 1997 a maximum 425 mill. ECU will in total be guaranteed by the government. An interesting feature of the measure is that it is left to the banks to decide whether a guarantee under this scheme ought to be used or not, and if so, a second loan not guaranteed under this scheme has to be provided by the bank for the same amount. The loan conditions include normal commercial rates for low risk investments with a duration of up to 12 years. The bank pays the state a one-off commission of 3%. A total of 4,771 loans worth an average of 50,000 ECU were secured in 1996. For that year the banks involved declared losses amounting to some 20 mill. ECU, or about 1.6% of the guarantees still open at the beginning of the year. Nonetheless, the net costs for the government were only 5.5 mill. ECUs in 1996.

9.3.2 Innovation and R&D

The 'Iniciativa Pyme: Programa destinado a Redes Territoriales de Organismos Intermedios de Apoyo a la Innovacion' in *Spain*² shows that improving SMEs' access to R&D, labour and training can also be achieved through an intermediate approach. In this context the mentioned programme is geared towards enhancing and facilitating the co-operation and cross-regional network of authorities entrusted with innovation matters. SMEs, the actual beneficiaries of this measure, can address the network and are offered information on new technologies, links to other authorities and support measures for innovation projects. The programme was implemented in 1995 and furnished with a budget of 35.7 mill. ECU (for 1995-1999) from which subsidies of up to 75% of the eligible costs induced by networking are granted. The merits of this programme are especially seen in the network approach: different intermediate bodies now pursue across autonomous community borders. This obviates inter-regional duplication in support measures and initiatives for SMEs active in innovation. Hence SMEs can now benefit from a more transparent public innovation environment.

More direct support is offered in the context of the ATOUT program in *France*³, that is considered to be a successful measure in the range of innovation and R&D. It is split into four sub-programmes named ATOUT-PUCE, -LOGIC, -PUMA and DROP (1997). The basic principle of these programmes is to grant an allowance of up to 50% of project costs, although this ceiling is reviewed regularly. According to a survey, 83% of the questioned enterprises benefiting from ATOUT state that their enterprise developed much to their satisfaction as a result of a project financed by this scheme. More precisely, four out of ten stated, they would not have realised the project at all, whilst a third would have followed another path entailing more and higher risks. In terms of employment, ATOUT-PUCE supported projects enabled the benefiting enterprises to increase their employment by 4.3% during the 1990-1994 period. Also in practical terms, the scheme operates much

¹ See the 'Borgstellingsregeling MKB' - SME loan Guarantee, implemented in 1988.

² See Spanish Ministry of Industry and Energy and Spanish Ministry of Economics and Finance.

³ ATOUT is geared to so called PMI which are industrial SMEs with up to 2,000 employees.

to the enterprises' satisfaction. 73% of respondents praised the scheme's operation as an effective instrument for structuring projects.¹

Designed for SMEs with less than 50 employees, the 'Kennisdragers Midden- en Kleinbedrijf (KIM)' is geared towards stimulating SMEs to make their first step to technological innovation in *the Netherlands*.² According to the schemes' design, this ought to be reached by fostering the recruitment of university graduates for at least one year on a full-time basis³. The major reasons for the success of the scheme appears to be the quality of the procedures employed, which respondents describe as 'fast, safe and simple', and the fact that it lowers the resistance of firms to contact and co-operate with the 18 country-wide Innovation Centres. The scheme is due to expire by the year 2000.

Regional Technology Information Centres (TIC) also exist in *Denmark*⁴, where the Danish central government, in collaboration with their regional authorities, founded 15 such centres. The aim is to offer free and non-bureaucratic information and counselling in areas such as production, management, EU-regulation and the whole range of business support measures. They therefore co-operate closely with other regional and national business agents and so, are not restricted to R&D and innovation related issues. In 1996 TICs were granted a budget of 7.5 mill. ECU and had serviced the needs of more than 10,000 SMEs.

9.3.3 Internationalisation

In *Germany*,⁵ the affiliates of the Chambers of Commerce located abroad are considered to be an effective, supportive framework for existing exporters and businesses wishing to enter foreign markets. The services of some 50 self financed offices range from assistance in the search for suitable partners, to market analysis and general information services. In some cases these offices also entertain branches within larger countries such as Brazil, India or the USA.

The 'Network Programme' in *Norway*⁶ is not exclusively linked to internationalisation but to improving the competitive advantage of SMEs by stimulating co-operation of at least 3 SMEs. This co-operation can cover anything from purchasing or sales and marketing to logistics and quality assurance. The scheme was implemented in 1991 and since 1995 includes a stronger focus on internationalisation. The scheme's performance has been impressive. Between 1991 and 1994 some 2,200 SMEs were engaged in 480 networks. During this period, their joint turnover increased by 185.5 mill. ECU. If the original plan of the scheme is followed, it will expire in 1998.

¹ See APRODI publications for the Ministry of Industry: 1. Impact de la procédure ATOUT sur les PMI Françaises, Paris 1994, 2. Impact emploi de ATOUT-Puma, 1995 (unpublished) and 3. Impact emploi de ATOUT-PUCE 1995 (unpublished).

² See Ministerie van Economische Zaken: Economische Zaken, The Hague (March 28, 1997).

³ 'Full-time' here means 32 hours per week.

⁴ See 'Technological Information Centres', Danish Agency for Development and Trade.

⁵ Geschäftsbericht des Deutschen Industrie und Handelstags (DIHT), Bonn for 1995 and 1996.

⁶ See 'Network Programme', Ministry of Trade and Industry.

9.3.4 Training and job creation

In *Denmark*¹ a scheme named 'Icebreaker' formally expiring in 1995 but having been recently reinstated, is considered to be one of the most successful Danish initiatives for job creation. The original scheme offered a wage subsidy to SME recruiting staff. According to one assessment of the scheme, 60% of the employees recruited under the measure are still employed. In the reinstatement of the scheme the term 'recruitment' is now better specified and refers to employing staff specifically in the context of environmental matters and of immigrant workers.

FRAM-programmet was introduced with the aim of improving and strengthening competence and profitability of SMEs in 1993 in *Norway*². The scheme consists of a mixture of transfers in kind and in cash. In this way entrepreneurs with less than 20 employees are provided with financial support as well as training and consultancy. Although only provided with 15.6 mill. ECU for 1993 to 1997, some 1,000 SMEs have already benefited from FRAM. According to an evaluation carried out for the period 1993 to 1995, some 75% of the participants in fact achieved the set goal of a 5% increase in their profitability. FRAM is currently being evaluated for the second time. At this stage it is unclear whether FRAM will continue or whether a new measure based on this concept will be initiated.

With a similar aim in mind, but operating more on an individual basis, the 'Mentor Programme'³ now run by Forbairt was established in 1988 in *Ireland*⁴. The aim of this successful program is to provide SMEs with access to expertise, experience and contacts of senior managers who have retired or are approaching retirement. An initial counselling service of up to 10 days a year will be provided at no cost to the SME. The mentor gets to know the business, identifies the problem areas and gives some preliminary advice. The entrepreneur and the Mentor then jointly decide if the Mentor is to provide ongoing assistance to help guide implementation of specific advice. If so this then follows a hands-on approach and the Mentor will be paid on a daily basis. In total 528 enterprises (of which 460 were new to the programme) benefited from Mentor in 1995. Some 80% of these firms rated the programme as 'good' to 'excellent' with 57% deeming this measure excellent. The total cost for Mentor amounted to some 522,000 ECU in 1995.

¹ See 'Icebreaker', Danish Ministry for Business and Industry.

² See Norwegian Industrial and Regional Fund. For evaluation see SINTEF-IFIM; three reports are available for the years 1994 to 1995. The current FRAM is due to expire in Dec. 1997. See also Chapter 4 of this Report.

³ See: Report of the Task Force on Small Business, The Stationery Office, Dublin, 1994.

⁴ For evaluation see Ernst & Young (1997): External Evaluation of the Operational Programme for Industrial Development 1994-1999. See also Chapter 4 of this Report.

PART IV IN-DEPTH THEMATIC STUDIES

10 SMEs IN TOURISM

Co-ordinated by IKEI, Instituto Vasco de Estudios e Investigación.

MAIN POINTS

- Tourism plays an important role within the European economy, better exemplified by its contribution both to GDP (5.5%) and to employment (6%). However, the economic importance of Tourism as an industrial sector is still far from being fully recognised.
- Europe, as a whole, plays a leading role in Tourism. Thus, and from a demand-side perspective, Europe is currently the main tourist destination in the world. Nevertheless, this leading position is being menaced by the emergence of new and cheaper competitors in other areas of the world, unless measures are taken to improve the competitiveness of the European tourist industry and the availability of well preserved and attractive natural/cultural resources and transport infrastructures.
- From a supply side perspective, the European tourist industry can be characterised as an SME dominated sector, since around 99.95% of the existing 1.41 million European HORECA enterprises employ less than 250 employees, whereas up to 94.0% of total enterprises can be characterised as very small enterprises (with less than 10 employees). Interestingly, the European SMEs' share in total HORECA employment and turnover amounts to 85.9% and 85.6%, respectively.
- The average European HORECA enterprise provides jobs for 5 individuals, well below the European average for all non-primary sectors, although important differences can be detected amongst different European countries.
- The European HORECA SMEs seem to suffer from both lower labour productivity and lower profitability levels vis-à-vis their LSE counterparts.
- European tourist SMEs are currently being affected by a whole range of new challenges, nominated by some commentators as the 'New Age of Tourism', such as demands for individual expression and differentiation, an emphasis on value-for-money and higher standards of quality, technological advances, globalisation of the tourism markets, de-regulation and liberalisation of some tourism-related sectors (i.e. airlines) and environmental pressures.
- In order to better respond to these challenges, some European tourist SMEs have adopted several successful strategies, the most important ones being: differentiation and segmentation aimed at well defined market shares, rapidity and flexibility of response to market changes, co-operation and association with other tourist SMEs, integration and co-ordination with other economic agents engaged (directly or indirectly) in Tourism, adaptation and full use of new technologies and a strong emphasis on the development of human resources.

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continued

- Vis-à-vis their larger counterparts, European tourist SMEs seem to show a lower level of consciousness and response to current environmental challenges. In order to resolve this distinctive situation, tourist SMEs require special tools such as the development of environmental incentives and the diffusion of environmentally-related information.
- The introduction of new Information Technology is expected to have a considerable impact upon European Tourist SMEs, where the accommodation subsector is expected to benefit substantially. Notwithstanding this, the most important barrier against the full development of new technology amongst SMEs is financial, namely the investments required for developing their own systems. Similarly, great difficulties are associated with the recruitment of skilled people needed for the development and support of new technology systems.
- From a firm size perspective, education and training issues have a special relevance for tourist SMEs, due to their reputation for worse labour conditions and lack of qualifications (relative to large enterprises). If specific training policies directed at tourist enterprises are to be effective, then they should take into consideration the influence that various 'firm-size' effects have upon the workforce of this type of SMEs.

10.1 GENERAL INTRODUCTION

Europe is the world leader within the tourist industry, not only in terms of international arrivals and receipts (58.7% and 50.7% of the world share, respectively)¹, but also as a source of expenses for third countries. The importance of Tourism within the European economy has been recently assessed in a number of studies². Tourist activities currently account for 5.5% of the total EU GDP³, employing around 9 million people (indirect employment is not taken into account) or 6% of total jobs in the EU. It is not therefore surprising that Tourism is currently seen as an effective tool for economic development and employment generation, as well as a remarkable factor affecting social and economic cohesion. However, and despite these impressive figures, the EU itself recognises that the economic importance of Tourism as an industrial sector has not yet been fully recognised⁴.

This chapter is intended to look at both the role that SMEs play within the European tourist industry and at the main challenges that SMEs will face in the next few years. For this purpose, the chapter is structured in seven main sections. Section 10.2 discusses some of the main economic characteristics of Tourism. Section 10.3 provides a quantitative

¹ Estimations for 1996. Source WTO.

² For instance, see Eurostat's 'Tourism in Europe'.

³ This ratio is higher in some countries, such as Austria (14%), or the Mediterranean countries of Spain, Greece and Portugal (8% each of them). Source: OECD, Tourism Policy and international tourism in OECD Countries 1992-1993, Paris, 1995.

⁴ See Com (96) 635 final.

overview of the demand market forces, whereas section 10.4 analyses the SMEs' position in the European tourist supply. Additionally, section 10.5 discusses some of the main challenges currently affecting the development of European tourist SMEs (qualitative shifts in tourist demand, IT technologies, environment and human resources), whereas section 10.6 discusses the responses adopted by the European tourist SMEs in order to respond to these new challenges. Finally, section 10.7 draws recommendations for future policy action.

10.2 SPECIFICITIES OF TOURISM AS AN ECONOMIC SECTOR

Tourism as an economic sector is subject to several specific particularities that are relevant to understand the market structures that tourism firms in general, and tourism SMEs in particular, face¹. These particularities are detailed below:

- The tourist industry is not a homogeneous sector in the traditional sense of the word, since the goods and services consumed by tourists not only include those that can be easily labelled as tourism-related (hotels, restaurants, travel agencies), but also a wide range of other goods and services consumed by local residents themselves². Therefore, the key element for defining an activity as a tourist one is given by the fact that it has to be consumed by a tourist³, where this identification problem may explain the absence of the recognition that other industries appear to receive. Additionally, the heterogeneity of tourism may also explain the frequent absence of co-ordinated actions (i.e., in marketing activities) amongst the different actors⁴.
- Tourist activities are mainly concerned with the exchange of services rather than with the consumption of tangible goods. This fact has several consequences on the organisational functioning of tourist firms. Thus, services cannot be stocked or inventoried and are difficult to summarise in a standardised and homogeneous way⁵. Additionally, a relationship between suppliers and customers is essential for the quality of the service, resulting in evaluation and assessment difficulties in relation to the quality and output of tourist services⁶.

¹ For a deep discussion on this topic, see Bull A, *The Economics of Travel and Tourism*, Melbourne, Longman, Australia, 1995.

² This important specificity hinders the possibility to provide a clear picture of Tourism as an economic activity which, subsequently, influences the ability to fully measure tourism's economic role and weight within the whole economy. In order to solve these problems, several international organisations (i.e. the WTO's Recommendations on Tourism Statistics -doc ST/ESA/STAT, M/83, 1993-) have been -and are still- engaged in harmonising and upgrading the different available statistics on tourism (i.e. the satellite accounts model). In this sense, and at European level, it is worth underlining the Council Directive No. 95/57/EC of 23rd November 1995 on the collection of statistical information in the field of tourism, where Member States are encouraged to 'carry out the collection, compilation, processing and transmission of harmonised Community statistical information on tourism supply and demand', basically for the purpose of establishing a harmonised information system on tourism statistics at Community level. See also Eurostat, *Community Methodology on Tourism Statistics*, Luxembourg, 1997.

³ It is not therefore strange that tourism is very often regarded as a demand-side defined sector, since it is extremely difficult to delimit it according to the goods and services provided or the method of production implemented.

⁴ Fletcher J & Latham J, *Databank: Europe*, in *Tourism Economics*, Vol. 1.2, pp. 195-203, 1995, quoted in Bull A, 1996, op. cit.

⁵ Bowen, Chase, Cummings and Associated (eds.), *Service Management Effectiveness*, Jossey-Bass, 1990.

⁶ Oberoi, U & Hales C, 'Assessing the Quality of the Conference Hotel Service Product: Towards an empirical based model', in *The Service Industries Journal*, No. 10, pp. 700-721.

- Tourism consumers are obliged to move towards the product, since customers cannot 'try' the products unless they shift and purchase them. Therefore, and in order to avoid this market imperfection, the provision of 'good quality' information becomes essential.
- Tourist supply exhibits a relatively high level of inelasticity, which results in problems of under-utilisation in low season. Additionally, a great deal of tourism investments are 'ir-reversible', in the sense that they cannot be easily transferred to other sectors of activity, besides the fact that these investments usually involve relatively large quantities of resources (capital, land).
- Some of the main elements that characterise a tourist destination (i.e., the landscape, the weather, the cultural heritage, etc.) are fixed in space, making it difficult to 'generate' similar tourist products in different places¹. In this sense, place is one of the 'key' elements of any tourist product.

Finally, most tourist firms operate in market structures characterised by imperfect competition. This implies that prices can vary significantly amongst different suppliers. However, prices are not totally independent of the market, and this explains the existing variations in price according to the time period when such services are purchased.

10.3 TOURIST DEMAND IN EUROPE-19

Section 10.3 provides a general overview of the demand that tourist firms in general and SMEs in particular have to satisfy² in Europe-19. For this purpose, several quantitative indicators are analysed, such as arrivals of international tourists, nights spent by tourists in accommodation establishments (both by domestic and non-domestic tourists) or travel accounts in different countries.

Europe as a whole is the current world market leader and the principal driving force of international tourism, a position that represents an evident competitive advantage in terms of economies of scale or accumulated know-how³. Thus, Europe is the main world tourist destination, with a market share of 59.4% of total international arrivals in the world for 1995 (41.5% in the case of the EU and 43.6% for Europe-19)⁴. Moreover, some of the EU countries are amongst the 10 top world destinations (Austria, France, Italy, Spain and the United Kingdom), and also amongst the top ten world tourism earners (Austria, France, Germany, Italy, Spain and the United Kingdom).

International tourist arrivals for the whole Europe-19 have grown from 219.3 million in 1990 to 245.5 million tourist in 1995 (see Table 10.1), showing a moderate annual average growth of 2.4% (2.7% in the case of the EU). The only exception to this steady upward trend has been 1993, when the general economic decline in Europe had a direct impact on the demand for international trips. The expansionary cycle of the international

¹ Notwithstanding this result, it is possible to find examples of tourist products reproduced in different locations (i.e. Disneyland).

² It is worth underlining that the demand for tourist services depends on a large number of factors and different purposes that can affect the number and contents of the demanded tourist services. For a theoretical analysis on these points see United Nations and World Tourism Organisation, *Recommendations on Tourism Statistics, Statistical Papers, Series M No. 83*. p. 11 and see also Py P, *Le Tourisme, un phénomène économique (Tourism, an economic phenomena)*, La Documentation française, Paris, 1996.

³ Silvestro V, *Le Rôle du Tourisme dans l'Union Européenne (the Role of Tourism in the European Union)*, in *Revue du Marché commun et de l'Union Européenne*, n° 399, Juin 1996.

⁴ Estimation from WTO.

economy in subsequent years, together with other causes (crisis in competitive areas such as Yugoslavia or North Africa, devaluation of several Mediterranean currencies, etc.) has fostered international tourism to Europe during 1994 and 1995.

Table 10.1 Indicators of Tourism demand in 1995

	International tourist arrivals* (x 1,000))	Nights spent by domestic tourists (Mill.)	Nights spent by foreign tourists (Mill.)	International tourism receipts** (Mill. ECU)
Austria	17,173	24.5	63.8	11,168
Belgium	5,560	12.6	12.8	4,776
Denmark	1,614	14.8	10.8	2,814
Finland	835	10.6	3.3	1,320
France	60,110	90.3	54.3	20,742
Germany	14,847	288.3	35.5	12,408
Greece	10,130	13.0	39.6	3,138
Ireland	4,231	n.a.	14.0	2,059
Italy	31,052	173.5	113.0	20,993
Luxembourg	767	0.2	2.3	4,776
Netherlands	6,574	42.2	19.7	4,946
Portugal	9,706	13.9	22.2	3,330
Spain	44,886	72.5	107.8	19,431
Sweden	683	29.4	7.9	2,652
United Kingdom	22,700	206.9	164.9	14,366
EU	230,868	992.7	672.0	124,143
Iceland	190	0.5	0.8	127
Liechtenstein	59	0.0	0.1	n.a.
Norway	2,880	12.1	7.1	1,826
EEA	233,997	1,005.3	680.0	126,096
Switzerland	11,500	37.7	34.0	7,236
Europe-19	245,497	1,042.4	714.0	133,332

n.a.: non available.

* Data for the United Kingdom referred to visitors.

** Data for Belgium and Luxembourg is not separated by country.

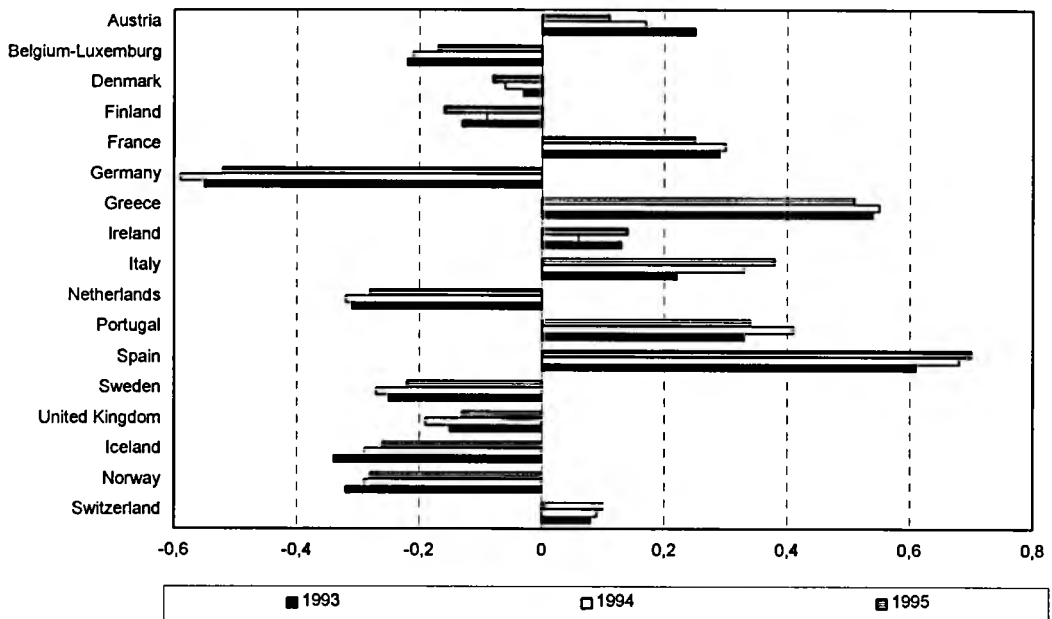
Source: WTO and Eurostat, Tourism in Europe, key figures 1995-1996.

Notwithstanding this, these figures only provide a partial overview of the total European tourist demand, since domestic tourism (people moving within their own country) is not included. Thus, bearing in mind the 'domestic' component (see Table 10.1), tourist demand is remarkably higher than when taking into account only international demand. This is particularly relevant for some Northern European countries such as Germany or the United Kingdom. In this sense, about 2/3 of all holidays generated by the EU population can be classified as 'domestic', 22% relate to international tourism between the EU Mem-

ber States and the remaining 13% of holidays are spent at destinations outside the Union¹.

Meanwhile, the analysis of the Travel Account in the Balance of Payments shows strong differences in the relative position of different European countries as net importers or exporters of tourism services². As Figure 10.1 shows, 8 European countries can be characterised as net exporters (Austria, France, Ireland, Italy, Greece, Portugal, Spain and Switzerland), whereas the opposite is true for the others. A clear North-South division can be noticed, since Greece, Italy and Spain can be characterised as the main European net exporters and Germany, Norway and the Netherlands as the main net importers of tourism services.

Figure 10.1 Tourism index*



* (Credit-Debit) / (Credit + Debit).
Source: WTO and Eurostat.

Europe as a whole, during the 1975-1995 period has suffered a loss of about 10% of its world market share, from 69.2% of all international arrivals in 1975 to nearly 60% in 1995. Future prospects for Europe estimate a further decline in the European position, resulting in an added loss of business opportunities for the European tourism industry. In this sense, WTO's forecasts for the year 2010 show (Table 10.2) that Europe will remain the number one region, although its market share is expected to decline to a level of 51.6% of the world total. In contrast, the East Asia/Pacific Area³ is expected to become the world's

¹ Estimation taken from European Commission, Panorama of the EU Industry, Brussels- Luxembourg, 1997.

² This different position is important, since it affects the existing production supply characteristics and structures, together with the degree of importance attributed to the industry.

³ This region includes some of the so called 'sleeping tourist giants' such as China, Thailand, Hong Kong, Australia, New Zealand, French Polynesia, etc.

number two tourism region by 2010 with 229 million international arrivals or 22.5% of the total world share.

Table 10.2 International arrivals by world regions: Updated Forecast for the years 2000 and 2010 (Millions)

	1975	1995*	1996*	2000	2010	Average annual growth rate 1990-2010
Europe	153.8	338.2	347.4	397	525	3.1
East Asia/Pacific	8.7	84.5	90.1	122	229	7.6
Americas	50.0	110.1	115.5	138	195	3.7
Africa	4.7	18.7	19.4	25	37	4.6
Middle East	3.6	11.3	15.1	14	21	4.9
South Asia	1.6	4.5	4.5	6	11	6.7
World total	222.3	567.4	592.1	702	1,018	4.1

* Preliminary results.
Source: WTO.

10.4 TOURIST SUPPLY IN EUROPE-19 FROM AN ENTERPRISE PERSPECTIVE: AN SME DOMINATED SECTOR

This section describes the existing European tourist supply from an enterprise perspective, paying special attention to the importance of SMEs within this supply. The tourist industry's main characteristic is the wide range of different economic activities that it includes such as traditional 'sun and beach' products, environmental and sporting tourism, cultural tourism, business tourism, health tourism, religious tourism, social tourism, etc.

Bearing in mind the heterogeneity of supply, it is not surprising that co-existence within the tourism sector varies considerably from small family businesses to multinational corporations. Considering the main tourist sector (the so-called HORECA sector¹), estimates prepared by EIM and based on Eurostat's data suggest that in 1996 it incorporated a total of 1.37 million enterprises for the EU (1.41 million enterprises in Europe-19), which provided employment to a total of 6.11 million individuals within the EU (and 6.37 million in Europe-19). Once again, the European leadership in the world seems to be strong since, according to the International Hotel Association's recent report², in 1994 it represented 55.6% and 43.4% of the total world number of hotels and accommodation capacity, respectively.

From size perspective, Table 10.3 shows that around 99.95% of the Europe-19 HORECA enterprises employ fewer than 250 employees (defined as SMEs), whereas 94.2% and 94.0% of the total EU and Europe-19 HORECA enterprises employ fewer than 10 employees, respectively. In this sense, the average Europe-19 HORECA enterprise provides jobs for 5 people, well below the European average for all non-primary sectors (see Chapter 1 of this report). Interestingly, the Europe-19 SMEs' share in the total HORECA employment and turnover amounts to 85.9% and 85.6%, respectively (85.6% and 85.4% in the case of EU HORECA SMEs).

¹ The HORECA sector is equivalent to the sector 55 of NACE Rev 1, 'hotels and restaurants'.

² This information can be found in the following Internet address: <<http://www.world-tourism.org/newslett/febmar96/ihapaper.htm>>.

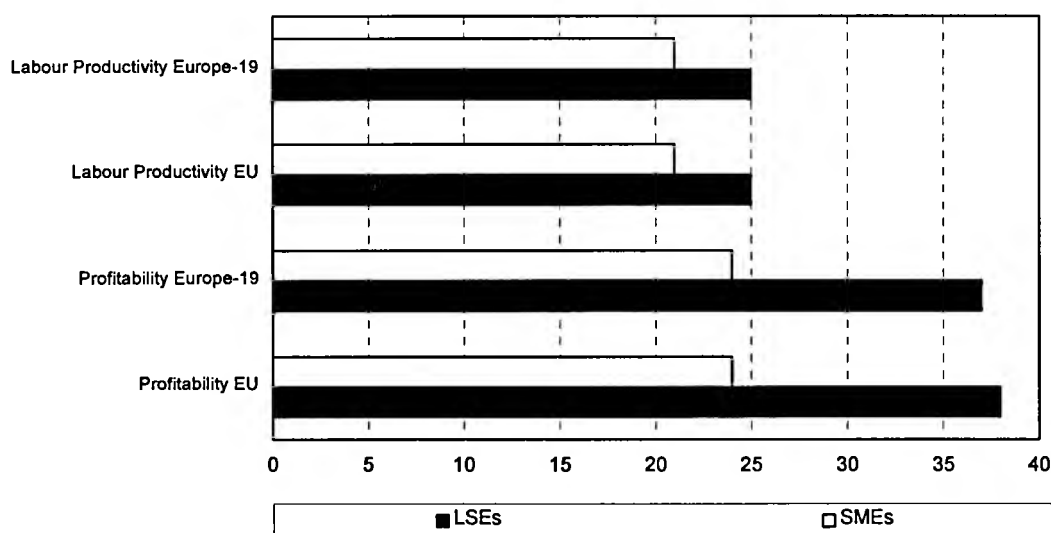
Table 10.3 Main indicators of HORECA enterprises, Europe-19, 1996

		Very small	Small	Medium-sized	Large	Total
Number of enterprises (1,000)	EU	1,291	73	6	1	1,370
	Non-EU	30	5	0	0	36
	Total	1,321	78	6	1	1,405
Employment (1,000)	EU	3,373	1,353	508	877	6,111
	Non-EU	106	91	39	24	260
	Total	3,479	1,444	547	901	6,371
Average enterprise size	EU	3	19	92	1,166	4
	Non-EU	4	18	92	476	7
	Total	3	19	92	1,122	5
Turnover per enterprise (1,000 ECU)	EU	136	982	5,287	62,725	236
	Non-EU	164	940	6,541	27,440	391
	Total	136	979	5,376	60,484	240

Source: Estimations prepared by EIM Small Business Research and Consultancy and based on Eurostat XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg, 1997.

The available data shows that LSEs have higher labour productivity rates in comparison to SMEs. Thus, whereas the average productivity for Europe-19 LSEs is 25,000 ECU per employed person, this figure is 21,000 ECU for Europe-19 SMEs. Nevertheless, it is important to bear in mind that HORECA enterprises do have lower productivity rates in comparison to non-primary enterprises (see Chapter 1 of this report). With regard to profitability, this variable is strongly correlated with enterprise size, both for the EU and the whole Europe-19.

Figure 10.2 Labour productivity* and profitability** by HORECA enterprise size, EU and Europe-19, 1996



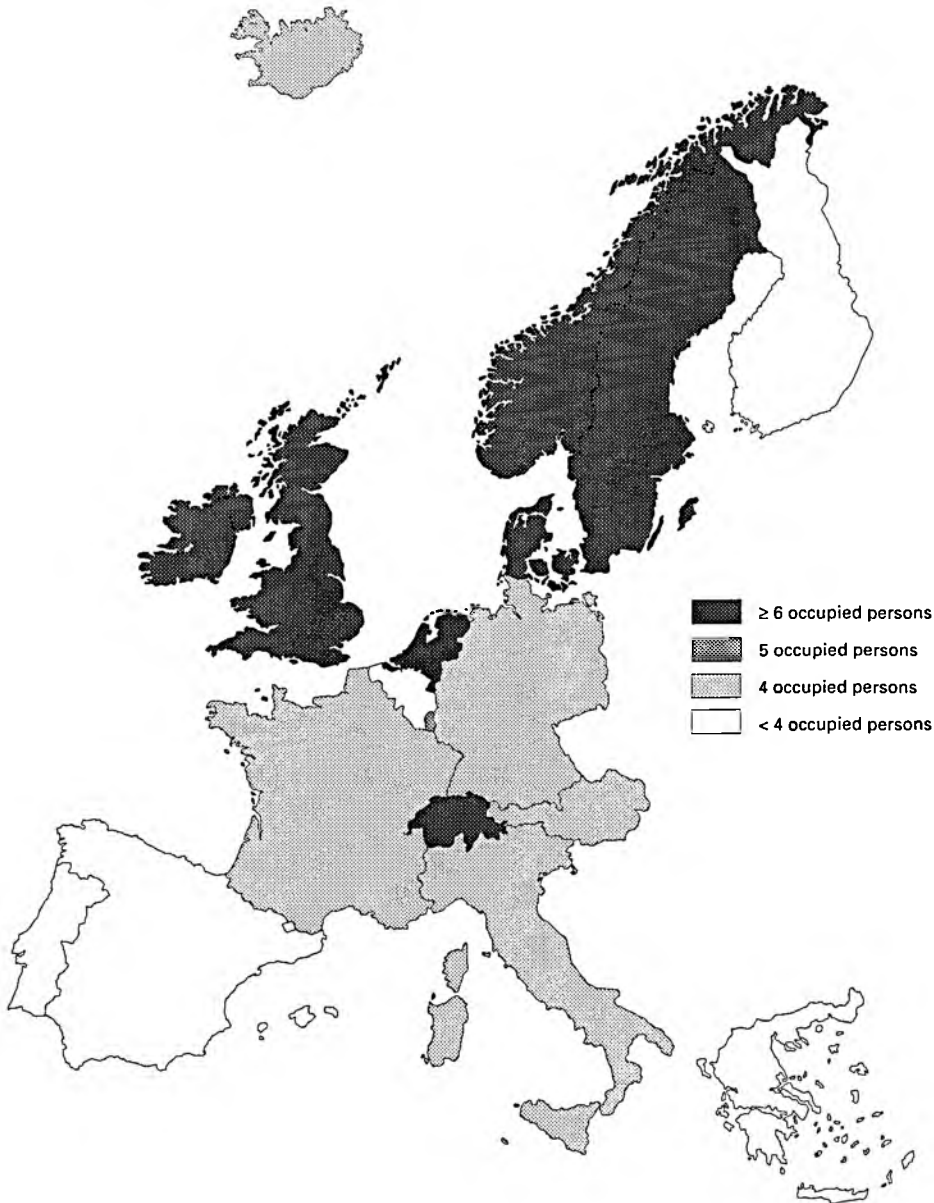
* Labour productivity is measured as value added per employed person. The figure represents ECU thousands.

** Profitability is defined as the difference between value added and labour costs including the imputed wage of self employed, in percentage of value added. The figure represents %.

Source: Estimations prepared by EIM Small Business Research and Consultancy and based on Eurostat XXIII: Enterprises in Europe, Fifth Report, Brussels, Luxembourg, 1997.

As far as the tourist industry structure by country is concerned, the available data for the whole HORECA sector shows that the average enterprise size varies between individual countries (see Figure 10.3). The lower sizes can be found in the less developed Southern countries - Greece, Portugal and Spain (probably due to the persistence of 'bars' and 'restaurants' in these countries), together with Belgium and Finland (average size of 3 employees or less). By contrast, European countries with the largest HORECA enterprises are Denmark, Ireland, Norway, Sweden, Switzerland, the Netherlands and the United Kingdom, with an average size of 6 employees or more.

Figure 10.3 Average HORECA enterprise size by country, 1996



Source: Estimations prepared by EIM Small Business Research and Consultancy and based on Eurostat XXIII: Enterprises in Europe, Fifth Report, Brussels, Luxembourg, 1997.

However, this general data hides important differences amongst the various subsectors that form the tourist industry. Based on data obtained from national sources, Tables 10.4, 10.5 and 10.6 provides information on size class structures by individual countries for different tourist subsectors such as 'Hotels' (NACE 55.1), 'Camping sites and other provision of short-stay accommodation' (NACE 55.2), 'Restaurants' (NACE 55.3), 'Bars' (NACE 55.4), 'Canteens and Catering' (NACE 55.5) and, 'Activities of travel agencies and tour operators; tourist assistance activities' (NACE 63.3).

Table 10.4 Size-class structure of Tourism enterprises by country (several years). NACE 55.1: 'Hotels' and NACE 55.2: 'Camping sites and other provision of short-stay accommodation'

	Hotels			Camping sites and other provision of short-stay accommodation		
	Enterprises	Percentage	Average enterprise size	Enterprises	Percentage	Average enterprise size
		of micro-enterprises			of micro-enterprises	
Austria	13,223	90.5	5	1,354	96.5	3
Belgium	1,255	77.2	12	386	75.6	15
Denmark	1,063	n.a.	18	676	n.a.	5
Finland	456	n.a.	19	639	n.a.	1
France	23,861	85.6	7	6,109	78.6	8
Germany	35,303	77.5	9	9,940	95.3	3
Greece	6,860	n.a.	16	n.a.	n.a.	n.a.
Ireland	1,050	n.a.	22	238	n.a.	4
Italy	25,959	87.6	6	15,612	97.9	2
Luxembourg	285	78.2	10	111	97.3	2
Netherlands	2,658	67.0	16	2,622	89.4	7
Portugal	2,667	79.4	13	332	75.9	13
Spain	12,549	81.7	n.a.	3,312	84.9	n.a.
Sweden	1,993	73.0	12	825	98.2	1
United Kingdom	12,002	n.a.	n.a.	2,038	n.a.	n.a.
EU	141,184	79.8	13	44,194	89.0	5
Iceland	156	88.5	5	156	88.5	5
Liechtenstein	46	67.4	9	1	100.0	3
Norway	1,438	63.0	17	658	99.4	2
EEA	142,824	78.2	12	45,009	90.6	5
Switzerland	4,887	64.0	15	518	94.2	6
Europe-19	147,711	77.2	12	45,527	90.8	5

n.a.: not available.

Data for Denmark and France is related to establishments.

Data for Ireland referred to NACE '70.

Data for Iceland, includes NACE 55.1 and NACE 55.2.

Source: ENSR & National statistical sources, several years.

It should be noted that the average enterprise size varies significantly amongst the different subsectors: the largest average sizes can be found in 'canteens and catering' and in 'hotels' (16 and 12 employed persons per enterprise, respectively), whereas the lowest sizes correspond to 'restaurants' and 'bars', whose average size is 6 and 3 persons, respectively (data for Europe-19). 'Restaurants' and 'bars' also concentrate the largest number of enterprises, around 409,000 and 389,700, followed by 'hotels', 'camping sites and other provision of short-stay accommodation' and 'canteens and catering' (147,700, 45,500 and 43,500 enterprises, respectively). Meanwhile, the 'travel agencies and tour operators' subsector amounts to a total of 28,900 enterprises, whose average size is 8 employees.

Table 10.5 Size-class structure of the Tourism enterprises by country, several years. NACE 55.3: 'Restaurants' and NACE 55.4: 'Bars'

	Restaurants			Bars		
	Enterprises	Percentage of micro-enterprises	Average enterprise size	Enterprises	Percentage of micro-enterprises	Average enterprise size
Austria	24,146	95.6	4	1,393	95.8	3
Belgium	10,767	91.6	5	5,070	93.7	3
Denmark	5,868	n.a.	6	3,043	n.a.	4
Finland	5,043	n.a.	4	1,169	n.a.	1
France	56,162	90.8	5	16,016	98.5	2
Germany	102,802	90.1	6	67,605	95.3	3
Greece	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ireland	2,223	n.a.	7	6,797	n.a.	4
Italy	66,837	96.3	4	107,685	99.1	2
Luxembourg	588	83.0	8	1,289	99.0	1
Netherlands	8,869	74.8	9	24,480	88.3	5
Portugal	13,856	91.7	5	17,740	96.4	3
Spain	59,021	93.9	n.a.	95,324	98.7	n.a.
Sweden	15,486	94.3	3	46	89.1	3
United Kingdom	16,160	n.a.	n.a.	36,591	n.a.	n.a.
EU	387,828	90.2	5	384,248	95.4	3
Iceland	457	87.7	5	457	87.7	5
Liechtenstein	60	93.3	7	1	100.0	1
Norway	3,911	78.9	7	3,911	78.9	7
EEA	392,256	89.4	6	388,617	93.9	3
Switzerland	16,818	89.6	7	1,036	97.6	3
Europe-19	409,074	89.4	6	389,653	94.2	3

n.a.: non available.

Data for Denmark and France is related to establishments.

Data for Ireland referred to NACE '70.

Data for Iceland, includes NACE 55.3 and NACE 55.4.

Data for Norway includes NACE 55.3, NACE 55.4 and NACE 55.5.

Source: ENSR & National statistical sources, several years.

The analysis of specific subsectors in individual countries shows remarkable differences amongst countries, specially in 'hotels', 'canteens and catering' and 'travel agencies and tour operators'. Thus, in the 'hotels' subsector, Ireland, Finland, Denmark and Norway have the highest average sizes (17 occupied employees or more), as opposed to Austria, Iceland or Italy (6 employees or less). Ireland, Italy and Switzerland have the largest 'canteens and catering' services (above 30 persons employed) in contrast to Denmark, Finland, Norway and Portugal.

Table 10.6 Size-class structure of the Tourism enterprises by country (several years). NACE 55.5: 'Canteens and Catering' and NACE 63.3: 'Activities of travel agencies and tour operators; tourist assistance activities n.e.c.'

	Canteens and catering			Activities of travel agencies and tour operators; tourist assistance activities n.e.c.		
	Enterprises	Percentage of micro-enterprises	Average enterprise size	Enterprises	Percentage of micro-enterprises	Average enterprise size
Austria	217	89.4	7	922	87.0	8
Belgium	1,188	81.9	11	786	87.3	8
Denmark	885	n.a.	7	553	n.a.	9
Finland	1,102	n.a.	6	386	n.a.	9
France	12,102	80.2	8	5,855	88.4	6
Germany	7,096	86.3	17	7,844	n.a.	7
Greece	n.a.	n.a.	n.a.	5,531	94.8	2
Ireland	75	n.a.	41	304	n.a.	9
Italy	1,535	72.3	31	5,256	89.7	6
Luxembourg	25	44.0	25	81	84.0	6
Netherlands	2,146	90.0	14	430	84.7	13
Portugal	4,943	99.2	2	515	75.9	10
Spain	5,005	93.1	n.a.	4,944	90.7	12
Sweden	607	96.4	8	1,675	91.8	5
United Kingdom	2,324	n.a.	n.a.	3,093	n.a.	11
EU	39,250	83.3	15	26,575	87.4	8
Iceland	26	92.3	14	64	85.9	7
Liechtenstein	1	0.0	15	11	100.0	4
Norway	3,911	78.9	7	465	83.7	7
EEA	43,188	77.2	14	540	88.0	8
Switzerland	341	88.0	43	1,738	90.9	8
Europe-19	43,529	78.0	16	28,853	88.2	8

n.a.: non available.

Data for Denmark and France is related to establishments.

Data for Ireland referred to NACE '70.

Data for Iceland, includes NACE 55.3 and NACE 55.4.

Data for Norway includes NACE 55.3, NACE 55.4 and NACE 55.5.

Data on travel agencies for Germany, Ireland, Spain and the United Kingdom has been obtained from ECTAA, year 1994.

Source: ENSR & National statistical sources, several years.

Finally, the European countries with the largest travel service enterprises are the Netherlands (13 employees), Spain (12 employees) and the United Kingdom (11 employees), whereas Greece, Liechtenstein and Sweden have the smallest travel service enterprises (2, 4 and 5 employees, respectively). It is obvious from this data that very small enterprises represent a significant share of the total enterprises in most European countries. This is particularly the case in the 'camping sites and other short-stay accommodation', 'restaurants' and 'bars' subsectors, where very small enterprises account for more than 90% of total enterprises in 8, 9 and 10 countries out of 14 for which data is available. In the case of 'canteens and catering', travel services' and specially 'hotels' subsectors, only 4, 4 and 1 country out of 14 have similar micro-enterprise proportions.

10.5 NEW DEVELOPMENTS IN THE EUROPEAN TOURIST SECTOR

10.5.1 Introduction

This section discusses some of the main challenges that are currently affecting the European tourist SMEs. Thus, topics discussed include shifts experienced in tourists demands, the impact of new technologies and IT technologies in the industry and the role of environment and human resources for the competitiveness of SMEs.

10.5.2 New forms of demand and alternative forms of Tourism

The last few years have witnessed important changes in the demand for tourism in Europe. In particular there was a significant shift from an emphasis on quantity to quality-oriented and individual-oriented holidays (what the WTO calls 'special interest tourism'¹). In turn, this shift in demand is affecting not only the types but also the range of tourism products currently supplied, away from the mass and standardised tourist products characteristic of the sixties and seventies. Thus, tour operators and travel agents are already offering a greater variety of new non-standardised tourism products tailored to a range of different and specialised market segments. Such strategies could provide a number of new opportunities for tourism-related SMEs. The main distinctive shifts in the European tourist demand can be grouped in several categories², such as the green movement, the demand for a good natural and environmental heritage³, demand for cultural and built heritage, demand for rural tourism and agro-tourism and demand for new forms of health-tourism.

Besides these changes, the WTO⁴ has identified a further set of new international trends in demand particularly relevant in Europe such as breaking-up of holidays, the importance

¹ WTO, Sustainable Tourism Development: Guide for Local Planners, Madrid, 1993.

² WTO, Seminar on New Forms of Demand, New products, Nicosia, 1991.

³ In some European countries (i.e. Iceland) this greening movement is specially important, since the main motivation amongst international tourists for visiting the country is, in fact, the unspoiled nature (result obtained for Iceland from a survey carried out by the Icelandic Tourist Board, The Vest Norden Travel Committee, Iceland Air, The Icelandic Hotel and Restaurant Association, Association of Icelandic Travel Agencies and the Institute of Regional development).

⁴ WTO, 'El Turismo hacia el año 2000. Aspectos Cualitativos que afectan su Crecimiento Mundial' (Tourism Towards Year 2000, Qualitative aspects that affect its Growth), Madrid, 1990.

of new and relevant travel decision-makers such as smaller families, two-income households or women¹ and, finally, the ageing of the population. In this sense, the retirees are becoming a very important market segment in Europe², since they are not only growing in numbers and retiring at a younger age but also have a relevant purchasing potential³. Additionally, retirees have time for longer trips throughout the year, an aspect which can help to de-seasonise the tourist market. It is important to stress that tourists are now better informed than before, which results in added attention towards the quality of the services and products provided and an increasing emphasis on value-for-money and higher standards of quality and services.

10.5.3 Tourist SMEs and Environment

Environment represents a core asset for the Tourism industry, since it is the key to providing a quality product, an increased priority for customers⁴ (specially for Northern Europeans) and a tool for saving costs in the medium/long-term (i.e. in energy costs). The impressive development of Tourism in Europe during the last 30 years has had an important (and sometimes negative) impact in several fragile European tourism sites, in terms of saturation and deterioration (specially in certain periods of time). Unless some action is taken, these problems are set to increase in the future in the context of the continuous growth foreseen for the European tourism sector. The key question to be posed therefore is how this intensive growth can be managed, in order to maximise its benefits and minimise its negative impact⁵. It should not be forgotten that tourism can help justify conservation and, therefore, subsidise this type of effort.

The European tourism industry is increasingly environmentally responsible and conscious of the risks that a spoilt and damaged environment poses for the future development of this sector. Several lines of action are being currently developed in order to enhance the environment⁶, including the development of sustainable tourism strategies in close col-

¹ For a discussion on the specific characteristics of women as tourist users, several studies can be pointed out, i.e. Kinnaird V & Hall D, *Tourism, A gender analysis*, John Wiley & Sons, Chichester, 1994, or Lutz J & Ryan C, 'Hotels and the businesswoman: an analysis of businesswomen's perceptions of hotel services', in *Tourism Management*, London, Vol. 14, pp. 349-356, 1993. Thus, in this last study, carried out in the United Kingdom amongst business tourists, it was shown that women were more concerned with security and lodging conditions than their male counterparts.

² Several acronyms created by marketers such as WOOPIES (Well Off Older People) or GRAMPIES (Growing Retired Active Monied People) reflect this increasing interest in senior tourism.

³ The WTO has forecasted for year 2000 a total number of 329 million total trips by the European seniors in comparison to 241 million in 1995, where, interestingly, 98.5% of these trips will take place within the European boundaries (see WTO, *Senior Tourism*, Madrid, 1997).

⁴ Thus, and according to a poll conducted among 2,000 adults in Great Britain, 74% of Britons declared their concern about environmental issues, more than 50% felt it was important for them to use a Travel & Tourism company that took the environment into consideration and some 30% declared to be prepared to pay extra for this. results available from Internet:
<URL:<http://www.wttc.org/WTTCGATE.N...e002563d40052ae6e?OpenDocument>>.

⁵ WTO, *What Tourism Managers Need to Know-A Practical Guide to the Development and Use of Indicators of Sustainable Development*, Madrid, 1997.

⁶ European Commission, *Panorama of the EU Industry 97*, Luxembourg 1997.

laboration with the public sector and the whole community¹, the development of various codes of conduct and self-regulation measures on different environmental topics (i.e. waste management, product purchasing, energy conservation, etc.)², the extension of a range of joint partnerships at European, national and local levels intended to research sustainable tourism and pilot projects which test its applicability and, the development of new holiday products and services for certain environmentally conscious market segments. In this sense, SMEs in several Northern European countries (Iceland, Denmark, Finland, Luxembourg) have developed several eco-labelling programmes for creating a positive company image and therefore responding to environmentally conscious market segments.

Case Study: the Green Key Certificate

The Danish 'Green Key Certificate' is an environmental certificate awarded by the 'Green Key Certificate Association' (founded in 1994 by the Hotel Employers' Association) to hotels, youth hostels, caravan sites and holiday housing. The certificate is only awarded to the sites complying with the 55 environmental criteria laid down by the Green Key Certificate Association. At present there are 40 hotels which have been awarded the certificate and can subsequently use it in their marketing strategies. Interestingly, once a year these enterprises are inspected without notice to ensure that they continue to comply with the criteria.

Source: The Green Key Association: The Green Key-Hotels and Hostels with Environmental Certificates, February, 1997.

Notwithstanding this environmental awareness, it is not yet clear whether the industry is ready to assume the different investments that are required, specially when they are envisaged as added costs with no positive return rates on investment in the short term rather than cost-cutting investments (i.e. reduction of energy consumption or of waste disposal). This problem is aggravated by the fact that most of the tourism enterprises are SMEs. Thus, the results provided by the ENSR Enterprise Survey 1997³ show that, vis-à-vis LSEs, HORECA SMEs not only have a lower level of response (on products/processes) to the changes derived from the introduction of new environmental legislation but also show a lower level of consciousness on the existing environmental legislation affecting the enterprise (see Table 10.7).

¹ In this sense, it is worth underlining the Agenda 21 report for the Travel & Tourism Industry, jointly developed in 1995 by the WTTC, the WTO and the Earth Council from the implications of the Rio Summit for Travel & Tourism. The report identifies several recommendations and priority areas to both public bodies and private tourism companies. These priority areas, a true vademecum for the sector, range from waste minimisation, reuse and recycling to the development of partnerships for sustainable development.

² A good example of this is given by the Portuguese Guia de Gestao Ambiental para as Empresas Turísticas e Hoteleiras (Guide to Environmental Management for Tourism Companies and Hotels), commissioned by the National Tourist Office and intended to provide all economic and social agents in the sector with an updated overview of good practices in the field of tourism within the perspective of environmental protection.

³ For more details on this survey, see appendix of Chapter 12 of this same report.

In order to solve this distinctive situation, tourist SMEs require, according to HOTREC¹, special tools adapted specifically to their distinctive characteristics, with regard to costs for environmental protective measures. Moreover, HOTREC supports the development of new environmental incentives to enterprises rather than the introduction of more regulations, which might have an added negative impact on tourist SMEs vis-à-vis LSEs². The diffusion of environmentally-related information is another important field for SME strategies³.

Table 10.7 Impact on products or production processes of environmental legislation changes in the last five years. Distribution by respondent HORECA firms* and by firm size

	0-9 employees	10-49 employees	50-249 employees	250+ employees
There has been an impact	39.5	33.0	17.0	64.5
No impact at all	43.5	52.7	82.0	35.5
Not applicable to the company	16.9	14.3	0.9	0.0
Total	100.0	100.0	100.0	100.0

* Responses only available for the hotel and catering sector.
Source: ENSR Enterprise Survey 1997.

10.5.4 Tourist SMEs and Information Technologies

The last years have witnessed an impressive development of Information Technology (IT), and this has just begun to influence the tourism industry but it is expected to deeply transform it⁴. The so-called Information Highways (On-line services, Internet) are perhaps the technological improvements that are expected to influence more intensely not only the tourist producers' forms of promotion and marketing, but also the distribution of tourist products, the professional requirements of tourist firms and, more importantly, the habits of consumers themselves.

Thus, the Internet and specially its World Wide Web (WWW) service are increasingly viewed as a major source of opportunities for the tourist industry⁵, including the instant access to millions of people all over the world, provision of interactive facilities to the clients, better and cheaper distribution or facilities for updating and correcting information.

¹ Confederation of the National Associations of Hotels, Restaurants, Cafés and Similar Establishments in the European Community.

² WTO, WTO-ETAG Joint Seminar: Tourism and Environmental Protection, Madrid, 1996.

³ In this sense, it is important to highlight the existence of ECONETT, an information network for tourism and the environment developed jointly by the World Travel & Tourism Council and the DG XXIII of the European Commission.

⁴ WTO, Efectos de las Nuevas Tecnologías en la Distribución Turística (Effects of the New Technologies on the Tourist Distribution), Madrid, 1995.

⁵ Universität Wien Institut für Angewandte Informatik und Informationssysteme, 'Benefits in Tourism from the WWW', <http://www.ifs.univie.ac.at/~c9509739/dokument.html>.

Interestingly, the Internet user represents an exciting market segment for tourist firms¹. It is not surprising, therefore, that both travel and leisure products are expected to be two of the three top products to be sold through the Net by the year 2000, with market shares of 24% and 19%, respectively (see Table 10.8).

Table 10.8 Products expected to be sold best through Internet (million US\$), 1996-2000

Sector	1996	1997	1998	1999	2000
Computer products	140	323	701	1,220	2,100
Travels	126	276	572	961	1,579
Leisure	85	194	420	733	1,250
Garments	46	89	163	234	322
Presents/flowers	45	103	222	386	658
Food and beverages	39	78	149	227	336
Others	37	75	144	221	329
Total	518	1,138	2,371	3,982	6,574

Source: Forrester (taken from El Pais, 9th February 1997).

Notwithstanding all these opportunities, it is important to keep in mind that IT has entered into the tourist business only in the last few years. Moreover, it is important to take into account that the full development of Internet possibilities is still subject not only to the resolution of several technical questions, such as ease of access to information, security of transmissions (i.e., payments on-line)², but also to internal firm barriers such as insufficient competence in the tourism sector to use new technologies or limited willingness to invest in IT³.

¹ Thus, Internet users are not only better educated and have an over-the-average purchasing power (60% have got University education and their earning range between S\$60,000 and US\$80,000), but also and more importantly, Internet users can be defined as intensive travellers (up to 25% of the surveyed Internet users plan to travel within the next month, and around 79% and a 49% of them have taken a domestic and international pleasure trip in the last 12 months, respectively). These results are taken from the CIC Research of San Diego's January 1996 Net Travel Survey, and are quoted in Fontayne C, 'The Connected Marketer: Using the Internet, World Wide Web and Online Services for Marketing Travel', paper presented to the WTO's Seminar on Tourism and New Information Technologies, Madrid, 1996.

² Universität Wien, Institut für Angewandte Informatik und Informationssysteme, op. cit.

³ Rasmussen M, Information Technology in Denmark/Europe. Status and Perspectives in Tourism in Scandinavia in a Global Context, 1995.

Case study: TERIAN

TERIAN, created on July 15th 1996, is an Internet service for reservations booking aimed at hotel groups & independent hotels that wish to sell their products and services in real time. Through this service, Internet users can search for information on the hotels enrolled in TERIAN. Additionally, the customer can make direct reservations, which can also be modified. TERIAN offers hotels the possibility of managing their data in real time and without intermediaries, which includes several possibilities such as modifying prices, consulting the current state of sales, opening or closing new types of services, etc.

Source: Alaoui H, Une certaine vision de l'information du futur (A certain vision of the future information), in Cahiers Espaces, No. 50, page 117-118, 1997.

In this sense, evidence from the Netherlands¹ suggests that the average expenditure on IT per enterprise in the hotel and catering sector is far lower than that of other sectors. By way of contrast, other tourist sectors such as travel agencies (irrespective of size) are characterised by a higher diffusion of IT, mainly because of the imposition of advanced booking systems by the transport sector. These results are also confirmed by a Danish study², which shows that the use of IT is mainly dependent on which tourism subsector the enterprises belong to: the Danish restaurants and camping sites make the least use of them.

The available literature suggests that the extension of the Internet is expected to have very different consequences amongst the various tourist subsectors, where most of the benefits are likely to be found in travel and accommodation services³. Additionally, it is worth noting that the introduction of IT is envisaged to have a positive effect on SMEs vis-à-vis LSEs⁴, since the advantage of larger marketing networks (typical of large hotel chains for instance) is expected to be eroded by these new technologies. Nevertheless, it is important to bear in mind that SMEs have to contend with several difficulties derived from both coping with the required investments for developing their own systems and from attracting skilled people for developing these technologies.

¹ Eras, P, Inhalen een Lastige Klus (Making up a Big Job), Telecommagazine No. 2, March 1996.

² Rasmussen M, Information Technology in Denmark/Europe. Status and Perspectives in Tourism in Scandinavia in a Global Context, 1995.

³ For a discussion on the expected impacts of ITs on the different tourist subsectors, it is suggested to pay attention to the following documents: WTO's Seminar on Tourism and New Information Technologies, Madrid, 1996; WTO, Efectos de las Nuevas Tecnologías en la Distribución Turística (Effects of New Technologies in Tourist Distribution), Madrid, 1995; and, finally, Universität Wien, Institut für Angewandte Informatik und Informationssysteme, 'Benefits in Tourism from the WWW', <http://www.ifs.univie.ac.at>.

⁴ López de Miguel C, Perspective of CRS from the hotel chains' point of view, paper presented to the WTO's Seminar on Tourism and New Information Technologies, Madrid, 1996.

10.5.5 Tourist SMEs and human resources

Tourism is currently regarded as one of the most important employment generating sectors of the European economy. According to EU estimates, the sector as a whole provides employment for around 9 million individuals, or 6% of the total European employment¹. Moreover, the available data for the 1985-1995 time period shows that tourism has been one of the main European contributors to job creation², where the World Travel and Tourism Council (WTTC) forecasts a further generation of 1.7 million new jobs in the EU within the next decade³.

The tourist industry meets with an array of obstacles that impede its job creation potential⁴ and which accentuate the industry's poor image (specially in Northern European countries). To start with, the tourist industry offers poor working conditions and limited training and career prospects. According to the Dutch evidence, these conditions seem to be worse in smaller firms⁵. Thus, the tourist industry appears to include a higher proportion of part-time and seasonal workers than other industries, together with a concentration of unskilled or low-skilled jobs^{6, 7}, low productivity, high employee turnover and long/unsociable working hours (weekends, holidays, night-work). According to the Swiss experience, these results in added difficulties in the recruitment of quality personnel⁸. Additionally, the tourist industry is also distinguished by low wages and financial uncertainty (i.e. gratuities) and by a bad coverage of social benefits, partly as a result of the relative importance of the black economy in several tourist subsectors. Nevertheless, it is important to recognise that Tourism can also be a source of well-paid jobs⁹ and employment for disadvantaged groups (young people, housewives or the long-term unemployed).

The qualitative development of the available human resources (the so-called 'intangible elements')¹⁰ through the organisation of formal education and training programmes is cur-

¹ European Commission, Green Paper on Tourism, COM (95) 97 final, Brussels, 1995.

² For an interesting discussion on this topic, see DRI Europe, The Outlook for Employment by Sector, in European Commission, Panorama of EU Industry 97, Brussels-Luxembourg, 1997.

³ See European Commission, Local Initiatives of Development and Employment, SEC 564 (95), Brussels.

⁴ OECD, Tourism Policy and international tourism in OECD Countries 1992-1993, Paris, 1995.

⁵ CBS, De Werkgelegenheid in de Sector Toerisme en Recreatie in Nederland, Sociaal-Culturele Berichten 1995-1998 (Employment in the Tourist and Recreation Sector in the Netherlands, Social-Cultural Report 1995-1998), 1995.

⁶ In Denmark, up to 45% of employees do not have any qualification in the meals subsector, whereas this percentage is 35% in the accommodation subsector (data taken from Hjalager, AM, Turismens Arbejdskraftssammensætning (The Composition of Labour in the Tourism Sector), Aarhus, 1996).

⁷ According to the French experience, up to 25.2%, 28.2% and 24.9% of the workforce in hotels, restaurants and bars, respectively, do not have any school diploma/certification (data for 1990, obtained from the French Ministry of Tourism). Meanwhile, up to 43.6% of the Spanish workforce in the HORECA sector possesses primary studies (result coming from the Spanish Labour Force Survey, 1996).

⁸ BIGA, Branchenbericht Tourismus, Kurzfassung, 1995.

⁹ Thus, and referring again to the French experience, only 8.6% of employees in travel agencies do not have any school diploma/certification.

¹⁰ WTO, Conclusiones del Seminario sobre la Calidad: Un Reto para el Turismo (Conclusions of the Seminar on Quality: A Challenge for the Tourist sector), in Estudios Turísticos, No. 123, pp. 11-16, 1994.

rently viewed as one of the most important factors that could contribute to the general competitiveness of tourist firms and to securing a high level of service¹. Thus, the increasing specialisation and sophistication of tourist demands, together with the development of new products or the introduction of new technologies require a better skilled and educated workforce, both at managerial and shop floor levels². However, it is not clear to what extent the tourist industry has acknowledged this fact. Evidence from the Netherlands suggests that the hotel and catering sector still spends relatively little on the training of employees (430 ECUs in 1993 in comparison with an annual average of 2,129 ECUs per employee)³.

From a firm size perspective, the education and training issue in tourist SMEs involves several distinctive characteristics vis-à-vis LSEs. The Spanish data confirms that larger enterprises devote more resources to training than smaller ones⁴. On the other hand, evidence from the United Kingdom⁵ suggests that SMEs seem to use more informal 'on-the-job' rather than 'off-the-job' training methods, a fact that might raise some doubts on the quality of provision. Meanwhile, SMEs, and particularly very small enterprises, are more dependent on the central role played by the entrepreneur, who very often combines the position of owner and manager and is at the heart of the its decision-making, development strategy and overall performance⁶. Thus, tourist SME entrepreneurs are not only disadvantaged vis-à-vis LSEs (since they cannot be absent from the firm for a long time period as the firm would suffer from this), but also exhibit different psychological and training profiles⁷. Therefore, if it is to be effective, any training policy specifically directed at SMEs should take into account all these 'firm-size' differences.

10.6 DEVELOPMENTS IN THE EUROPEAN TOURIST SUPPLY AND STRATEGIES ADOPTED BY SMEs

The tourist industry is currently adopting a variety of market strategies intended to successfully cope with the 'New Age of Tourism'⁸, characterised by some of the challenges outlined in the previous section. Because of their importance and greater flexibility, tourist SMEs are playing a key role in the successful adaptation of the whole tourist industry to the new challenges. Tourist SMEs, however, suffer from a large number of internal barriers and disadvantages vis-à-vis large enterprises (i.e. commercialisation, promotion, in-

¹ Fayós-Solá E, *El Turismo como Sector Industrial: La Nueva Política de Competitividad (Tourism as an Industrial Sector: The New Competitiveness Policy)*, in *Economía Industrial*, Julio-Agosto, 1993.

² WTO, *Human Capital in the Tourism Industry of the 21st Century*, Madrid, 1997.

³ CBS, *Bedrijfsopleidingen in Nederland, Private sector (Employer Sponsored Training, Private Sector)*, 1994.

⁴ Zontur, *La Formación Continua en la Hostelería Turística Española (Continuous Training in the Spanish Tourist HORECA Sector)*, published in *Tecno Hotel*, Mayo 1997.

⁵ Thomas R et al., *The National Survey of Small Tourism and Hospitality Firms, 1996-1997*, Leeds Metropolitan Institute, 1997.

⁶ OECD, *SMEs: Technology and Competitiveness*, Paris, 1995.

⁷ WTO, *Conclusiones del Seminario sobre la Calidad: Un Reto para el Turismo (Conclusions of the Seminar on Quality: A Challenge for the Tourist sector)*, in *Estudios Turísticos*, No. 123, pp. 11-16, 1994.

⁸ Fayos-Solá E, *Una Estrategia Turística para los Noventa (A Tourist Strategy for the Nineties)*, in *Agentravel* No. 31, 1991.

roduction of new technologies, access to capital, inter-firm co-operation, management, etc.¹). Additionally, tourist SMEs can become very dependent on a small number of major international tourist operators who, effectively, exert a high degree of price control.

Tourist SMEs are also affected by important external barriers that impede their full development. Thus, seasonality is one of the main barriers (specially in the colder Northern European countries where the season is relatively short), since it results in seasonal employment, under-utilisation of capacity and consequently low investment, together with problems of congestion and higher prices in peak months². Moreover, the low profitability and productivity that characterise tourist SMEs are an added and mutually-reinforcing barrier that often restrict related investments³.

There are very few studies at European level that provide survey-based information on successful strategies adopted by tourist SMEs. Nevertheless, the existing literature provides some very interesting clues on favourable strategies adopted by SMEs:

- Successful tourist SMEs are increasingly opting for strategies of differentiation and segmentation aimed at well defined market shares, so they can obtain competitive and leading positions within increasingly customised and quality-demanding tourist market segments. Thus, the Swiss experience shows that only specialised hotels have the highest market growth potential in comparison to all-purpose hotels⁴ and the same applies for travel agencies⁵. Moreover, the lack of a customer-oriented approach at all levels is seen as one of the main barriers currently affecting the Irish tourism firms⁶. However, this specialisation strategy requires marketing research, an area in which, according to the UK experience, less attention is paid by smaller firms. Equally important, successful UK tourist SMEs are able to introduce rapid, customised and quality products to respond to market changes⁷.

¹ Taken from European Commission, Green Paper on Tourism, COM(95) 97 final, Brussels, 1995.

² Deegan, J & Dineen D, *Tourism Policy and Performance*, ITP, London, 1997.

³ Projektarbeit KMU/HSG, *Qualität aus Gästesicht (Quality in the view of the guests)*, December 1996.

⁴ BIGA, *Perspektiven des Schweizer Tourismus (Perspectives of the Swiss Tourism)*, 1991.

⁵ Bordat, P, *Perspective of Computer Reservation Systems*, paper presented to the Seminar on Tourism and New Technologies, WTO, Madrid.

⁶ Tansey Webster and Associates, *Strategic Framework for the Development of Irish Tourism Enterprises*, Report prepared for the Irish Tourist Industry, Dublin, 1992.

⁷ IAHS, *Issues Relating to Small Businesses in the Hospitality and Tourism Industries*, Proceedings to the 1996 Spring Symposium, International Association of Hotel Management Schools, Leeds Metropolitan Institute, 1996.

Case Study: Analysis Centre and Market Tendencies

In 1996 Assottravel, the Italian Association of Travel Agencies, has implemented a research centre called Analysis Centre and Market Tendencies, whose main aim is the analysis of tourist demand segmentation and of the peculiarities of each segment in terms of needs and habits. The association co-operates with partners in order to offer marketing advice. Partners also receive advice on marketing research and relevant policies.

Source: Istituto G. Tagliacarne

- As far as promotional methods are concerned, evidence from the UK accommodation subsector shows that SMEs that classed themselves as 'growth oriented' firms show a higher use of promotional methods (i.e. local/national advertising and price promotions). By contrast, advertising on the Internet is not yet a preferred promotional method (although the majority of the UK firms using the Internet report an increase in their overall turnover levels)¹.
- Co-operation and collaboration amongst tourist SMEs is also seen as a powerful tool for overcoming the problems relating to insufficient development in various functions such as management, promotion, etc.². According to the Austrian experience, small and medium-sized hotels affiliated to special interest groups perform better in quantitative terms than independent hotels³. Evidence from Spanish and Swiss hotels shows that hotels affiliated to a well-known hotel group benefit from upper occupancy rates⁴ and improved market positions⁵. Co-operation can include a large array of fields: the Austrian evidence underlines activities in two specific fields, marketing and exchange of experience (92% and 64% of all cases, respectively). Other items such as education, lobbying and joint purchasing seem to have a lesser importance (28%, 28% and 16% of all cases, respectively)⁶. Foreseen fields of co-operation for the future would include quality standards, electronic reservation systems, central reservation offices and common public relations.

¹ IAHMS, Issues Relating to Small Businesses in the Hospitality and Tourism Industries, Proceedings to the 1996 Spring Symposium, International Association of Hotel Management Schools, Leeds Metropolitan Institute, 1996.

² This fact is particularly aggravated in those cases where a relatively large number of tourist operators determine and fix the general market conditions, including prices (what could be labelled as 'oligopoly of demand').

³ Westreicher K, Eine zielgruppenorientierte Marketing- und Kooperationsstrategie zur Erhaltung und Verbesserung der Wettbewerbsfaehigkeit der oesterreichischen Mittelstandshotellerie (Special interest marketing. A Marketing and Cooperation Strategy for the Maintaining and Improvement of the Competitive Capacity of the Austrian Middle-Class Hotel Sector), Vienna University of Economics and Business Administration, Diploma thesis, Wien, 1994.

⁴ Thus, Spanish affiliated hotels had an occupancy rate of 72% in comparison to 56% for independent ones (data taken from European Commission, Panorama of the EU Industry 97, Brussels-Luxembourg, 1997).

⁵ BIGA, Perspektiven des Schweizer Tourismus (Perspectives of the Swiss Tourism), 1991.

⁶ Horwath & Horwath Unternehmensberatung and Kohl & Partner, Hotelkooperationen in Oesterreich - Untersuchung der Moeglichkeit einer engeren Kooperation mittelstaendiger Hotels in Oesterreich (Hotel cooperation in Austria- Research on the Possibilities of Improving Cooperation amongst the Austrian Middle Class Hotels), Wien, 1996.

Case study: Co-operative family hotels in the Netherlands

The 'Stichting Samenwerkingsverband Familie Hotels' (Foundation Co-operative Family Hotels) was created in February 1993 with the help of Horeca Nederland and NBT, as a response to the problems and isolation that characterise most small-medium-sized hotels in the Netherlands. 68 small-medium-sized hotels presented themselves, giving way to the largest Dutch hotel chain. At the moment 96 hotels have joined. The central aim of this Foundation is to increase the profit of the participating hotels.

To achieve this, a goal oriented marketing/promotion plan has been drawn up. A tourist target group of higher educated persons in specific age categories and couples without children has been identified. Several marketing instruments are used, such as promotions in the mass media, brochures, direct mailings and co-operation with partners. All hotels can use the Dutch Booking Centre and an automated booking system has been started with 20 hotels.

Source: Documentatie Familiehôtels.

- Strong emphasis on technology (and specially on IT) is also one of the key factors for fostering tourist SMEs' competitiveness. In this sense, British studies^{1, 2} confirm that growth-oriented tourist SMEs are more likely to make use of IT. A study carried out in Italy also shows that both Italian hotels and travel agencies recognise a positive effect on sales volume from the use of IT although the use of computers is directly related to enterprise size³.
- The development of the available human resources (including managerial personnel) through training provision is currently seen as a key strategy for the further development of SMEs and a mechanism for improving the quality of the services provided. Evidence collected in the United Kingdom suggests that growing firms are more likely not only to train their workforce, but also to have written training and human resource development plans and budgets⁴.

10.7 POLICY ISSUES

In most European countries, the last few years have witnessed a redefinition of the main objectives of tourist-related policies. Subsequently this influenced the development and the organisation of the responsible public bodies. European tourist policies⁵ are evolving

¹ Thomas R et al., *The National Survey of Small Tourism and Hospitality Firms, 1996-1997*, Leeds Metropolitan Institute, 1997.

² IAHS, *Issues Relating to Small Businesses in the Hospitality and Tourism Industries, Proceedings to the 1996 Spring Symposium*, International Association of Hotel Management Schools, Leeds Metropolitan Institute, 1996.

³ Becheri E, *Il Turismo a Firenze: Un Modello per le Città d'Arte (Tourism in Florence, a Model for the Art City)*, Mercuri, 1995.

⁴ Thomas R et al., *The National Survey of Small Tourism and Hospitality Firms, 1996-1997*, Leeds Metropolitan Institute, 1997.

⁵ For a further discussion on this topic, see OECD, *Tourism Policy and International Tourism in OECD Countries 1993-1994*, Paris 1996.

into 7 main lines of action: improvement of knowledge on tourism, international co-operation, actions in the consumer field (i.e. consumer protection¹), sustainable development strategies, increase of quality standards, upgrading the skills of existing the workforce (while maintaining and increasing the level of employment) and the development of support for tourist enterprises.

Since 1996 several new policy actions directed at fostering Tourism have been launched in various European countries. Examples of these new initiatives involve the passing of new laws on Tourism in Italy (DM 31st December 1996 for the promotion of cultural tourism), the 'Programme of Structural Intervention Initiatives within Tourism' in Portugal, the Spanish 'Framework Plan for the Competitiveness of the Tourism sector 1996-1999', the publishing of the Dutch paper 'Working on Competitiveness, policy for tourism until 2000', the launching of the 'Regional Development Companies' in Denmark and several other initiatives taken in Luxembourg to attract international tourists. At EU level, the first PHILOXENIA Multi-annual Programme² has been proposed, intended to cover the 1997-2000 time period. This is structured around four main lines of actions (improvement of the existing knowledge within the tourist sector, improvement of the legal and financial environment, improvement of the quality of the European tourism and, finally, the increase in number of tourists coming from third countries. This policy action has replaced the previously Community Action Plan to assist tourism (a three year action programme implemented in the time period 1993-1996 with a budget of 18 million ECU³).

The competitiveness of European tourist-related SMEs can be further enhanced not only through actions already specified in the DG XXIII's Third Multi-annual Programme for 1997-2000 (i.e. simplification and improvement of the administrative and regulatory business environment, improvement of the financial conditions for SMEs, fostering of information and co-operation services), but also through the development of several specific policy actions intended to improve their innovative capabilities in areas such as organisation, products and marketing. Thus, concrete projects to be supported might include some of the following:

- Development of new tourist products to meet changes in demand patterns (sports and adventure tourism, cultural tourism, etc.) and development of products aimed at specific market segments (retirees, handicapped people, families, etc.);
- Improvement in the quality standards of services rendered by tourist SMEs, mainly through the support to of advanced management and continuous quality improvement systems;
- Development of SME-oriented human resources development and training measures;
- Organisation of networks of services intended to improve the capabilities of entrepreneurs and the overall quality of services offered by tourist SMEs;

¹ A good example of this line of action could be the EU Directive on Package Travel, Package Holidays and Package Tours adopted in 1993, and whose main aim is both to harmonise Member States' regulations with respect to the legal liabilities of package tour suppliers and to set up common minimum standards of protection.

² Commission of the European Communities, Modified Proposal to the Conseil on a First Pluriannual Programme in Favour of the European Tourism 'PHILOXENIA', Brussels, 1996, COM(96) 635 final of 4.12.96.

³ A review containing the main measures recently carried out by the EU in the domain of tourism can be found in: Commission of the European Communities, Report of the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on the Measures of the Commission influencing Tourism (1995/1996), Brussels, 1997 Com (97) 332 final.

- Encouragement of specific tourist SME associations and networks, intended to foster inter-enterprise co-operation, to obtain economies of scale and to exchange information on best practice;
- Fostering of technological innovations within tourist SMEs, where these innovations can be implemented in a wide array of different domains such as security, logistics, supply, environment and marketing. In this sense, special attention should be given to information technology, specifically adapted for the marketing and promotion of tourist products on a world-wide basis.

Finally, there is an obvious need for further EC and national measures and initiatives to develop the tourist SME sector. In particular, further support should be aimed at policy making processes, primarily through the setting up of consultation and advisory structures where SMEs can better represent their interests. In this sense, the current process of States' disengagement from national tourism promotion and management and the increasing role played by the private sector in Member State economies may not necessarily benefit tourist SMEs (due to the dominant role of big industry players to the detriment of smaller enterprises¹).

¹ WTO, Budgets of National Tourism Administrations, Madrid, 1996.

11 SMEs AND THE ENVIRONMENT

Co-ordinated by Aprodi (Association pour la Promotion et le Développement Industriel)

MAIN POINTS

- Sustainable economic development is increasingly recognised as a goal of modern society. The term 'sustainable' covers development that aims at both resource conservation and pollution reduction. The term 'pollution' encompasses damage to the atmosphere, land, water and the auditory environment, the dimensions of which must be addressed in their totality.
- In order to successfully carry out this goal, SMEs must be fully-committed agents in the business of environmental protection. This involves a preparedness to integrate increasingly strict environmental constraints into company policies.
- In particular, SMEs should aim to conserve energy and raw materials, and to reduce pollution from production processes and other activities. The second of these objectives can be achieved by decreasing waste production or involvement in the business of recycling. The pollution impact of industrial products can be reduced by eliminating environmentally unfriendly production materials (e.g. paper) and by developing recyclable goods. SMEs should also redesign their services to reduce the environmental effects of transportation, a major source of pollution.
- These growing environmental constraints present risks but also opportunities for SMEs to develop new activities in the so-called eco-business sector. Although difficult to define and to assess, the global eco-business market is estimated to be as important as that for information technology, and is estimated to grow at a faster rate than most sectors of economic activity.
- European countries display important differences in the behaviour of enterprises towards the environment as well as in the development of eco-businesses. But common to all countries, is the evidence that SMEs lag behind LSEs in this area. In particular, they lag behind LSEs in investment for environmental protection, in implementation of environmental management systems and in awareness of environmental issues.
- Conversely, SMEs are important agents in eco-business in all EU countries. In the Southern states of the Union, however, SMEs involved in eco-business are poorly specialised.
- As regards effective policy, in most countries national regulations still constitute the most effective pressure for SMEs to develop environmental care amongst businesses.
- The main barriers SMEs have to face when wishing to decrease their environmental burden or to become involved in eco-business are the following: barriers in access to relevant information, lack of time, lack of finance and qualified personnel, and lack of timely and inexpensive external advice structures.

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- Environment and employment issues have long been seen as conflictual. However, a number of studies have demonstrated two important things. Firstly, job destruction attributable purely to environmental improvement is relatively low; and secondly, jobs are in fact generated in the development of environment expenditures and eco-businesses. Therefore, although small, the net total impact of environmental policy on employment should be positive.

11.1 INTRODUCTION

It is widely acknowledged that it is necessary for society to shift to a model of sustainable development - i.e. a development model which respects natural resources and the environment. Such a model must be implemented in order to avoid endangering the benefits of economic growth in the medium- and long-term by the exhaustion of natural resources on the one hand, and by the degradation of the environment and quality of life on the other. In line with the Rio Conference of June 1992, the European Union has, in the European treaty¹, strongly affirmed this priority and confirmed the leading role it intends to play in this field at world level.

Sustainable development would be achieved only if everyone, as policy-maker, citizen, and customer or producer, takes on his/her share of responsibility. SMEs exert pressure upon the environment through their activities. Therefore, like any other enterprises, SMEs are significantly affected by environmental issues. This is the main motivation for dedicating a theme study to environment in this Fifth Annual Report of The European Observatory for SMEs.²

The chapter is structured as follows. Firstly, in Section 11.2, key environmental problems and the implications of the environmental challenges for SMEs will be briefly reviewed. Section 11.3 will study the activities undertaken by SMEs to comply with environmental constraints and the main barriers they face. In Section 11.4, the role played by SMEs in the development of eco-businesses will be presented. A short Section 11.5 will be dedicated to the relationships between environmental protection policies and employment. The chapter will conclude, in Section 11.6, with the policy issues.

11.2 THE CHALLENGE OF SUSTAINABLE DEVELOPMENT

In 1994, the EC Task force for the European Environment Agency published an important report summarising the state of the European Environment, the 'Dobris Assessment'. In the fifth part of this report, the 12 main environmental issues that Europe has to tackle are reviewed. In the assessment of the 5th programme for environment and sustainable development, the EC notes that although some progress has been made on some of these

¹ See articles 2, 3 B and 130 R.

² In previous reports, the topic of environment has already been touched upon. The interested reader should consult the policy chapter of the Third Annual Report for details.

issues, others remain worrying and the situation may even be deteriorating¹. Among these issues, several are of particular concern for enterprises, and in particular, SMEs: climatic changes due to emissions of carbon dioxide (CO₂); acidification of the air and deterioration of air quality due to emissions of sulphur oxides (SO₂), nitrogen oxides (NO₂) and carbon monoxide (CO); the amount and quality of available water resources; the worsening quality of urban environment (including noise pollution); the role of transportation in the process; and, the huge problem of waste production. Table 11.1 supplies a partial, and relatively comparable overview of the state of environment in different European countries.

SMEs, regardless of sector of activity, must integrate increasing environmental constraints into their policies. The concept of sustainable development implies that SMEs have to deal with the following issues: the saving of energy and raw materials, the reduction of pollution (atmospheric, waterborne and noise) induced by their production processes and activity; the reduction of wastes outputs and/or the engaging in waste elimination or recycling; the reduction in the pollution impact of their products by elimination of environmentally unfriendly materials; the development of recyclable products; and the reduction of transportation or use of pollution-intensive inputs (e.g. paper). SMEs must think in terms of the global environmental impact of their activities. This implies a complete re-think of product life-cycles and economic activities in environmental terms.

In fact, the President's concluding remarks at the 'Informal meeting of EU environment ministers' in Amsterdam in April 1997, clearly states that 'SMEs are an important engine for economic growth and employment throughout the European Union. SMEs are also an important contributor to environmental pollution. Environmental requirements should be related to the nature and magnitude of environmental pollution and not to the size of the enterprise'.

Therefore, environment is clearly becoming an increasingly important dimension in the management of SMEs. These environmental constraints present both risks and opportunities: the very existence of some sectors of activity could be endangered. For example, investments, innovations (including management and organisational innovations) and the training of employees needed to adapt to new environmental norms and standards, have (high) costs. These can affect the competitiveness of SMEs (especially if competitors from other countries do not face the same level of urgency in implementation). On the other hand, savings of energy, water or other natural resources and of intermediate products can lead to cost reductions for SMEs.

An increasing demand for clean technologies and products and for services linked to environmental management constitutes an opportunity for SMEs. New markets are developing, both in the European Economic Area, in Eastern and Central European countries and in Newly Industrialised Countries, offering opportunities for SMEs, as suppliers of clean technologies, products and environmental services for businesses.

¹ European Commission, DG XI, 'Towards a sustainable development. The European policy in the field of environment in the perspective of the 21 st century', OPOCE, Luxembourg, 1996.

11.1 The state of environment in Europe. A selection of environmental indicators

Country	Climatic changes (t CO ₂ per capita)		Air emission (Kg per capita) (1)			Gross energy consumption (toe per capita)		Municipal waste (Kg per capita)		Total
	1990	1994	SO ₂	NO ₂	CO	1990	1994	1990	1992/1994	1990/1994
	7.5	7.0	9	23	164	n.a.	3.2	620	n.a.	320
	11.1	11.6	25	35	132	4.7	4.9	351	398	n.a.
	10.3	12.1	30	53	136	3.5	3.9	569	486	230
	12.0	11.0	37	27	83	4.4	4.1	342	n.a.	740
	7.2	7.5	50	33	146	2.2	2.3	295	310	n.a.
	5.4	5.8	53	31	123	2.3	2.5	323	365	940
	6.5	6.0	19	26	156	3.9	4.0	538	471	n.a.
	10.7	11.9	24	55	87	5.6	6.0	622	n.a.	470
	8.8	8.9	53	37	129	2.9	3.0	315	n.a.	n.a.
	7.1	6.9	25	37	160	2.7	2.7	353	352	n.a.
	32.5	29.9	26	n.a.	n.a.	9.3	9.3	445	484	120
	10.5	10.7	9	35	59	4.5	4.6	537	596	520
	4.0	4.6	27	26	122	1.7	1.9	303	332	730
	6.1	6.4	11	45	n.a.	5.5	5.5	374	362	340
	10.0	9.4	47	38	83	3.7	3.8	n.a.	350*	n.a.
15	9.1	8.4	47	37	n.a.	3.5	3.6	n.a.	n.a.	n.a.
	n.a.	9.0*	30	81	95	n.a.	n.a.	n.a.	560*	n.a.
	n.a.	7.3*	8	51	188	n.a.	n.a.	472	515	n.a.
	n.a.	6.2*	4	20	78	n.a.	n.a.	437	404	390
18	n.a.	n.a.	46	37	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

(1): for air pollution, all data refers to year 1994 for Greece, Ireland, Luxembourg, Europe-15 and Europe-18 where they refer to year 1990, Italy (year 1993).

n.a. refer to 1993, n.a. = not available.

Source: Elaborated by Aprodi on the basis of data from Eurostat, 'Environment Statistics 1996', OPOCE, Luxembourg, 1997 and OECD, 'Environment in OECD countries. Progress in the 1990s', OECD, Paris, 1996.

11.3 SMEs AND ENVIRONMENTAL CONSTRAINTS

11.3.1 How far are SMEs of the EEA and Switzerland active in the field of environmental protection?

The activities of SMEs in the field of environmental protection can be measured in at least two different ways: (a) by activities and investments undertaken in order to decrease their burden on environment (in compliance with environmental regulations or otherwise); (b) by the implementation of environmental management systems (in the framework of certification or otherwise).

The results of the ENSR Enterprise survey 1997¹ indicate that the share of enterprises that have in the last five year modified their products or processes as a direct result of environmental regulations depends on the sector of activity to which the enterprises belong (see Table 11.2). Not surprisingly, the survey reveals that environmental regulations have had a particularly important impact on manufacturing and construction. Within these sectors of activity, it is clear that the propensity to protect the environment increases with the size of the enterprise. In the trades differences between size-classes are less important. In services the most active are very small and small enterprises. This may be due to the fact that specialisation of small and large enterprises is different and/or that very small and small enterprises increasingly supply environmental services.

Table 11.2 Percentage of enterprises stating that environmental legislation resulted in modifications of their products or processes in the 5 last years, Europe-19, distribution by sector of activity and size-class

	Number of workers				Total
	0-9	10-49	50-249	250+	
Manufacturing & Construction	40.2	47.2	59.4	63.1	43.6
Trades	27.6	41.2	32.0	48.7	30.6
Services	29.4	32.7	22.0	12.2	29.4
Total	31.7	40.4	37.9	38.1	34.3

Source: ENSR Enterprise Survey, 1997.

A Spanish survey among 3,000 enterprises shows that the shares of enterprises implementing air emission reductions, water treatment and waste management differ greatly across size-classes. The lower limit on size seems to be situated at around 100 employees (see Table 11.3).

¹ More information on the ENSR Enterprise Survey is presented in the Appendix of Chapter 12 of this report.

Table 11.3 Environmentally active Spanish enterprises, 1992-1993, shares by size-classes in %

Actions undertaken	Number of workers			
	1-10	10-100	100-500	500+
Water & water effluent treatment	11	16	53	78
Air pollution abatement	8	13	34	49
Industrial waste recovered in-house	14	15	29	27
Industrial waste collected by a legal carrier	31	42	60	62

Source: Consejo Superior de Cámaras de Comercio, Industria y Navegación de España, 'Encuesta cameral sobre medio ambiente en la empresa española' (Chambers of Commerce' survey on environment issues facing Spanish enterprises), 1994.

French and Italian data also tend to confirm that within manufacturing, which is strongly exposed to 'environmental pressures', the upper size classes have a greater share of enterprises investing in environmental protection (see Tables 11.4 and 11.5). In Germany also, we note a similar firm size effect, although in this country the size-dimension appears to play a much less important role than in France, Italy and Spain¹.

Table 11.4 Share of Italian establishments adopting atmospheric emission abatements plants (1) and plants for water treatment (2), 1991, by size class and sector (%)

Sector	Number of workers								
	0-5	6-9	10-19	20-49	50-99	100-199	200-499	500-999	
C (1)	4.2	14.4	25.8	40.8	34.1	22.2	33.3	25.9	S
C (2)	8.5	22.9	29.9	34.9	61.4	38.9	50.0	25.0	100
D (1)	4.5	10.5	14.1	21.2	33.7	43.0	52.1	68.3	81.2
D (2)	4.8	11.2	14.4	22.0	34.3	47.9	60.4	76.2	88.4
E (1)	0.3	0.9	1.1	1.1	0.4	6.4	37.5	30.0	S
E (2)	3.3	7.7	11.1	9.9	14.1	20.8	60.7	40.0	S

C = extraction of minerals, D = manufacturing industries, E = production and distribution of energy, gas & water. S = confidential data.

Source: ISTAT, 'Statistiche ambientali' (Environmental statistics), Roma, 1996.

Table 11.5 Share of French establishments (Energy and Manufacturing industries) investing in the field of environmental protection, by size-class (%)*

Year	Number of workers					Total 20+
	20-49	50-99	100-199	200-499	500+	
1992	16.1	23.7	21.8	34.4	56.3	28.4
1993	n.a.	31.4	24.8	37.6	58.2	32.6
1994	16.4	30.8	24.3	41.7	64.0	33.7

* The survey covers 90% of the total number of establishments with 20 employees & more. Investments = specific investments + investments aiming at preventing risks + investments to change the process. n.a. = not available.

Sources: Ministry of Industry/SESSI, 'Les investissements antipollution en ...' (Antipollution investments in ...), Paris, 1994, 1995 & 1996.

¹ IFM Bonn on the basis of an empirical survey among 430 enterprises.

In Greece, it is estimated that 13% of manufacturing enterprises use environmental consultancies. In Luxembourg, only 13% of manufacturing enterprises have realised an investment programme to adapt their equipment to new environmental standards in 1995. The percentage was the same in 1991. When compared to the size-distribution of enterprises (see Chapter 1), data from Greek and Luxembourg manufacturing industries also confirm that larger firms are more active in environmental issues than SMEs. This is especially true when the comparison is made with the smallest firms (see Table 11.6).

Table 11.6 Size distribution of environmentally active manufacturing enterprises in Greece and Luxembourg, 1995 (%)

	Number of workers				
	0-9	10-49	50-249	total 0-249	250+
Greece 'use of environment consultants'	0	0	38.5	38.5	61.5
Luxembourg 'investment programme'	12.4	27.1	30.2	69.8	30.2

Source: Compiled by Aprodi using data supplied by the Data bank of the University of Piraeus and CEPS-INSTEAD, Annual survey, Luxembourg, 1995.

Size effects are also noticeable in the more recently identified field of environmental management. Initial indications are provided by the small number of SMEs certified under ISO 14001 or EMAS (Eco-Management and Audit Scheme)¹.

But the development of environmental management systems cannot be judged solely by certification. It is clear that not only certified enterprises develop such systems. In the Netherlands the evaluation of a national programme aiming at the implementation of environmental systems in enterprises shows that in 1996 only 12% of enterprises that already implemented an environmental management system, actually had a certification. Another 50% expected to get their system certified in the next 3 years².

Nevertheless, SMEs are still lagging behind LSEs in this field. A Swedish survey³ shows that more than 50% of Swedish manufacturing enterprises carry out the elements of an environmental management system; for example, by having a written environmental policy, an environmental review system, measurable environmental objectives, or an environmental programme. But this share falls to 30% when the SME size class is reached. The previously quoted Dutch study also shows that the larger the enterprise the more advanced it is in implementing such a system, although small firms are more and more active in this field (see Table 11.7).

¹ Source: ENSR partners. Certified enterprises are to a large extent LSEs or branches of LSEs. At the end of 1996 the number of French Enterprises certified ISO 14001 was around 20 against 24 for Sweden and 50 for Switzerland. The same differences among countries exist for EMAS certification. There are already more Austrian or Swedish EMAS certified enterprises than French ones (respectively 43 and 16 enterprises at end -1996 and 68 and 60 at May 1997). In France, the number of certified enterprises is close to the Finnish situation (4 at end-1996) but in France, a national scheme has already existed for already several years, the so-called PEE (Plan Environnement Entreprise/Environment Enterprise Plan).

² Source: KPMG Milieu/IVA, 'Evaluatie Bedrijfsmilieuzorgsystemen' (Evaluation of environmental care systems in enterprises), Den Haag/Tilburg, October 1996.

³ Swedish Business Environmental Barometer, 1995.

Table 11.7 Share of Dutch enterprises active in implementing environmental care systems, by size-class, 1991-1996 (%)

size-class		January 1991	September 1992	August 1996
20-99	inactive	23	12	7
	starters	40	35	25
	advanced	36	54	68
100-499	inactive	9	3	1
	starters	25	17	9
	advanced	66	80	90
500+	inactive	1	1	0
	starters	12	5	0
	advanced	87	94	100

Source: KPMG Milieu/IVA, 'Evaluatie Bedrijfsmilieuzorgsystemen' (Evaluation of environmental care systems in enterprises), Den Haag/Tilburg, October 1996.

11.3.2 Incentives and barriers for SMEs to undertake environmental activities

From a policy-making point of view, in order that sustainable development should be put into practice, it is particularly important to identify the main incentives and barriers, which influence the involvement of SMEs in the environmental field.

Firstly, it is common sense that in order to undertake actions to preserve the environment, one must have an awareness of environmental issues. The same proposition holds with respect to the need for compliance with environmental regulations. The results of the ENSR Enterprise Survey 1997, for example, reveal that a significant share of enterprises in Italy, Greece, Portugal and Spain are still not aware of, or do not feel concerned about, environmental regulations. Other ad-hoc studies and surveys also reveal great differences between countries regarding environmental awareness¹. Some examples are presented in Table 11.8. What is also noticeable in this table is that within a country or a geographic zone (shown, respectively, in the Dutch data and in the results of the ENSR Enterprise Survey 1997), the degree of awareness of environmental issues and responsibility for them is positively correlated with the size of the enterprise.

But of course, awareness and information about environmental issues are far from sufficient to generate actions in the environmental field. Most entrepreneurs who make such decisions are indeed pressured to do so. A Swiss survey has clearly shown for example that the setting of environmental goals amongst 'ecologically-conscious' enterprises was primarily a function of the degree of pressure experienced. In this case even the size of the enterprise was not a major determinant².

¹ Due to different methodologies, sample sizes, question wording, etc., comparisons between countries must be handled with care.

² Nitze A., 'Die organisatorische Umsetzung einer ökologisch benusssten Unternehmensführung' (The organisational realisation of an ecologically conscious management), Bern/Stuttgart, 1991.

Table 11.8 Awareness of environmental issues and regulations among European enterprises

Country	Item		%	
Germany (1992)	Awareness of the environmental effect of own production	completely informed	36.5	
		partly informed	49.4	
		not informed	14.1	
All sizes	Awareness of the environmental effect of used materials	completely informed	43.3	
		partly informed	47.4	
		not informed	9.3	
Ireland (1991)	How well informed about environmental issues	Very well informed	48	
		Fairly well informed	37	
		Fairly poorly informed	5	
All sizes		Very poorly informed	10	
Netherlands (1994)	Own degree of pollution:			
		- Not polluting	1-9 employees	41
			10-49 employees	26
			50 employees+	17
		- Slightly polluting	1-9 employees	53
			10-49 employees	66
			50 employees+	71
		- Filthy polluting	1-9 employees	3
			10-49 employees	7
50 employees+	10			
Spain	Feel they are aware of environmental legislation	1988-1989	20.0	
All sizes		1992-1993	29.1	
Europe-19	Not aware of any environmental regulation or judge that environmental regulation is not applicable to their enterprise	0-9 employees	17.5	
		10-49 employees	18.5	
		50-249 employees	16.9	
		250+ employees	3.1	
		Total	17.5	

Source: Compiled by Aprodi on the basis of: Germany: IFM Bonn, Empirical survey; Ireland: Lansdowne Market Research, 'National Survey of attitudes to the environment - Summary report', 1991; Netherlands: Frentz A., Zwaard A.B., de la Fuente M., 'Effectief stimuleren van milieu-zorg bij kleine bedrijven' (Effective stimulation of environmental protection in small firms), EIM Small Business Research and Consultancy, Zoetermeer, 1994; Spain: Consejo Superior de Cámaras de Comercio, Industria y Navegación de España, 'Encuesta cameral sobre medio ambiente en la empresa española' (Chambers of Commerce survey on the environment among Spanish enterprises), 1994; Europe-19: The ENSR enterprise survey 1997.

It is of interest therefore, to establish what the main channels of environmental pressure are, and to identify the main environmental stake holders. Several studies have shown that public authorities and (chiefly national) regulations played the major part in this field in

Europe, especially with respect to SMEs¹. Indeed, recent surveys (environmental barometers) conducted in Finland, Sweden, Norway and Switzerland² provide the same evidence. Nevertheless, comparisons with previous barometers reveal the increasing role of other agents, in particular, customers, competitors, employees and owners or shareholders of firms. The Swiss barometer also shows that ecologically-oriented enterprises are more sensitive to the influence or pressure from employees, competitors and public opinion.

Indeed, as it has been the case with quality, LSEs play an increasing role in the implementation of environmental management systems by their small suppliers and sub-contractors. An interesting fact noticed in Finland, France, Greece, Italy and Spain is the influence that foreign-owned enterprises (either located in the country or in their mother country) can play, either as customers, main contractors or shareholders, on the environmental behaviour of SMEs producers of consumption goods or sub-contractors. Finnish wood producers and Greek textile SMEs, for example, have to comply with the environmental requirements of their German customers. In Spain, a small automotive components producer had to radically transform its waste management after an American multinational acquired shares in the company. In France, small producers of furniture were quite surprised when presenting a bid for a tender they have been requested by the Swedish firm IKEA to present their environmental performances³.

If regulations are still perceived in most countries as a quite (if not the most) effective pressure for environmental change, a key factor is the political willingness, capability or degree of freedom to enforce these regulations. In Spain, for example, the pressure for environmental change is weakened by opposing claims of another (short-run) problem, namely unemployment. Sectoral case-studies have shown that entrepreneurs did not envisage that public authorities would close plants failing to comply with environmental regulations⁴. Of course, and contrary to the German case, for example, nor would Spanish public opinion be ready to accept such an outcome. In Italy, a survey of 161 SMEs conducted in Lombardy⁵ demonstrates that laws are perceived insufficiently coercive with the effect that opportunistic and evasive behaviour with respect to environmental regulations remains possible.

But even when aware and/or exposed to strong environmental pressure, many SMEs still face barriers and difficulties in undertaking environmental remedies. Lack of knowledge, in particular the lack of technological knowledge, and/or the shortage of qualified personnel, time pressures, high costs, lack of finance lack of involvement of the top management, have often be quoted as the main barriers confronting SMEs in undertaking environmental

¹ KPMG Consulting Environmental, 'The environmental challenge and Small and Medium-sized Enterprises in Europe', February 1997.

² Sources: Teollisuustieto, N° 5, 1997; Swedish Business Environmental Barometer, 1995; Naeringslivet Ukeavis, 'Små bedrifter er miljøsinke' (Small Businesses are environmental straddlers), 11/4 - 97; Dyllick T., 'Umweltmanagementbarometer Schweiz 1995-1996' (Environment management Barometer Switzerland), Institut für Wirtschaft und Ökologie, St Gallen, 1996'.

³ Case-studies provided by the ENSR partners.

⁴ IKEI/SPRU, 'Employment and sustainability in the EU manufacturing sector: foundries and mechanical engineering', European Foundation for the Improvement of Living & Working Conditions, 1996.

⁵ Cavazza C., Dubini P., 'L'impatto della variabile ambientale sulle strategie delle piccole e medie imprese' (Impact of the environment variable on SMEs' strategies), Working Paper, Assolombarda - Bocconi University, Milano, 1996.

actions. The same holds for environmental management certification. ISO 14000 and EMAS are perceived as very complex, time-consuming and costly procedures, often ill-adapted to the informal management style that prevails in SMEs. In fact, SMEs tend to face the same barriers in this field than in the one of for example quality certification¹. One may also note that in most countries, SMEs which were already ISO 9000-certified were more inclined to plan an ISO 14000 or EMAS certification and met less difficulties in its implementation².

11.3.3 Impact of environmental constraints on competitiveness and competition

Whether environmental investments and activities have in fact a globally positive or negative impact on enterprise competitiveness is not a question that calls for a single response. Although for years environment and competitiveness have been judged as conflictual, nowadays, the image is more grey than black and white.

It is a fact that environment is still perceived by SMEs as a cost-raising issue rather than as a possible weapon for increasing competitiveness and/or as a source of market opportunities. For example, an Austrian survey of 674 manufacturing SMEs conducted in 1993 has shown that only 17% developed a pioneering environmental strategy (i.e. a win-win strategy of improvement in competitiveness and cost reduction). 26% developed an active market strategy (i.e. of complying with regulations and of improvement in the quality of products or market penetration). By contrast, 57% developed a defensive following strategy (i.e. either to rule out environmental concerns completely or to react to environmental legislation by fulfilling only the minimum standards). The former category is composed mostly of SMEs with 20 or more employees, whereas the latter includes mainly small enterprises with under 20 employees³.

Of course, the true impact of environment on competitiveness depends of many factors. These include sector of activity, the nature and level of investments required, the kind of activities carried out, the possibility of passing on to consumers some of the environmental cost, the market opportunities that can be achieved as a result of environmental investment, etc. Available surveys and case studies demonstrate a range of impacts on business costs. Nevertheless, in many cases the minimum scale for investments in environmental protection to be profitable is well above that of SMEs.

¹ See for example Second and Third Annual Reports of the European Observatory for SMEs. It should be noted that ISO 14000 is estimated to be even more expensive to achieve than ISO 9000.

² For a more detailed review of barriers and difficulties met see for example IfG, 'Umweltschutz im österreichischen Gewerbe und Handwerk' (Environmental protection in the Austrian small business), IfG, Wien, 1996; University of Piraeus, Survey, 1996; PA for the Department of Environment, 'Cleaner manufacturing technologies in Ireland', Dublin, 1993; Cavazza C., Dubini P., 'L'impatto della variabile ambientale sulle strategie delle piccole e medie imprese' (Impact of the environment variable on SMEs' strategies), Working Paper, Assolombarda - Bocconi University, Milano, 1996; Azzon G., Bertle U. 'La dimensione ambientale nella strategia e nella gestione d'impresa' (The environmental dimension in the business strategy and management), Consorzio MIP, Politecnico, Milano, 1996; NUTEK Survey, 1996; PALMER J., 'Environmental management for smaller organisations', ECLIPSE Research Consultants, Cambridge, 1997; KPMG Environmental Consulting 'The Environmental Challenge and Small and Medium-sized Enterprises in Europe', February 1997; OECD, 'Technologies for cleaner production and products. Towards technological transformation for sustainable development', OECD, Paris, 1995.

³ Burtcher K., Pohoryles R.J., 'Clean technology innovation und deren Verbreitung bei Klein- und Mittelbetrieben', Studie des interdisziplinären Forschungszentrums Sozialwissenschaften, Wien, 1994.

An issue that raises the temperature of debate is that of 'ecological dumping'. European enterprises that comply with very tough environmental standards are disturbed by non-EU competition that does not face such constraints and could therefore compete with less expensive products. European enterprises which lag behind in the adoption of EU environmental standards fear being the victims of an 'environmental protectionism' from the most environmentally advanced Member States. It has even been argued that too tough environmental standards could result in European enterprises relocating plants to less 'demanding' countries. However, no example of such a decision, driven solely by environmental factors, could be found by the author of this chapter. On the contrary, it has been established that American enterprises creating subsidiaries in the European Union have the same level of environmental regulation over their plants as in their mother country even if the national legislation in the host country is much less demanding.

11.4 SMEs IN ECO-INDUSTRIES

11.4.1 Definition and measurement of the eco-industries¹

The definition and measurement of eco-industries (also called 'environment industries') is not an easy task. Definitions used in different surveys and studies vary both across countries and within countries. They range from rather restricted definitions including only goods and services aiming at reducing the pollution emission of existing processes or technologies of productions, to very broad ones including clean technologies and eco-products.

Recent studies nevertheless have some agreement about the core set of environment industries; that is to say, sectors hosting producers of the tools of environmental protection. More precisely these are goods which render *existing* production processes less harmful for the environment by treating waste products or the damage or goods which are used in *changing* production processes to achieve some environmental benefit. Traditionally, this core set was limited to activities that abate or control pollution, but the importance of activities which actually prevent pollution from occurring is growing. The most important difference between definitions used in the various studies, is whether or not they include clean technologies and eco-products. Clean technologies and eco-products are defined as technologies and goods which are *themselves* less harmful to the environment in the production process, use or disposal².

In fact the size of eco-industries is hard to measure, because whilst the core set of eco-industries tend to be concentrated in a rather narrow range of industries, clean technologies and eco-products can be generated by any sector of activity. And the environmental benefit of 'green products' may be a matter of debate. Secondly, overlaps can exist between the two classes of industries. Thirdly, environmental industries cover a large range of activities: control equipment, measurement equipment, intermediary goods, final goods, R&D and development of technologies, advice services, engineering, and so on. Fourthly,

¹ This section is mainly based on OECD, 'The global environmental goods and services industry', OECD, Paris, 1996 & OECD Documents, 'The environment industry. The Washington meeting', OECD, Paris, 1996 and EC, DG XI/Eurostat, 'An estimate of eco-industries in the European Union 1994', OPOCE, Luxembourg, 1997.

² For more details on the definition of eco-industries, please refer to the Appendix of this chapter.

many enterprises develop environmental goods or services only as a secondary activity and there exists an overlap between eco-producers and enterprises adapting to environmental constraints¹. Finally, environmental goods and services are not, with some small exceptions, isolated in specific activity codes, so that most, if not all, data presented are estimates. Depending on the definition and methodologies adopted the statistical image of environmental industries or eco-businesses can therefore vary widely². Nevertheless, when one is not taking into account clean-technologies and eco-products (the most difficult to measure), all estimates agree on the fact that the global environment market is nowadays worth 250,000 million US \$. This ranks the global importance of eco-business between that of the pharmaceutical industries and information technologies. Its annual growth rate averages around 5%³.

11.4.2 The European market for eco-industries

Owing to the problem of definition discussed above, it is rather difficult to gain a clear picture of European eco-industries. Firstly, it is only possible to estimate the core-set of eco-industries (see Appendix). This leads to an underestimate of the real importance of eco-industries, since eco-products are not taken into account. Secondly, as eco-industries are not isolated in specific activity codes, it is only possible to estimate the supply-side from evidence available on the demand-side. Thirdly, availability and quality of data differ greatly among European countries.

DG XI and Eurostat has recently published a study which supplies the most accurate and comparable statistical basis of eco-industries in the European Union and constitutes the main source of information for this section and the one following⁴.

Table 11.9 below provides an estimate of the eco-industry market in the European Union. As environmental expenditures constitute a proxy for turn-over, they therefore constitute also estimates of the magnitudes of eco-industry outputs. It must be appreciated that, contrary to the general methodological approach followed in the Observatory, it is not possible to isolate the privately produced output of the eco-industries. Therefore, the estimates of turnover presented include also 'turnover' of public or non-market suppliers.

¹ i.e. an overlap between Sections 11.3 & 11.4 also.

² An example of this fact is shown in the Appendix of this chapter (see table) where estimates of the global market differ accordingly to the definition adopted.

³ The global environmental market would experienced a growth rate of + 50% between 1990 and 2000 according to OECD and + 127% according to ETDC. Contrarily to OECD, ETDC (Environment Technologies Development Corporation) includes in its definition some clean technologies i.e. substitution clean technologies.

⁴ DG XI/Eurostat, 'An estimate of eco-industries in the European Union 1994', OPOCE, Luxembourg, 1997. Other sources used are: Koepl A., Pichl C., 'Wachstumsmarkt Umwelttechnologien - österreichisches Angebotsprofil' (Growth market environmental technologies - Austrian supply profile), Branchenstudie des österreichischen Instituts für Wirtschaftsforschung, Wien, 1995; Ministry of Trade & industry, 'Ympäristöteknikan vienti' (Exporting of environmental technology), 1995; Ministry of Industry/SESSI, 'Les marchés de l'environnement' (Environmental markets), Paris, 1994; Malaman R., Paba S., 'L'industria verde' (The green Industry), Bologna, 1993; Biondi V., Frey M., 'Environmental industry and engineering firms: situation and prospects', in 'Economia delle fonti di energia e dell'ambiente' IEFÉ, Bocconi University, Milano, No. 1-1994; Braeing L., Christensen T., Hagen I., 'Hele virkemiddelapparatet i arbeid. Evaluering av norsk miljøteknologisatsing 1989-1994', Utredningsinstituttet for forskning og høyere utdanning, Møreforskning og rambøll A/S; OECD, 'The Global environmental goods & services industry', Paris, 1996, OECD documents, 'The environment industry - The Washington meeting', OECD, Paris, 1996.

Table 11.9 Estimates of the turn-over of Eco-industries in the European Union in 1994. Environmental expenditures by sector of activity and country (MECU and percentages)

Country	Total Env. Exp. (MECU)	Env. Exp. as a % of total GDP	Env. Exp. as a % of EU total	Distribution of Env. Exp. per sectors of eco-industries in %			
				APC	WWT	WM	Others
Austria	3,420	2.3	4	20	46	24	10
Belgium	1,320	0.8	2	24	34	42	-
Denmark	1,380	1.1	2	19	50	20	11
Finland	1,070	1.1	1	14	57	26	3
France	17,120	1.5	19	8	47	32	13
Germany	31,870	2.0	35	31	45	22	2
Greece	230	0.3	0	22	35	9	35
Ireland	610	1.1	1	11	57	23	9
Italy	8,870	1.0	10	16	30	45	9
Luxembourg	120	0.9	0	25	67	17	-
Netherlands	6,880	2.3	8	17	29	30	24
Portugal	600	1.0	1	10	50	30	10
Spain	2,680	0.7	3	13	24	48	15
Sweden	2,940	1.5	3	8	32	19	42
United Kingdom	10,700	1.0	12	12	44	31	14
Total EU	89,830	1.4	100	19	42	29	10

APC = Air pollution control, WWT = Wastewater treatment, WM = Waste management. Others include: contaminated land remediation, noise and vibration control, R&D and environmental monitoring and services.

Source: Compiled by Aprodi on the basis of: EC DG XI/Eurostat, 'An estimate of Eco-Industries in the European Union 1994', OPOCE, Luxembourg, 1997.

It is clear that the distribution of markets within the EU broadly reflects the economic structure of the EU itself. The ratio of environmental expenditures to GDP reflects the different stages of maturity in domestic environmental markets and the level of pressure of national environmental policies and regulations. Austria and the Netherlands have the highest ratio of environmental expenditures to GDP, whereas Belgium, Ireland, Luxembourg and the Southern countries the lowest.

Waste water treatment is clearly the largest domain of EU eco-industries followed by waste management and air pollution control. By contrast, contaminated land remediation, noise and vibration control, environmental R&D and environmental monitoring and services, together would account for 10% only of EU eco-industries.

11.4.3 SMEs in the eco-industries

A few national ad-hoc surveys and studies permit further insights into the privately produced output of the eco-industries. There are 250 enterprises supplying environmental goods in Austria and with 400 providing environmental services. There are also around 250 to 350 environmental enterprises in Finland, between 4,000 and 5,000 in France, 120 in Ireland, 61 in Portugal, 91 in Norway, 7 in Liechtenstein, 751 in Switzerland, and 500 enterprises in environmental services in the Netherlands. One can thus very roughly esti-

mate that there are between 20,000 and 30,000 environmental enterprises in the European Union providing equipment for the protection of environment and environmental services¹.

Evidence indicates that German enterprises are European leaders in this field and have strong positions in virtually all environmental sectors. Supported by an important domestic market, the German environment industry achieves an export rate of 40% of sales. The French environment industry which has developed more recently, has begun to create strong competitive positions in the field of water and effluent treatments and these developments mainly account for its global export rate of 30% of sales. The UK also has progressed in the area of water and effluent treatment. In Austria, the Netherlands, Scandinavian countries and Switzerland, advanced environmental regulations have favoured the development of a rather important industry which is strongly competitive in several sectors. Austrian, Dutch, Norwegian and Swiss industries have an export rate of respectively 50%, 25%, 50% and 22%. The specialisation of the Norwegian environment sector is substantially dependent on the particular structure of the Norwegian industry and is highly competitive in the fields of equipment for the cleaning up of oil spills or dealing with sea pollution problems. The Italian environment industry is very dependent on foreign technologies. In Ireland, Greece, Spain and Portugal domestic environmental industries are still poorly developed but are growing and expected to grow rapidly, particularly because of the development of (EU) environmental regulations and of the support provided by EU Structural and Cohesion Funds.

Table 11.10 SMEs as a share of the total number of enterprises in eco-industries in Austria, France, Germany, Italy, Liechtenstein and Switzerland (%)

Size-class	AT	F	G	I	FL	CH
1-9		n.a.			71.4	79.1
10-19	43	n.a.	33	73.5		
20-49				13.5	28.6	17.3
50-99	28	65.3	36	4.4		
100-249						3.1
250-499	17	23.0	23			
500+	12	12	8	8.6		0.5

Source: Compiled by Aprodi on the basis of data from: Ministry of Industry/SESSI, 'Les marchés de l'environnement' (Environmental markets), Paris, 1994; OECD, 'The Global environmental goods & services industry', Paris, 1996; Office of National Economy, Vaduz, 1997; Federal Office of Statistics, Bern.

Due to the lack of data on the number of (private) suppliers it is particularly difficult to estimate the role played by SMEs in eco-industries. On the basis of estimates which exist for some countries, it can nevertheless be concluded that the importance of SMEs in eco-

¹ Sources: Koeppf A., Pichl C., 'Wachstumsmarkt Umwelttechnologien - österreichisches Angebotsprofil' (Growth market environmental technologies - Austrian supply profile), Branchenstudie des österreichischen Instituts für Wirtschaftsforschung, Wien, 1995; Ministry of Trade & industry of Finland; BIPE Conseil, France; The Irish Trade Board; OECD, 'The Global environmental goods & services industry', Paris, 1996. (8); Braeing L., Christensen T., Hagen I., 'Hele virkemiddelapparatet i arbeid. Evaluering av norsk miljøteknologisatsing 1989-1994', Utredningsinstituttet for forskning og høyere utdanning, Møreforskning og rambøll A/S; Office of National Economy, Vaduz, 1997; Federal Office of Statistics, Bern; EIM Small Business Research and Consultancy. & DG XI/Eurostat, 'An estimate of eco-industries in the European Union 1994', OPOCE, Luxembourg, 1997.

industries differs between sectors and countries. Roughly, waste water treatment activities tend to be dominated by large enterprises (LSEs), where the activity is one part of their broader portfolio. By contrast, SMEs usually play an important part in the sectors of air pollution control, environmental monitoring and more generally in niche environmental markets.

Whereas LSEs play a quite important role in France, Germany and to a lesser extent in the Netherlands and the United Kingdom, in other countries, eco-businesses are dominated by small enterprises. In Greece, Italy, Portugal and Spain, these small producers are little specialised¹ and the national market is more or less dominated by large foreign enterprises, especially from the United States, Germany and France. Therefore, in Greece it can be estimated that 2,200 SMEs providing technical and engineering services are increasingly active in environmental services² although these activities are not their core business. By contrast, whilst Austria, the Scandinavian countries, Liechtenstein and Switzerland are to a large extent dominated by small enterprises, producers are more specialised and play a role in international markets. It is worth noting that in Austria, in France and in Scandinavian countries, the smaller the enterprise the more specialised it is in eco-business.

The statistics concerning two selected sectors identifiable in the NACE, namely, Recycling activities (NACE code 37) and Sanitation, Refuse Collection and Waste Management (NACE code 90) supply an image of industrial activity with some relation to environmental activities. In 1995, for example, around 8,300 enterprises were estimated to exist in the Europe-19 countries in the recycling sector (NACE code 37) employing some 57,000 workers and with a turnover of nearly 11,000 million ECU. Recycling is clearly an SME-dominated sector. SMEs account for 99.9% of the total number of enterprises, 92% of total employment and 93% of total turnover (see Table 11.11). With respect to the SME share of employment, recycling is to be regarded as a very small SME dominated sector. Some differences between countries are worth noting. First, large enterprises are found only in Belgium and France and very large ones (over 1,000 employees) in Italy and UK. Second, recycling is dominated by small enterprises in Austria, Belgium, Greece, Portugal, Spain and Liechtenstein, and by medium-sized enterprises in Denmark, Luxembourg and Sweden.

¹ Measured by the share of eco-business sales in the total turnover of the enterprise.

² Source: Survey of the University of Piraeus.

Table 11.11 Recycling activity (NACE 37), Share of size-classes (%) in Number of enterprises, Employment and Turnover, 1995

	Number of enterprises				Employment				Turnover			
	VSE	SE	ME	LSE	VSE	SE	ME	LSE	VSE	SE	ME	LSE
AT	83	15	2	0	36	41	23	0	29	46	26	0
B	86	13	1	-	26	36	27	11	34	28	18	20
DK	73	18	9	0	10	34	56	0	4	34	62	0
D	86	11	1	0	41	39	20	0	27	44	29	0
GR	81	17	1	0	25	53	22	0	28	51	20	0
E	69	28	2	0	28	57	15	0	21	63	16	0
F	87	11	1	-	45	37	17	1	28	47	23	2
FIN	100	0	0	0	100	0	0	0	100	0	0	0
I	92	8	-	-	46	29	5	20	27	47	5	20
L	85	12	3	0	24	28	48	0		n.a.		
NL	100	0	0	0	100	0	0	0	100	0	0	0
P	86	11	3	0	31	39	31	0	18	52	30	0
S	69	21	10	0	13	34	52	0	9	32	60	0
UK	70	27	3	-	33	31	20	16	14	46	16	23
EU*	86	13	1	-	40	36	18	6	26	45	21	8
FL	100		0	0	100		0	0	100		0	0
N	91	9	0	0	53	47	0	0	30	70	0	0
EEA*	86	13	1	-	40	36	17	6	26	46	21	7
CH	97	3	0	0	79	21	0	0	60	40	0	0
total	86	13	1	-	40	36	17	6	27	45	20	7

VSE = Very Small Enterprises.

SE = Small Enterprises.

ME = Medium-Sized Enterprises.

LSE = Large Enterprises.

'-' means negligible. Percentages have been rounded.

* There are no enterprises active in this sector in Ireland and Iceland.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

The Europe-19 countries have around 18,300 enterprises whose main activity is in Sanitation, Refuse Collection and Waste Management (NACE code 90). They employ more than 325,000 people and realise a turnover of around 282,500 million ECU. This sector of activity is dominated by large enterprises. LSEs account for 1% of the total number of enterprises but only for 42% of total employment (see Table 11.12). Nevertheless, data by country reveals that this picture does not hold for all of them. However, considered across all the non-EU countries it is an SME-dominated sector. Within the EU, the sector is dominated by very small enterprises (VSEs) in Greece, Finland and Ireland, by small enterprises (SE) in Spain and by medium enterprises (ME) in Belgium and Denmark.

Table 11.12 Sanitation, Refuse Collection and Waste Management (NACE 90), Share of size-classes (%) in Number of enterprises, Employment and Turnover, 1995

	Number of enterprises				Employment				Turnover			
	VSE	SE	ME	LSE	VSE	SE	ME	LSE	VSE	SE	ME	LSE
AT	84	9	5	2	14	12	34	40	18	12	15	55
B	74	19	6	1	10	31	39	20	17	29	36	18
DK	87	11	2	-	23	28	27	23	20	34	27	19
D	75	19	5	-	15	25	26	34	13	20	36	30
GR	95	3	1	1	37	15	18	29	28	17	20	33
E	87	8	3	1	15	11	23	50	18	12	24	46
F	65	22	9	3	7	17	29	46	9	19	32	39
FIN	93	6	1	-	39	29	23	10	38	27	26	9
IRL	98	0	1	-	50	0	15	35	29	0	8	62
I	82	13	3	1	12	13	18	57	12	26	23	39
L	60	20	14	5	4	9	32	55	4	9	32	55
NL	75	19	4	1	8	20	26	46	8	20	26	46
P	86	10	3	1	3	6	6	85	3	6	6	85
S	74	22	4	-	19	31	27	22	17	27	36	19
UK	88	10	1	1	24	19	15	42	11	11	9	69
EU	81	14	4	1	14	20	23	44	14	20	28	39
FL	100	0	0	0	100	0	0	0	0	0	0	0
IS	91	6	3	0	35	15	49	0	40	11	48	0
N	99	1	0	0	94	6	0	0	94	6	0	0
EEA	81	14	4	1	14	19	24	43	14	20	28	39
CH	91	8	1	0	49	31	20	0	52	33	15	0
total	81	14	4	1	14	19	24	42	14	20	28	38

VSE = Very Small Enterprises.

SE = Small Enterprises.

ME = Medium-Sized Enterprises.

LSE = Large Enterprises.

' - ' means negligible. Percentages have been rounded.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg (forthcoming).

11.4.4 Incentives towards and barriers against the development of eco-businesses

The development of eco-businesses is influenced by incentives and barriers very similar to those revealed previously in the adaptation of firms to environmental constraints.

First, environmental regulations have long been the major factor of development of this sector. They created the market for eco-business, a proposition supported by the fact that the most developed eco-businesses sectors are found in the countries where environmental regulations are the most advanced, and which have (relative to their size) a large domestic market for eco-businesses. Secondly, public authorities also play an important role as a customer for eco-businesses. Nevertheless, it is expected that the private market should now play the major role in the continued development of eco-business. Economic instruments to foster this growth should be developed to complement these regula-

tions. Other factors enhancing the development for European eco-businesses are progress towards harmonisation of environmental regulations at European and international level and the opening of potentially huge new markets. This latter is especially true for markets in Southern Member States, Central and Eastern European countries and South-east Asia.

Nevertheless several factors still threaten to place a brake on the development of eco-businesses, especially with respect to SME scale of activity. First, this activity has an especially high degree of 'uncertainty' associated with it. SMEs have little chance of anticipating environmental regulations and standards because they are poorly represented at legislative level. At the same time, eco-businesses are highly risky activities. Like any innovative sector, eco-industries require adequate finance, technical and economic information. SMEs involved in eco-businesses face serious barriers since, their access to finance and information resources is underdeveloped¹.

11.5 ENVIRONMENT AND JOB GENERATION

While in the past environment and employment were perceived as contradictory objectives, great expectations are now placed on the development of environmental or 'green' jobs. The European Commission (e.g. the White book of Mr. Delors) sees the environment as one of the possible tools for unemployment reduction in Europe. Some countries (e.g. France) have set objectives for the generation of 'green jobs'².

Table 11.13 present estimates of the number of jobs in the environmental sector. Although direct environmental employment (i.e. employment supported by the operation of environmental services and by investment in environmental goods and services) still represents a rather low percentage of the total employment in most countries, it is interesting to see that the environmental sector generates a relatively high level of indirect employment (i.e. jobs generated in other sectors through environmental industries' purchases from these sectors). This is the case for Construction, Services and Intermediate Goods.

¹ DG XI/Eurostat, 'An estimate of eco-industries in the European Union 1994', OPOCE, Luxembourg, 1997. Other sources used are: Koepl A., Pichl C., 'Wachstumsmarkt Umwelttechnologien - österreichisches Angebotsprofil' (Growth market environmental technologies - Austrian supply profile), Branchenstudie des österreichischen Instituts für Wirtschaftsforschung, Wien, 1995; Ministry of Trade & industry, 'Ympäristötekniiikan vienti' (Exporting of environmental technology), 1995; Ministry of Industry/SESSI, 'Les marchés de l'environnement' (Environmental markets), Paris, 1994; Malaman R., Paba S., 'L'industria verde' (The green Industry), Bologna, 1993; Biondi V., Frey M., 'Environmental industry and engineering firms: situation and prospects', in 'Economia delle fonti di energia e dell'ambiente' IEFE, Bocconi University, Milano, No. 1-1994; Braeing L., Christensen T., Hagen I., 'Hele virkemiddelapparatet i arbeid. Evaluering av norsk miljøteknologisatsing 1989-1994', Utredningsinstituttet for forskning og høyere utdanning, Møreforskning og rambøll A/S; OECD, 'The Global environmental goods & services industry', Paris, 1996, OECD documents, 'The environment industry - The Washington meeting', OECD, Paris, 1996.

² It is worth noting that not all such jobs are expected to be created by private enterprises. The public or non-market sectors are also expected to play a major part as direct generators of jobs.

Table 11.13 Estimates of environmental employment in Europe, Japan and the United States

	Direct environmental employment x 1,000	Indirect environmental employment x 1,000	Total environmental employment x 1,000	Total environmental employment as a % of EU total	Direct environmental employment as a % of total employment
Austria	41.5	10.9	52.3	3	1.2
Belgium	15.5	10.6	26.1	2	0.4
Denmark	15.9	6.4	22.3	1	0.7
Finland	13.6	7.6	21.2	1	0.7
France	200.9	121.8	322.6	21	0.9
Germany	316.5	131.4	447.8	29	0.9
Greece	5.1	2.9	8.0	1	0.1
Ireland	8.7	3.8	12.5	1	0.7
Italy	100.6	65.0	165.6	11	0.5
Luxembourg	1.6	0.1	1.8	0	0.8
Netherlands	88.7	18.6	107.4	7	1.3
Portugal	17.1	7.7	24.8	2	0.4
Spain	37.6	15.3	52.8	3	0.3
Sweden	40.7	32.0	72.6	5	1.0
UK	140.3	22.1	195.5	13	0.6
Total EU	1,044.3	489.2	1,533.4	100	0.7
Norway	4.2				0.2
Switzerland	15.6				0.45
Japan	580.0				1.3
United States	1,070.0				1.2

Source: Compiled by Aprodi on the basis of data from the following. For EU countries: EC DG XI/Eurostat, 'An estimate of Eco-Industries in the European Union 1994', OPOCE, Luxembourg, 1997. (Data refers to year 1994). Other countries: OECD, 'The Global environmental goods & services industry', Paris, 1996, p. 30. (Data refers to year 1992.)

In most European countries, (private) eco-business has continued to create jobs during these last years in spite of a deepening of the recession. For example, in Switzerland, employment in eco-business increased by 344% between 1985 and 1995¹. From a qualitative viewpoint, two facts are worth mentioning: firstly, environmental industry and services tend to be labour intensive in character; secondly, except in the field of waste collection, the proportion of skilled jobs is quite high².

At enterprise level, and especially in SMEs, there is the perception that little job generation is expected from the involvement in environmental protection and in the adaptation to environmental constraints. Case studies supply contradictory examples with positive and

¹ Census 1985 & 1995, Federal Office of Statistics, Bern.

² Sources: see in particular OECD, 'The Global environmental goods & services industry', Paris, 1996; OECD, 'Environment policies and employment', OECD, Paris, 1997; BIPE Conseil for the Ministry of Environment, 'Les données économiques de l'environnement' (Environment's economical data), Paris, 1996.

negative effects on employment. At a macro-level, several studies¹ have shown that a small positive employment impact is to be expected from enterprises complying with environmental regulations, investing in environment protection and developing environmental management. If these results are correct, environmental improvement is no longer to be viewed as a job destroyer, even though it cannot be seen as the solution to unemployment. But from a qualitative point of view, new skills will be increasingly required from employees to cope with the environmental changes needed.

In fact, several studies have shown that the development of eco-business and of environmental protection would have more than compensated for the rather minor destruction of jobs due to environmental constraints in other sectors².

Several assessments of the net impact of employment on environmental policies have also been conducted and these offer useful lessons for the future. In general, models of the process infer a globally net positive - if small - impact on employment. Interestingly, a study in Switzerland has demonstrated that tax increases on the consumption of water, resources and nature would lead to the creation of 30,000 jobs³. Furthermore, a Dutch study, evaluating the impact on employment of the National Plan for Environment, has demonstrated the importance of international co-ordination in environmental policies: the net positive impact on employment induced by an increase of environmental expenditures to 4% of the GDP would be much greater if the main competitors of the Netherlands were to adopt similar policies. A study conducted by DRI for the European Commission in 1994 also showed that the degree of positive impact on employment of environmental policies was dependent on the type of policy pursued. The use of economic instruments to achieve environmental goals would seem to be quite efficient in terms of employment impact. Additionally, if revenues from eco-taxes were used entirely for the purpose of reducing labour charges the impact on employment would be doubled. Other independent studies carried out for the EC concluded that the imposition of an energy products tax would create between 155,000 and 457,000 jobs by 2005⁴.

In fact, the European Commission has already advocated the tax shift from labour to environmental pollution/natural resources and has proposed two directives to that end⁵. Denmark, Finland, the Netherlands, Sweden and UK have also specifically allowed for tax-shifting in the design of energy and/or environmental taxes, some recycling the revenues from these taxes to reduce labour costs.

¹ In particular, see studies conducted under the aegis of OECD.

² See OECD, 'L'économie de l'environnement' (Environment economics), L'observateur de l'OCDE, No. 198, February/March 1996; OECD, 'Environment policies and employment', OECD, Paris, 1997; 'Umweltschutz und Beschäftigung' IFO-Schnelldienst, München, 1996 in 'Allemagne: la protection de l'environnement et l'emploi' (Germany: environmental protection and employment), Problèmes Économiques No. 2517, La Documentation Française, Paris, April 1997.

³ Alt, F., 'Das ökologische Wirtschaftswunder' (The ecological economic miracle), Handelszeitung, No. 17, March 24, 1997.

⁴ See EC working paper 'Presentation of the new Community system for the taxation of energy products' Part II 'Evaluation of the impact of the proposal' Addendum dated 30-07-1997 to SEC(97)1026, Brussels, 23-05-1997.

⁵ See the Delors 'White Paper on Growth, Competitiveness, Employment', on the proposals on Carbon-energy tax proposal (COM(92)226) & Energy products tax proposal (COM(97)30).

11.6 POLICY ISSUES

Regulations have long been, and remain, the major tool of environment policies. However, the range of tools used is increasing and is expected to do so further to implement a sustainable development model. Economic and fiscal instruments are being developed at EC and national levels. These include eco or green taxes, fiscal incentives, subsidies for investment in cleaner technologies, implementation of voluntary agreements and direct support to eco-businesses, eco-labelling, support for the development of environmental management systems and standardisation, and inducements through public procurements policy.

As regards SMEs specifically, new EC policy developments deal with improving access of SMEs to information (for example the setting up of a network of specialised Euro Info Centres), the development of services of environment advice, the adaptation of directives, regulations and EMAS to the specificities of SMEs, and support for the creation of new activities in the field of the environmental protection and eco-industry.

A major policy issue is that of the co-ordination between environment policy and other policies. Another is the introduction of an environmental dimension to every policy related to the European Treaty (see article 130 R/2). This ambitious aim seems rather far from realisation. In particular, fiscal policy or policies still conflict with environmental goals. This conflict of interests needs to be avoided but also environment policies should take into account the economic constraints on businesses, especially SMEs. It is therefore of special interest to assess the environmental consequences of policies and of the economic consequences of environmental policies.

In general terms, we should avoid designing environmental regulations and standards that hamper the competitiveness of SMEs vis à vis large enterprises. SMEs and their professional organisations should be encouraged to participate more actively since this help tailor solutions for SMEs both in terms of time costs and prices. More generally, private initiatives in the field of environment- which already exist in sectors dominated by large enterprises or in specific countries (e.g. Switzerland) - should be encouraged. SMEs and their professional organisations would therefore have both a better knowledge of environmental issues and a better 'control' over the definition of environmental policy tools. It seems especially important in this regard to ensure that the principle of fiscal neutrality is respected when developing economic instruments like eco-taxes.

To foster the development of eco-industrial activity amongst start-ups and SMEs, economic incentives, easier access to finance (risk capital, loan guarantees, etc.) as well as the provision of adequate technical information and assistance should be provided.

In conclusion, the 'green culture' of SMEs needs to be developed so that they become committed agents of sustainable development as eco-producers or as 'ordinary' producers of goods and services.

Appendix to Chapter 11

Appendix: Some further details on the definition of environment industries¹

In its broadest definition, the environment industry can be described according to the use of goods and services in the different domains of environmental protection: water, waste, air, soil, noise, natural resources, services, etc.:

- ✓ Environmental equipment:
 - equipment for the treatment of polluted waters
 - equipment for the management & recycling of wastes,
 - equipment to combat atmosphere pollution,
 - equipment to combat noise pollution,
 - control instruments, scientific equipment,
 - equipment for the conservation/protection of natural resources and urban equipment.
- ✓ Environmental services:
 - treatment of polluted waters,
 - treatment of wastes,
 - combating atmosphere pollution,
 - combating noise pollution,
 - services of analysis and control and services of conservation and protection,
 - technical and engineering services,
 - R&D in the environmental field,
 - education and training for environment,
 - accountancy and legal services,
 - advice services,
 - other commercial services in environment,
 - others: green tourism.
- ✓ Technologies for the protection of environment integrated in industrial processes and in cleaner products:
 - equipment for 'clean' production,
 - equipment improving the energy-efficiency of production and permitting the saving of energy,
 - eco-products.

The industry of environmental goods and services can also be divided into 8 sectors consistent with the so-called OECD/Eurostat 'core definition' of environmental industry. Although leading to a lower-bound estimate of the size of eco-industries, this definition is at present the 'best' one for statistical purpose because data are generally available and reliable for most countries. These sectors are:

- Air pollution control;
- Wastewater treatment;
- Waste management;
- Contaminated land and water remediation;
- Noise and vibration control;

¹ Based on OECD, 'The Global Environmental goods and Services Industry', OECD, Paris, 1996; OECD Documents, 'The Environment Industry. The Washington Meeting', OECD, Paris, 1996 & EC, DG XI/ Eurostat, 'An estimate of eco-industries in the European Union 1994', OPOCE, Luxembourg, 1997.

- Environmental research and development;
- Environmental monitoring;
- Environmental consultancy services.

The global environment 'market' in 1990 & 2000 according to OECD and ETDC (US \$ 1,000 million and %)

	1990		2000	
	OECD	ETDC	OECD	ETDC
Total EU	46	57	69	171
* France	22%	18%	22%	18%
* Germany	37%	37%	33%	38%
* UK	15%	19%	16%	16%
* Other EU	26%	26%	29%	28%
Other Western Europe	5	6	9	17
Eastern Europe	15	15	21	25
Japan	24	24	39	65
USA	78	115	113	185
Others	30	38	49	117
Total world	200	255	300	580

Source: Compiled by Aprodi on the basis of data from OECD, 'The Global environmental goods & services industry', Paris, 1996, p. 11.

PART V MONITORING

12 SMEs IN THE EUROPEAN SINGLE MARKET

Co-ordinated by EIM Small Business Research and Consultancy

MAIN POINTS

- This chapter, based on the ENSR Enterprise Survey 1997, focuses on SME experiences with the Single Market programme. The design and implementation of the survey is described in the Appendix to the chapter.
- Enterprises vary considerably with respect to their expectation of the Single Market Programme. Each of four possible viewpoints - perceiving only opportunities, only threats, both, or neither threats nor opportunities - was expressed by about 20 to 30% of enterprises. 'Larger selling markets' and 'simplified international collaboration' were considered to represent major opportunities. Conversely, 'greater competition' was viewed as a major threat. The larger the enterprise, the more the Single Market was perceived as an opportunity. On balance, the smaller the enterprise the more it was considered to represent a threat.
- Three specific groups of Single Market measures were evaluated: harmonisation of technical standards, abolition of border controls and changes to VAT regulations. On average, very small firms claimed to be affected by 0.6 measures, small firms by 0.7, medium-sized firms by 0.9 and large firms by just over 1 measure. Enterprises in the service sector were affected to a lesser extent than manufacturing and distributive trade enterprises, mainly as a result of the adoption of technical standards.
- Over the last 5 years, more than one third of all enterprises were affected by increased foreign competition. In percentage terms, increased competition by firm size amounted to about 30% to 65% of enterprises. The proportion of enterprises reporting a reduction in competition was negligible.
- As in the Fourth Annual Report of the European Observatory for SMEs, 'Single Market Profiles' are distinguished according to the degree in which these enterprises are confronted and/or challenged by the Single Market. Turnover and employment growth during the 1994-1996 period was proportional with the degree of challenge perceived by these enterprises.
- Enterprises in the survey were classified into four country groups. Enterprises in Spain, Portugal, Greece and Ireland were found to differ from those in other countries in three specific ways:
 1. they claimed to be more affected by the Single Market Programme;
 2. during the last 5 years, they internationalised to a higher degree;
 3. they exhibited higher levels of turnover and employment growth.These countries had relative low levels of GDP per capita. The survey results appear to support the conclusion that within the framework of the European Single Market Programme, enterprise development in the European Union is contributing significantly to the process of economic convergence.

continued

continued

- No relationship could be established between the export growth of individual enterprises and the degree to which they perceive to be affected by the Single Market Programme. Enterprises which aimed at expanding their market share exhibited a better export performance than those enterprises which did not. This was particularly the case for very small enterprises. Enterprises which choose niche market positions exhibited the worse export performance. Enterprises which adopted quality-related strategies, service strategies or strategies linked to the adoption of new technology in particular, performed significantly better on international markets than enterprises which relied upon cost-reduction strategies.
- On average, enterprises that were affected by the European Single Market Programme exhibited a higher turnover growth, regardless of their size or the nature of their economic activity. Enterprises with quality-related and new technology-based strategies or those with customer-oriented service strategies tended to exhibit higher turnover growth rates. Conversely, enterprises which based their strategies mainly on cost-minimisation lagged significantly behind other enterprises.
- Enterprises with products that conformed with European standards (especially in the manufacturing sector) exhibited higher employment growth rates than those enterprises that failed or refused to modify their products. The abolition of physical barriers seems to have a positive impact upon employment growth, in particular in the case of very small enterprises. The impact of the reduction of fiscal barriers on employment growth varied considerably across different size classes. In the case of very small enterprises, the reduction of fiscal barriers had no impact on employment growth. For small and medium-sized enterprises as well as their larger counterparts, the reduction of fiscal barriers had a positive impact on employment growth.

12.1 INTRODUCTION

The process of European integration is being promoted by three interrelated projects:

- the completion of the Single Market;
- the accomplishment of the Economic and Monetary Union;
- the processing of the Inter-Governmental Conference.

The completion of the Single Market is pursued by the European Single Market Programme, which is in accordance with the programme already set out by the Commission's 1985 White Paper (a comprehensive programme to remove barriers to free trade in Europe and to establish the four freedoms of the Treaty of Rome: freedom of movement of capital, goods, services and people). It aims to complete a true Single Market in which production factors and products as well as services can move freely without trade barriers and thus stimulate economic growth and convergence.

In 1996 the European Commission completed a comprehensive review of the impact and effectiveness of the Single Market programme and issued a Communication to the Euro-

pean Council and Parliament on the same subject.¹ The 39 volume 'Single Market Review' provides a detailed overview of all aspects of the Single Market² such as the impact on key economic sectors, on the dismantling of various barriers, on trade and foreign direct investment, competition and scale effects as well as aggregate economic analysis, both at regional and Community levels.

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 programme³. The analysis shows that the Gross Domestic Product (GDP) in 1994 was 1.1-1.5% higher than it would have been without the Single Market. It also contributed to the creation of between 600,000 and 900,000 additional jobs in the European Union.

Whereas the analysis described above is of a macro-economic character, this chapter focuses on enterprise experiences with the Single Market programme. Three groups of issues may be distinguished:

- perceptions and experiences of enterprises with the European Single Market;
- enterprise strategies within the Single Market;
- the relation between these issues and enterprise performance in terms of turnover, export and employment growth.

These issues will be analysed on the basis of a survey implemented in the framework of this Observatory: the ENSR Enterprise Survey 1997. The design and implementation of the survey are described in the Annex to this chapter.

12.2 THE EUROPEAN SINGLE MARKET: OPPORTUNITIES AND THREATS

This section will analyse the way enterprises perceive the completion of the European Single Market. Do they mainly see opportunities, or threats or both?

- 18% of respondents see only opportunities in the European Single Market;
- 24% of respondents see only threats;
- 26% of respondents see both opportunities and threats;
- 32% of respondents see neither opportunities nor threats.

Thus, more than two third of the respondents state that they have been affected by the European Single Market Programme.

The most important opportunities identified by respondents included increased output and simplified transnational co-operation (Table 12.1). There appears to exist a size class pattern: very small firms saw no opportunities at all (50% vs. 35% for other size classes⁴). In particular, the 'larger selling market' was only recognised or considered to be of relevance by a minority of very small firms (one out of six, vs. one out of three for other size classes).

¹ European Commission, Impact and effectiveness of the Single Market, COM (96) 520 final, Brussels, 1996.

² The review consists of 19 sectoral and 19 horizontal studies including a business survey carried out amongst 13,500 businesses in the EU. All the studies are published.

³ European Commission, European Economy Reports and Studies, No. 4, Brussels, 1996.

⁴ Chi-square significant at 0.001 level.

Table 12.1 Single Market Opportunities by size of enterprise (percentage of enterprises)

	Number of workers				Total
	1-9	10-49	50-249	250+	
Larger selling market	12	28	39	27	16
Simplified internat. collab.	17	17	18	23	17
Lower production costs	7	10	13	10	8
Other opportunities	16	17	18	29	16
No opportunities	51	37	34	37	48
No opinion	6	8	2	3	6
Don't know /cannot say	2	1	-	-	2

Note: more answers possible, hence figures do not total to 100%.

Source: ENSR Enterprise Survey 1997.

Additional analysis shows that the only difference by sector is that the 'larger selling market' is particularly recognised by manufacturing enterprises.

The most important threat was increased competition: almost one third of the enterprises envisaged intensified competition as an important threat (see Table 12.2). Less important threats included increased administrative procedures and increased production costs. Table 12.2 shows that there was no clear pattern by size of enterprise.

Additional analysis shows that relatively more manufacturing enterprises saw no threats at all, whereas trade enterprises tended to see more threats¹. Trade enterprises feared greater competition and increased regulation.

Table 12.2 Threats of the Single Market by size of enterprise

	Number of workers				Total
	1-9	10-49	50-249	250+	
Greater competition	31	46	26	49	34
Increased regulation	10	10	12	12	10
Increased production cost	6	10	6	5	7
Other threats	13	16	12	20	13
No threats	45	36	52	29	43
No opinion	5	1	1	2	4
Don't know/cannot say	2	-	1	-	2

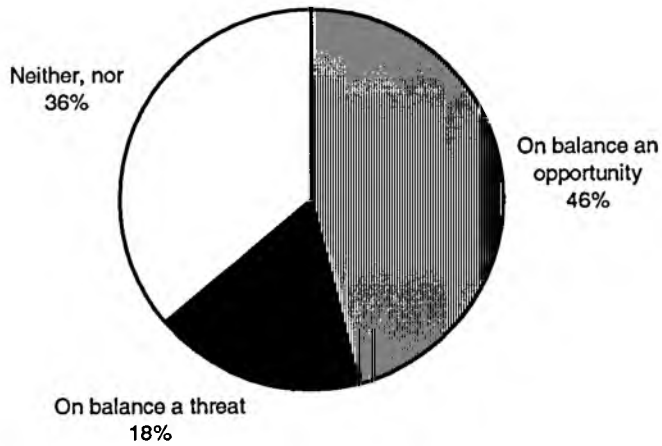
Note: more answers possible, hence figures do not add up to 100%.

Source: ENSR Enterprise Survey 1997.

Enterprises were asked to make a final assessment: do they see the European Single Market on balance as an opportunity or as a threat? Figure 12.1 shows that, on balance, 46% of all respondents regarded the European Single Market as an opportunity and 18% as a threat.

¹ Chi-square significant at 0.03 level.

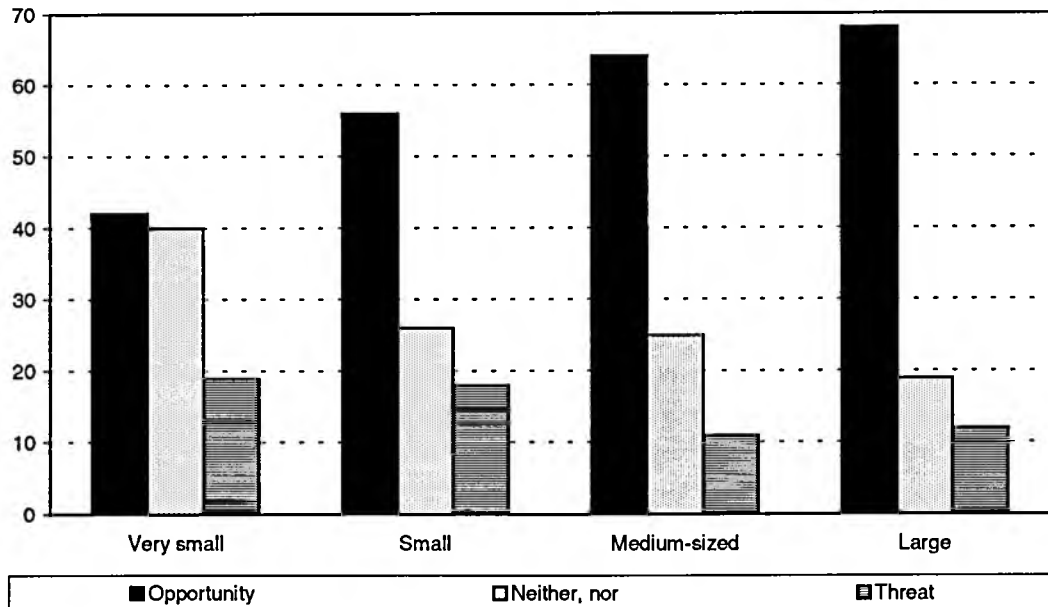
Figure 12.1 The European Single Market: on balance, an opportunity or a threat?



Source: ENSR Enterprise Survey 1997.

The differences between sectors were substantial. Manufacturing enterprises and those in the service sectors perceived more opportunities than enterprises in the distributive trades. As Figure 12.2 shows, perception of opportunities from the European Single Market increases with the size of the enterprise. The smaller the enterprise, the more threats were reported.

Figure 12.2 The European Single Market seen, on balance, as an opportunity or a threat, by size class (percentage of enterprises)



Source: ENSR Enterprise Survey 1997.

12.3 THE EUROPEAN SINGLE MARKET: ABOLISHMENT OF TRADE BARRIERS

In the ENSR Enterprise Survey 1997 three specific groups of Single Market measures were evaluated. These measures were included in the questionnaire because they were among the measures which were positively identified in the Eurostat 1995 survey of 13,500 enterprises¹:

- the harmonisation of products and production norms and standards in order to reduce technical barriers (technical measures);
- the abolishment of customs control and delays at borders in order to remove physical barriers (physical measures);
- the streamlining of regulations with regard to VAT procedures as a means of relaxing tax barriers (tax measures).

Enterprises were asked to indicate whether these three types of measures have had an impact on their operation. Subsequently, an overall score was developed, ranging from 0 (i.e., none of the three measure were perceived to have an impact) to 3 (all three had an impact). In this way average scores for groups of enterprises could be calculated in order to provide an indication of the overall Single Market Programme impact upon enterprises in the sample.

It was found that the overall impact upon enterprises was relatively low for services and relatively high for manufacturing, construction and trade sectors².

A similar analysis by size class showed that, on average, very small firms were less affected by measures than their larger counterparts³.

Figure 12.3 shows that the impact of the European Single Market programme increases with the size of the enterprise. This is especially the case with regard to technical and physical measures. It is remarkable to see that large enterprise are relatively little affected by fiscal measures.

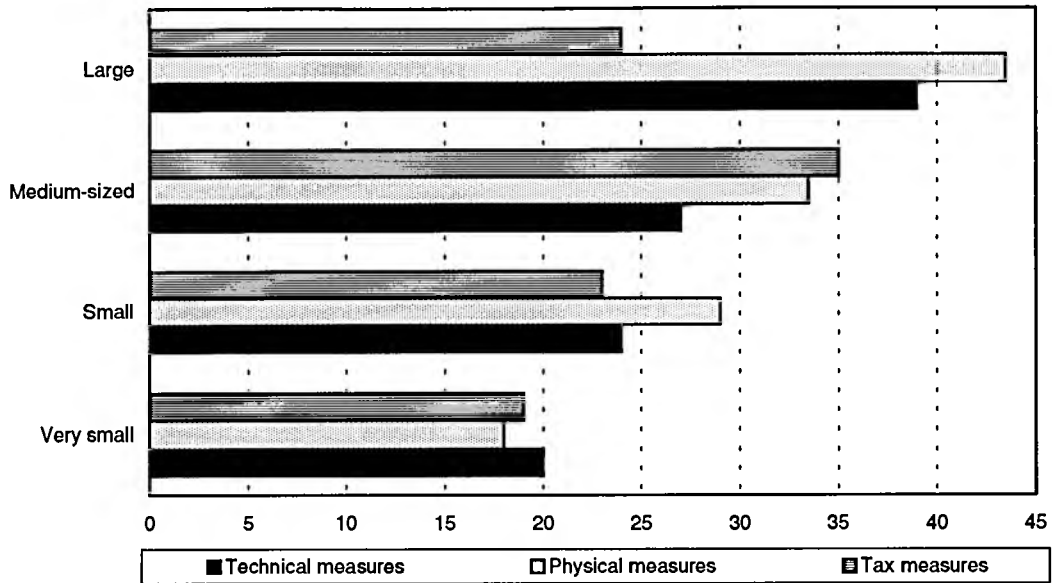
Figure 12.4 shows the impact of the European Single Market programme on enterprises in different economic sectors. Enterprises in the service sectors were less affected than manufacturing and distributive trade enterprises, especially with regard to physical measures. With regard to other measures, the difference between sectors was not substantial.

¹ See, for example European Commission, European Dialogue, The Magazine for European Integration, November-December, 1996.

² Services report to be affected by 0.5 measures on average, manufacturing by 0.6 and trade by 0.7. These differences are significant, as tested by a one way analysis of variance, Scheffe test with significance level of 0.5 indicated.

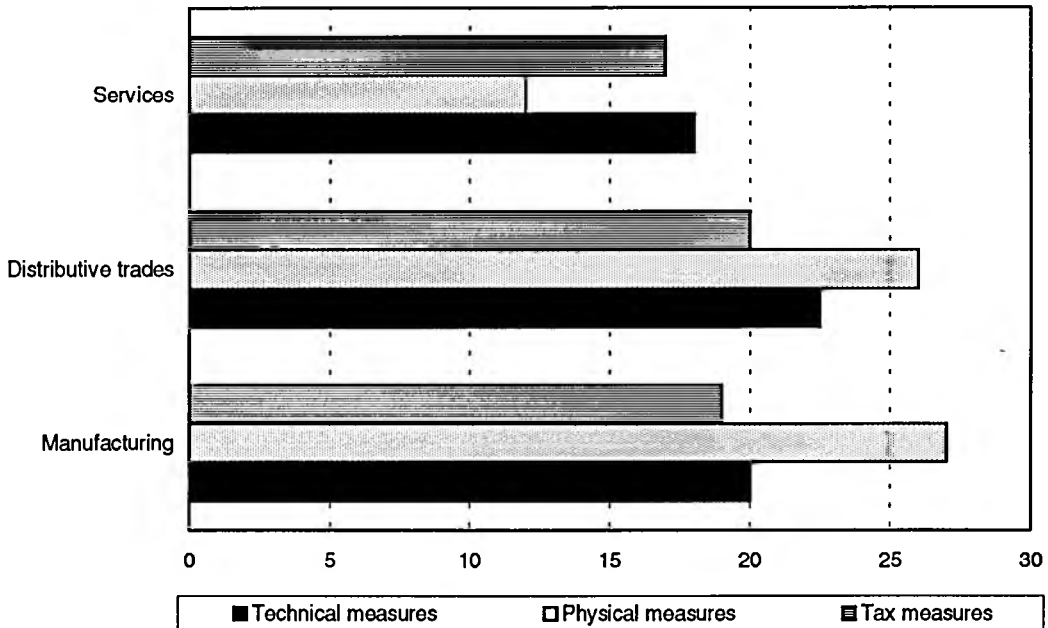
³ Small firms affected, on average, by 0.7 measures; medium-sized firms by 0.9 and large firms by just over 1 measure. Significance has been tested by one way analysis of variance (Scheffe test with significance level 05), and Pearson Chi-square, with significance of 0,004.

Figure 12.3 The impact of the European Single Market Programme on enterprises in Europe by size class (% of enterprises)



Source: ENSR Enterprise Survey 1997.

Figure 12.4 The impact of the European Single Market Programme on enterprises in Europe by sector (% of enterprises)

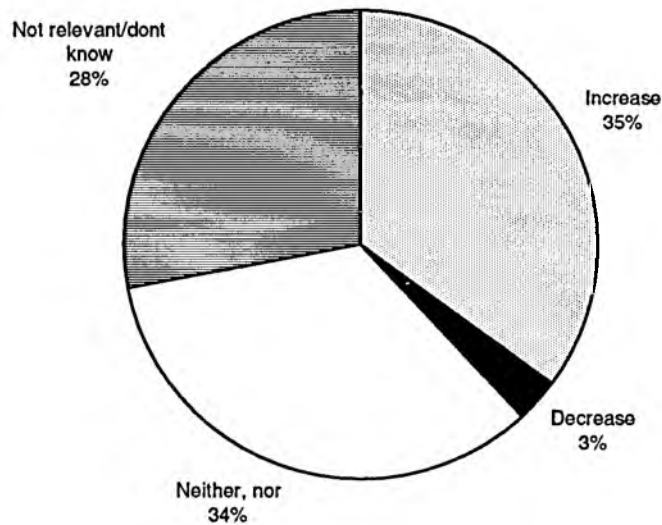


Source: ENSR Enterprise Survey 1997.

12.4 THE EUROPEANISATION OF COMPETITION AND TRADE

By removing barriers to trade, the Single Market Programme is expected to have substantial influence on the international aspects of business performance. Enterprises might be affected by increasing international competition (passive) or increasing international business contacts (active).

Figure 12.5 Development of foreign competition in last 5 years (% of enterprises)

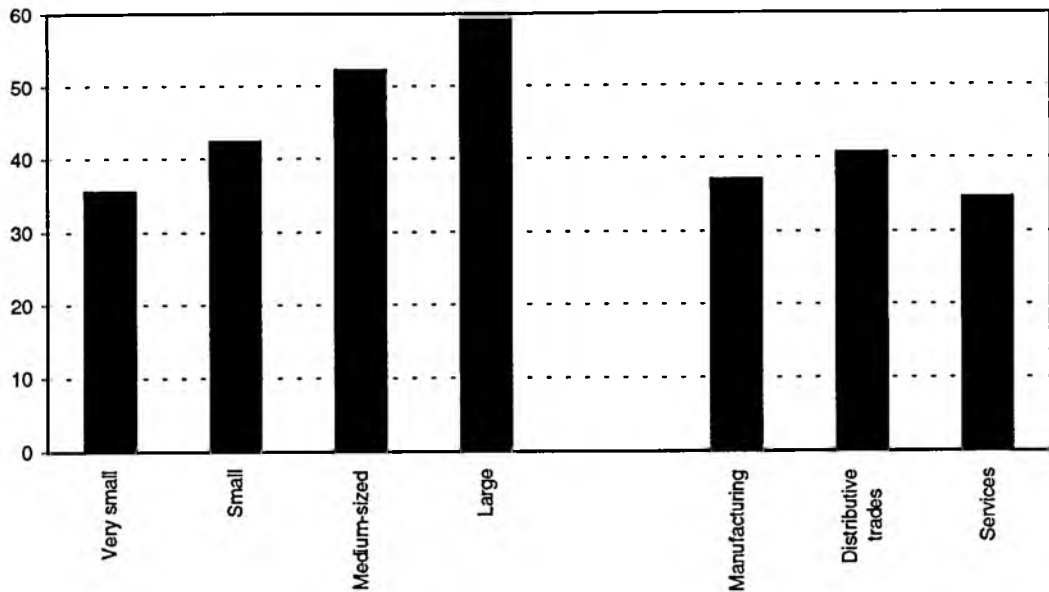


Source: ENSR Enterprise Survey 1997.

Indeed, more than one third of all respondents claimed to have faced increased foreign competition over the last five years. Only a very small proportion of enterprises reported a decrease (see Figure 12.5). For more than a quarter of enterprises, foreign competition was not relevant.

Figure 12.6 shows that the larger the enterprise, the more they reported international competition. By sector, however, this type of differences were small.

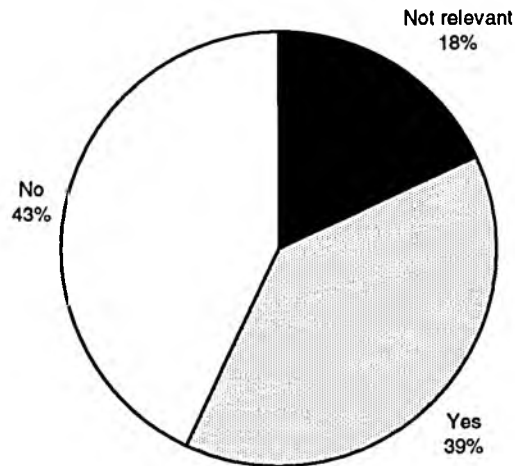
Figure 12.6 Percentage of enterprises with increased foreign competition in last 5 years, by size class and sector



Source: ENSR Enterprise Survey 1997.

Besides increased international competition, one of the main objectives of the European Single Market programme is to stimulate international business contacts. As Figure 12.7 shows, almost four out of ten enterprises have increased their international business contacts in the last 5 years.

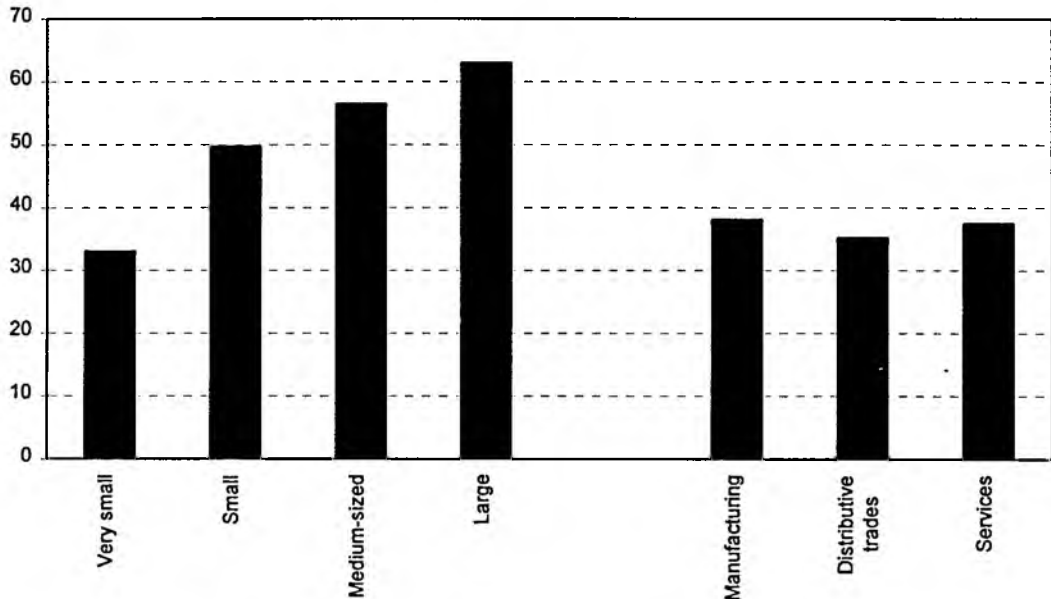
Figure 12.7 Percentage of enterprises with increased international business contacts in last 5 years



Source: ENSR Enterprise Survey 1997.

Figure 12.8 shows the growth of international business contacts by size class and sector. The larger an enterprise, the higher the increase in international contacts over the last 5 years. This suggests an increasing gap between small and large enterprises. The differences between sectors were moderate.

Figure 12.8 Increase in international business contacts in last 5 years, by size class and sector (% of firms)



Source: ENSR Enterprise Survey 1997.

12.5 SINGLE MARKET PROFILES

Already in the Fourth Annual Report of the European Observatory for SMEs, the so-called 'Single Market Profiles' have been identified. In grouping enterprises into these 'profiles', a number of variables were considered¹ such as:

- specific opportunities of the Single Market, identified as 'larger selling market', 'simplified international collaboration', 'lower production costs', etc.;
- specific threats of the Single Market identified as: 'greater competition'; 'more regulations', etc.;
- final judgement on the Single Market i.e. on balance seen as threat or opportunity;
- impact specific, Single Market measures, such as those in the field of product harmonisation, simplified custom procedures, VAT regulations, etc.

The resulting 'Single Market Profiles' are groups of enterprises with similar Internal Market attitudes and experiences. This classification of enterprises might yield some interesting

¹ These Single Market profiles were defined by cluster analysis using the data of the ENSR Enterprise Survey 1996. The choice of the final number of clusters was based both on the interpretation of different clusters and (the changes in) differences between clusters (see: ENSR, the European Observatory for SMEs, Fourth Annual Report, Zoetermeer, 1996).

insights. In this section, Single Market Profiles are described¹. An analysis of how enterprises belonging to the different profiles perform in terms of growth in exports, turnover and employment is also included.

12.5.1 Description of Single Market Profiles

For the sake of clarity, the Single Market Profiles can be classified alongside two dimensions. The first dimension is called *Confrontation*. It relates to the impact felt by enterprises regarding the European Single Market programme and the ongoing integration of the European economies. This dimension is concerned with the actual impact experienced, whether the enterprise takes (strategic) actions or not. It is a passive role for the management of a firm. The second dimension, *Challenge*, refers to a more active aspect. Enterprises are, to a varying degree, challenged by the European Single Market: they may see it as an opportunity or as a threat. This dimension stresses the relative autonomy of an enterprise, which is free to 'choose' whether or not to act upon the new 'European' opportunities.

Using these two dimensions, the seven 'Single Market Profiles' distinguished are shown in Scheme 12.1. In the description of the individual profiles, other characteristics are also taken into consideration.

The first dimension, *Confrontation*, is portrayed along the vertical-axis:

- at the top are three profiles which are significantly different from the other four profiles² in the sense that many of them feel the impact of EC regulations in the field of product harmonisation, custom procedures or VAT regulations. In each of these profiles 100% of enterprises are confronted by at least one of these measures.
- the profile at the bottom is significantly different from other profiles, as these enterprises are hardly affected by international developments. For example none of these enterprises state that they faced increased international competition over the last five years.

The second dimension, *Challenge*, is portrayed along the horizontal-axis:

- at the very right are two profiles which are significantly different from the other five in the sense that they see hardly any possibility of benefiting from 'a larger selling market', or from 'simplified collaboration with international partners', etc.
- at the very left are three profiles which are significantly different from the other four. Firstly, because more of these enterprises see the specific possibilities of the Single Market enumerated in the questionnaire (e.g. 27% to 37% see a larger selling market vs. up to 8% for the other groups). In addition more than two thirds of these enterprises consider the Single Market to represent an opportunity.

¹ The '1996 classification' has been retained in the present report. Observations from the ENSR Enterprise Survey 1997 were 'classified' in these clusters by minimising differences to cluster averages. It was tested whether this produced homogeneous groups of enterprises. This is indeed the case (large variance between clusters, small variance within clusters).

² An Analysis of Variance test has been used with significance level of 0.05.

Scheme 12.1 Different Single Market Profiles of enterprises
Between (%) percentage of enterprises classified in the Single Market Profile

Confronted with	Challenged			Total
	more by opportunities than by threats	more by threats than by opportunities	not challenged	
Feel more direct impact of Single Market measures	Challenged Product Harmonisers (5%)	Skilled Europeans (6%)	-	(11%)
	Challenged International Traders (11%)	-	-	(11%)
Feel little impact of Single Market measures	Optimistic Internationalisers (11%)	Exposed Competitors (24%)	Indifferent Local Players (17%)	(52%)
Feel no impact of Single Market Measures	-	-	Sheltered Local Players (26%)	(26%)
Total	(27%)	(30%)	(43%)	(100%)

Source: ENSR Enterprise Survey 1997.

The first two profiles listed here, stand apart from the other five. These are the two types of local players on which the European Single Market seems to have had only a limited impact.

Sheltered Local Players

Sheltered Local Players (about 26% of respondents) are predominantly very small enterprises. They are over-represented in the service sectors. They appear neither confronted nor challenged by the European Single Market. They are called 'sheltered' because they have not faced increased international competition during the last five years. International competition is not relevant for enterprises in this group.

In addition, this group is not challenged by the opportunities of the European Single Market. On balance, they do not regard the European Single Market as an opportunity and they hardly increased their international business contacts. At present, they are only active on their domestic market: their current export-quote does not exceed the 2% mark.

Indifferent local players

Indifferent Local Players, about 17% of respondents, are similar to the Sheltered Local Players. The main difference is that Indifferent Local Players are not totally sheltered from international competition: almost one in five Indifferent Local Players claims to be affected by increasing international competition. Therefore they are more confronted by the European Single Market than the Sheltered Local Players. At the same time they are even less challenged by the European Single Market. On balance, they tend not to perceive the European Single Market as an opportunity.

The enterprises belonging to the following three Single Market Profiles are all heavily confronted by the European Single Market programme. They are often more or less experienced exporters, but differ in the extent and manner to which the European Single Market presents new challenges.

Skilled Europeans

Skilled Europeans are enterprises which are - together with the Challenged Product Harmonisers and the Challenged International Traders (described below) - the most heavily confronted by the European Single Market Programme. They represent about 6% of respondents and are evenly distributed among sector and size classes. On balance they are affected mostly by technical, physical and tax measures of the European Single Market Programme and experienced a substantial increase in international competition. The 'Skilled Europeans' are hardly challenged by the European Single Market Programme. Although the majority of enterprises increased their international business contacts, they do not regard the Single Market Programme as an opportunity.

The cluster combines three characteristics: by far the highest export quota, more confronted and less challenged. This paradox might be better understood by comparing them to a group of experienced exporters who have entered the international arena long before the European Single Market was established.

Challenged Product Harmonisers

Challenged product harmonisers, about 5% of respondents, derive their name from the fact that all enterprises that belong to this cluster have been confronted by the technical measures of the European Single Market Programme which aims to harmonise norms and standards. Almost all have adapted their products: 86% of enterprises have changed the technical specifications of more than 10% of their products. This is a much higher proportion than evident in other profiles. Measured by other criteria, the Challenged Product Harmonisers are heavily confronted by the European Single Market Programme and are very much challenged by it. On balance they regard the European Single Market as an opportunity and more than two-thirds of these enterprises have increased their international business contacts in the last five years. This group is present in all sectors of the economy (however they are slightly under-represented in manufacturing and construction and slightly over-represented in services). They are somewhat underrepresented among very small enterprises.

Challenged International Traders

Challenged International Traders, about 11% of respondents, are on balance even more confronted by the European Single Market Programme than the Challenged Product Harmonisers. One third of enterprises in this category had to harmonise their technical standards, half of them claim to be affected by the tax measures of the Single Market Programme and all have experienced the consequences of physical measures.

The Challenged International Traders are similar to the Product Harmonisers: they only see opportunities in the Single Market and two thirds of these enterprises have increased their international business contacts.

These type of enterprises are somewhat over-represented in the trade sector and, on average, are relatively large in size.

Like the 'Skilled Europeans', the 'Challenged International Traders' and 'Challenged Product harmonisers', the enterprises belonging to the following two profiles also have, on average, relatively high export quotas. But, in contrast, these enterprises have not yet been significantly confronted by specific aspects of the European Single Market programme.

Optimistic Internationalisers

Optimistic Internationalisers are a very different category of enterprises (11% of respondents): only a relatively small percentage of these enterprises are affected by the technical, physical or fiscal measures of the Single Market Programme. They have, however, experienced the most impressive increase in international competition.

They have also increased their international business contacts and only perceive opportunities in the European Single Market. These enterprises are somewhat over-represented in manufacturing and underrepresented in services. Their size class distribution is very similar to enterprises in general. Together with the 'Challenged Product Harmonisers' and the 'Challenged International Traders', these enterprises are the youngest, in contrast to the sheltered and indifferent local players, which are relatively old.

Exposed Competitors

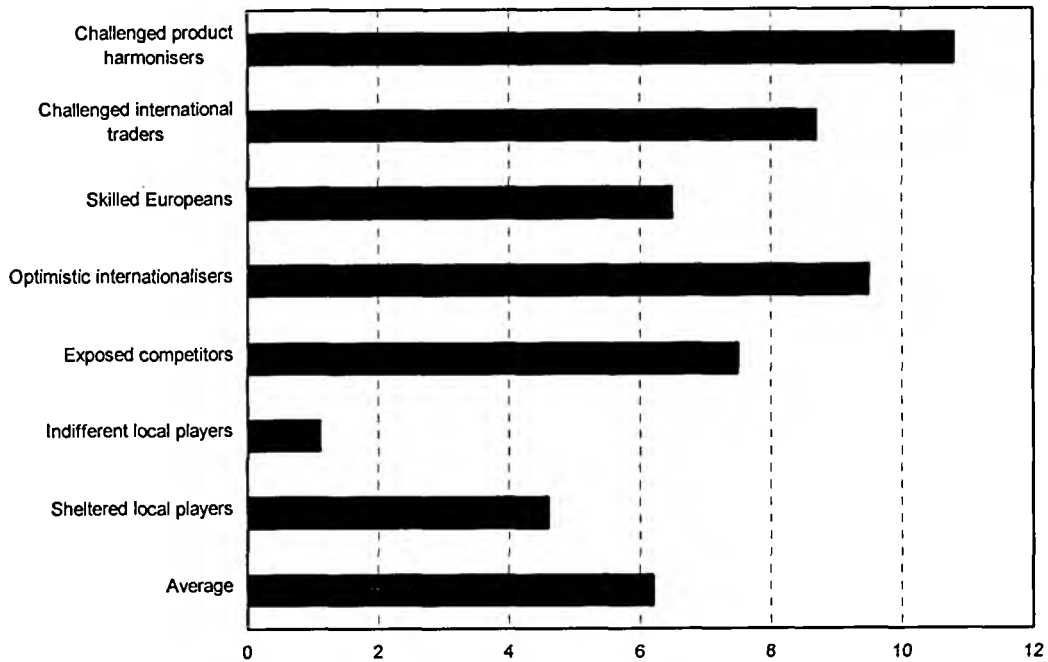
The last group is the exposed competitors, representing about 24% of all respondents. The distribution among manufacturing, construction, trade and services is similar to all enterprises. This type is somewhat under-represented in very small enterprises (1-9 workers) and over-represented in small enterprises (10-49 workers). The enterprises belonging to this profile are as little affected by the technical, physical and fiscal measures of the Single Market Programme as the sheltered and indifferent local players. In contrast, however, exposed competitors are heavily affected by increased international competition. These enterprises see little opportunities in the Single Market Programme and have modestly increased their international business contacts. They are really exposed to increased international competition without benefiting much from new opportunities.

12.5.2 The performance of Single Market Profiles

Differences between various Single Market Profiles with regard to the Single Market Programme are substantial: some enterprises, such as local players, are hardly confronted or challenged by the various measures of the programme, while others (such as the Skilled Europeans or the Exposed Competitors) are relatively heavily confronted but not very challenged by the European Single Market Programme. For the Optimistic Internationalisers it is precisely the other way around: they are not very confronted by the various measures of the European Single Market Programme, but are very much challenged by the European Single Market. Some enterprises, such as the Challenged Product Harmonisers and the Challenged International Traders, are both confronted and challenged by the European Single Market.

The various Single Market Profiles hold very different attitudes towards the Single Market: but do they perform differently? The turnover growth of enterprises by Single Market Profiles is presented in Figure 12.9.¹

Figure 12.9 Real turnover growth 1994-1996 by Single Market Profile, in %



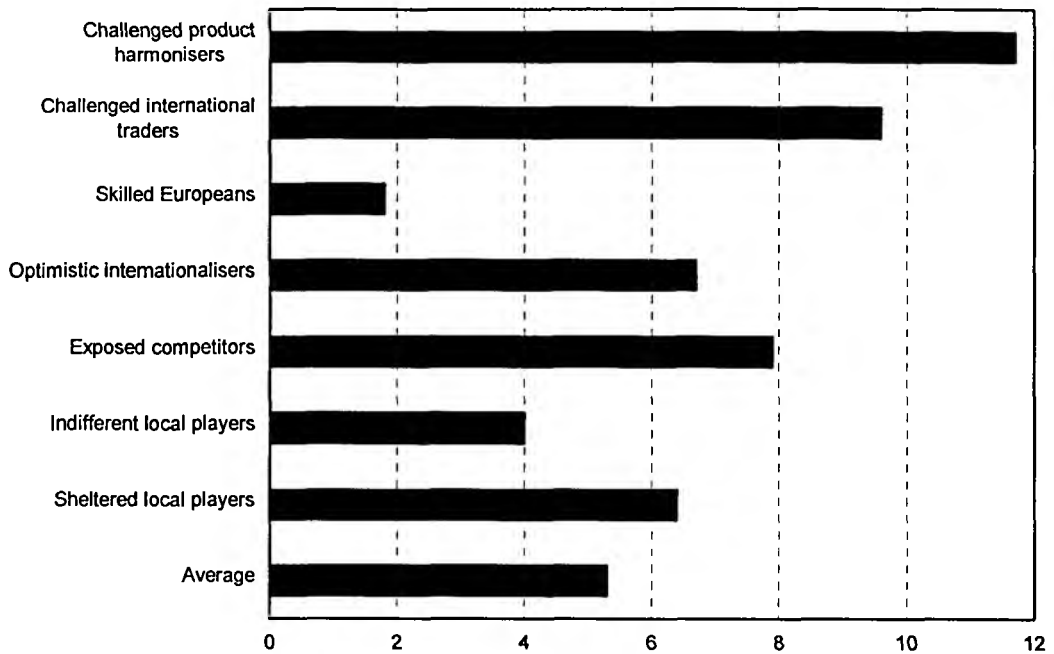
Source: ENSR Enterprise Survey 1997.

There are five profiles with a turnover growth above the average. Two of the profiles which are heavily challenged by the Single Market Programme show the highest turnover growth between 1994 and 1996: the Challenged Product Harmonisers and the optimistic Internationalisers. The Sheltered Local Players exhibit average turnover growth close to average, while the Indifferent Local Players lag considerably behind.

With regard to employment growth, the score of the Challenged Product Harmonisers is the highest. Three profiles lag considerably behind: the Indifferent Local Players, the Sheltered Local Players and the Skilled Europeans. The best employment performance belongs to the heavily confronted and challenged group of enterprises: the Challenged Product Harmonisers and Challenged International Traders and the Exposed Competitors (see Figure 12.10).

¹ In the survey data on turnover, employment and export for 1994, 1995 and 1996 have been established. The average growth rates presented are calculated by relating the increase in these variables to the average values for 1994, 1995 and 1996. If one uses the base year as denominator average growth rates for a group of enterprises may be seriously overestimated (Example: an increase from 2 to 4 workers represents a growth rate of 100% if the base year is taken as the denominator, whereas a decrease from 4-2 workers result in a (negative) growth rate of -50%. Hence the average will show positive growth). In addition growth rates are overestimated as enterprises which close down are not represented in the survey data set. (See also Appendix 1 to Chapter 3, in ENSR, The European Observatory for SMEs, Third Annual Report, Zoetermeer 1995).

Figure 12.10 Employment growth 1994-1996 by Single Market Profile, in %



Source: ENSR Enterprise Survey 1997.

When comparing turnover and employment growth, some remarkable differences are found. Skilled European for example, show an average turnover growth, whereas their employment develops very modestly. In contrast, the Indifferent Local Players exhibit opposite tendencies: although both their employment and turnover growth is very low, their employment performance is much better than could be expected in view of their turnover growth. These figures would suggest that their productivity has decreased substantially over the last two years.

12.6 THE EUROPEAN SINGLE MARKET PROGRAMME AND CONVERGENCE

In analysing the completion of the European Single Market one might distinguish different types of effects¹. First order effects result directly from EC-based legislation and refer to the abolishment of trade-related technical, physical and tax barriers (see Section 12.3). Second order effects relate to an increase in intra-EU trade and to more international competition (see Section 12.4). Thus, in the long-term, the Single Market Programme could promote the convergence of EU-economies.

This section focuses on this important issue: convergence. First, country clusters in Europe will be differentiated from the viewpoint of 'Europeanisation of business'. Secondly, enterprises in these country clusters will be analysed to establish how they were affected by Single Market issues. Thirdly, the performance of these enterprises will be evaluated.

¹ ENSR, The European Observatory for SMEs, First Annual Report, Zoetermeer, 1993, pp. 80, 81.

12.6.1 Defining country clusters

This section assesses the extent to which enterprises experience intensified international competition and increase the number of international business contacts (second order effects of the European Single Market Programme). Enterprises within a country-cluster show similar scores on various variables whereas scores between country-groups differ considerably¹. Four country clusters were discerned (see Table 12.1 and 12.2):

1. **The European Centre:** This group of countries consists of France, Germany, Italy, Belgium, Luxembourg, the Netherlands (the six countries which established the European Economic Community in 1957) and Austria. Most of the enterprises in this group either report that international competition and international business contacts have not increased much or that changes in international competition and international business contacts are not very relevant to their business.
2. **The Northern Periphery:** This group of countries consists of Denmark, Sweden, Finland and the United Kingdom. In this group, the share of enterprises reporting increased foreign competition over the last five years is the lowest. In contrast, international business contacts have increased substantially.
3. **The Southern Periphery and Ireland.** This group consists of the EU-Member States with the lowest GDP per capita: Spain, Portugal, Greece and Ireland². This group has experienced by far the most substantial increase in international competition and international business contacts in the last 5 years. Furthermore, it appears that enterprises in this group have increased their international 'interwovenness' significantly more than in other groups of countries.
4. **The Non-EU Countries** (Switzerland, Norway, Iceland and Liechtenstein) - this group falls in between the European Centre and the Northern and Southern Periphery.

In Table 12.3 and Table 12.4 the enterprise scores of the four country clusters are presented:

Table 12.3 Increased foreign competition in last 5 years by country-group (percentage of enterprises)

Country cluster	Increase	Decrease	Neither / nor	Not relevant	Total
European Centre	32	4	24	39	100
Northern Periphery	26	2	48	23	100
Southern Periphery and Ireland	53	3	31	13	100
Non-EU Countries	38	6	43	11	100
Total	36	4	35	25	100

Source: ENSR Enterprise Survey 1997.

¹ In technical terms: countries are grouped in clusters in such a way that variance within clusters is minimised, and variance between clusters maximised.

² In terms of Purchasing power parities (EUR-15=100), GDP per capita ranges from 64 to 94 (Source: Long term macroeconomic series, Eurostat, in: European Economy, No. 62, Brussels/Luxembourg, 1996).

Table 12.4 Development of international business contacts in last 5 years by country-group

Country cluster	Increase	Decrease	Not relevant	Total
European Centre	20	49	31	100
Northern Periphery	54	37	9	100
Southern Periphery and Ireland	61	28	11	100
Non-EU Countries	45	48	7	100
Total	41	41	17	100

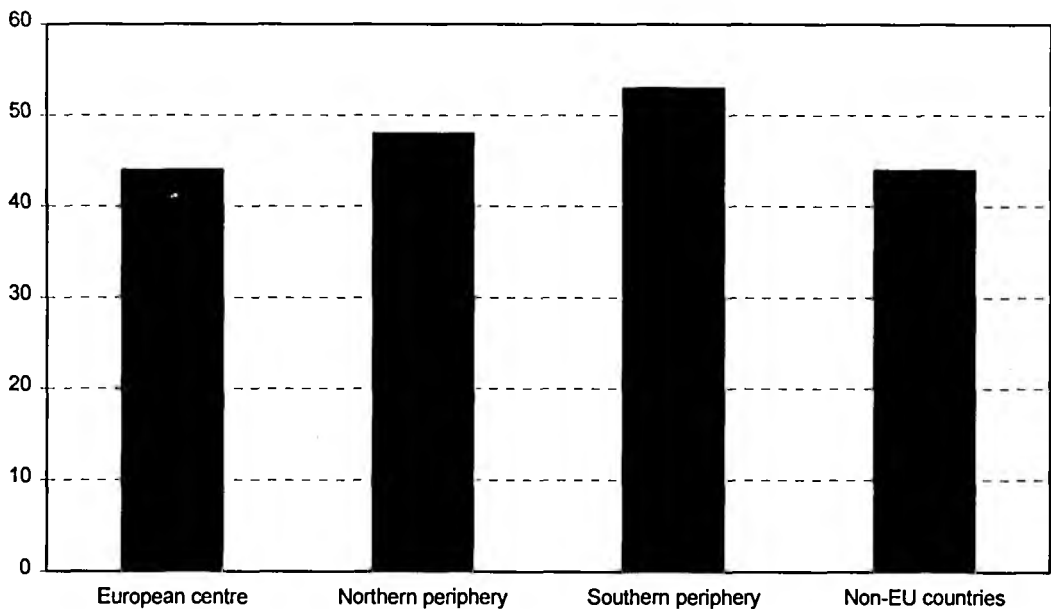
Source: ENSR Enterprise Survey 1997.

The clusters in these four groups show that, over the last five years, enterprises in relatively poor Member States of the European Union have internationalised comparatively fast¹. These firms, however, start from a relatively low level of internationalisation². This is the first result which is needed in order to appraise the convergence hypothesis of national economies.

12.6.2 Country-groups and the European Single Market Programme

As the southern Periphery and Ireland has internationalised relatively fast during the last five years, it should be established whether this group of countries was also more affected by the Single Market Programme than other country groups.

Figure 12.11 The impact of the European Single Market Programme by country group (percentage of firms confronted by at least one type of European Single Market measure)



Source: ENSR Enterprise Survey 1997.

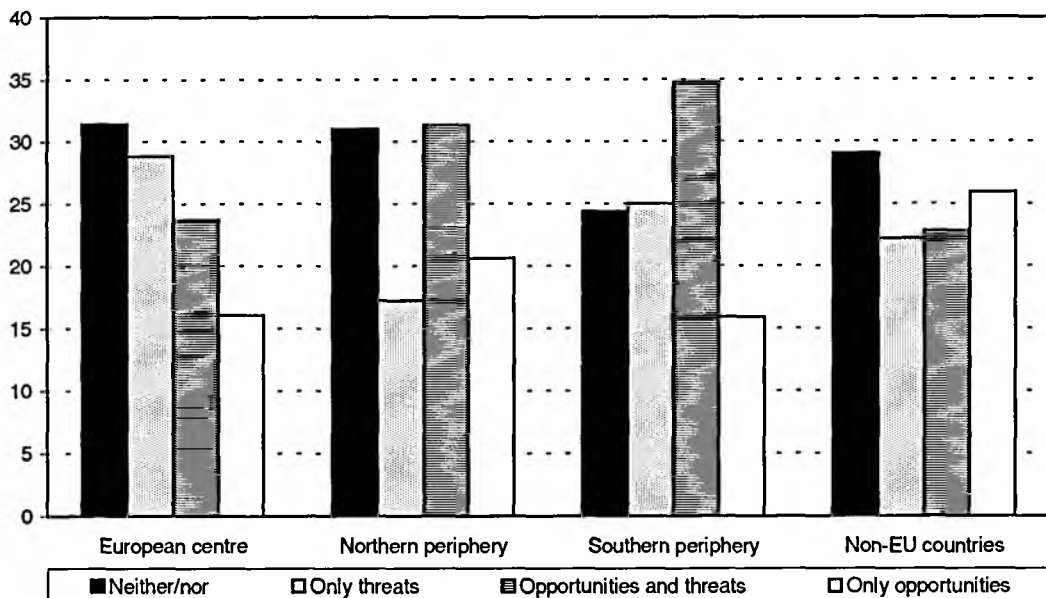
¹ This is probably due to the fact that Ireland and Spain have increased their share of exports in their GDP during the early 1990s (Source: Long term macroeconomic series, Eurostat, in: European Economy, No. 62, Brussels/Luxembourg, 1996).

² This is particularly the case for Spain and Greece, with relatively low levels of exports as a percentage of their GDP during the early 1990s (Source: Long term macroeconomic series, Eurostat, in: European Economy, No. 62, Brussels/Luxembourg, 1996).

Figure 12.11 shows the proportion of enterprises, in each country group, which were confronted by at least one type of European Single Market measure (technical, physical or fiscal). In the Southern Periphery and Ireland, 53% of enterprises report that they were affected by at least one type of European Single Market measure (typically this proportion is below 50% in other country groups).

Figure 12.12 shows that the Southern Periphery and Ireland was most affected, in the sense that enterprises in this country group experienced most opportunities and threats from the implementation of the Single Market Programme. Conversely, countries in the European Centre have the smallest proportion of enterprises which identified only opportunities and the largest proportion of those which perceived only threats. Remarkably, this is the group with the largest proportion of enterprises in the Non-EU Countries that claim to see only opportunities.

Figure 12.12 The European Single Market as an opportunity or a threat by country group (% of enterprises)

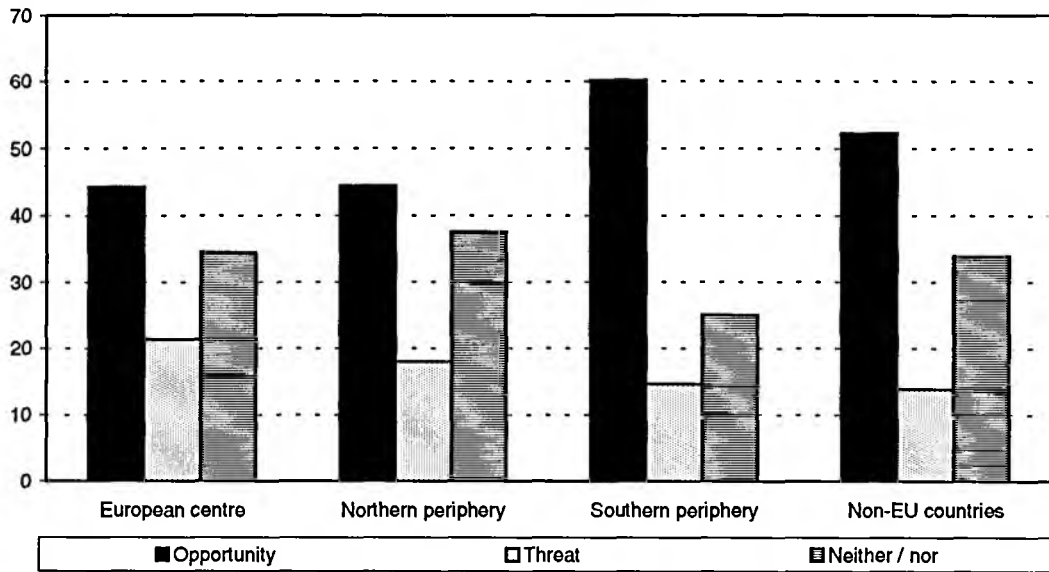


Source: ENSR Enterprise Survey 1997.

Finally, enterprises have been asked to indicate, on balance, whether the Single Market Programme represents an opportunity or a threat. Interestingly, there is a striking similarity between the European Centre and the Northern Periphery: 45% of enterprises regard the Single Market Programme as an opportunity, 20% as a threat and 35% as neither a threat nor an opportunity.

The other two country groups, the Southern Periphery and Ireland in particular, differ significantly from this pattern (see Figure 12.13). In the Southern Periphery and Ireland more than 60% of enterprises regard the Single Market Programme as an opportunity, and just under 15% view it as a threat. Enterprises in the Northern Periphery display comparable attitudes: a relatively large proportion of enterprises in this country group is indifferent towards the Single Market Programme.

Figure 12.13 The European Single Market, on balance, as an opportunity or a threat by country group (% of enterprises)



Source: ENSR Enterprise Survey 1997.

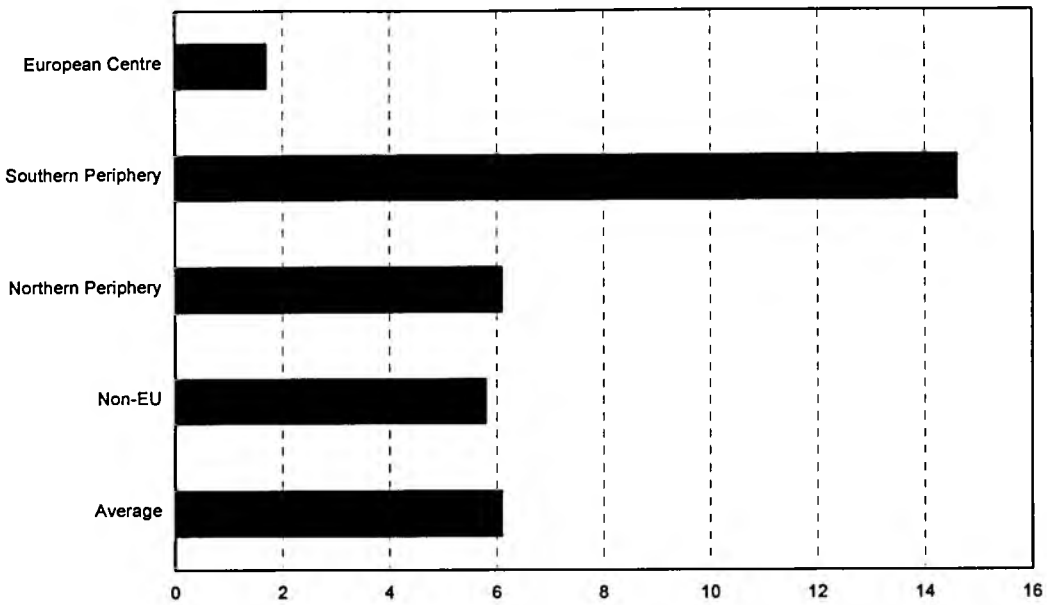
Thus, it can be concluded that enterprises in the Southern Periphery and Ireland are affected more substantially by the Single Market Programme. This confirms the findings of the previous section, that enterprises in the Southern Periphery and Ireland have increased their internationalisation during the last five years. Whether these two phenomena have resulted in an increased convergence between European economies, or whether the enterprises of the Southern Periphery and Ireland have outperformed those in other country-groups - in terms of turnover and employment growth - will be analysed in the next section.

12.6.3 The performance of country-groups

In Figure 12.14 the evolution of turnover rates for enterprises in the four country groups is presented. During the 1994-1996 period, turnover growth was lowest in enterprises of the European Centre. In other country groups, turnover showed a more positive propensity to grow. Turnover growth was by far highest in the Southern Periphery and Ireland. The Northern Periphery and the Non-EU exhibited scores about equal to the average.

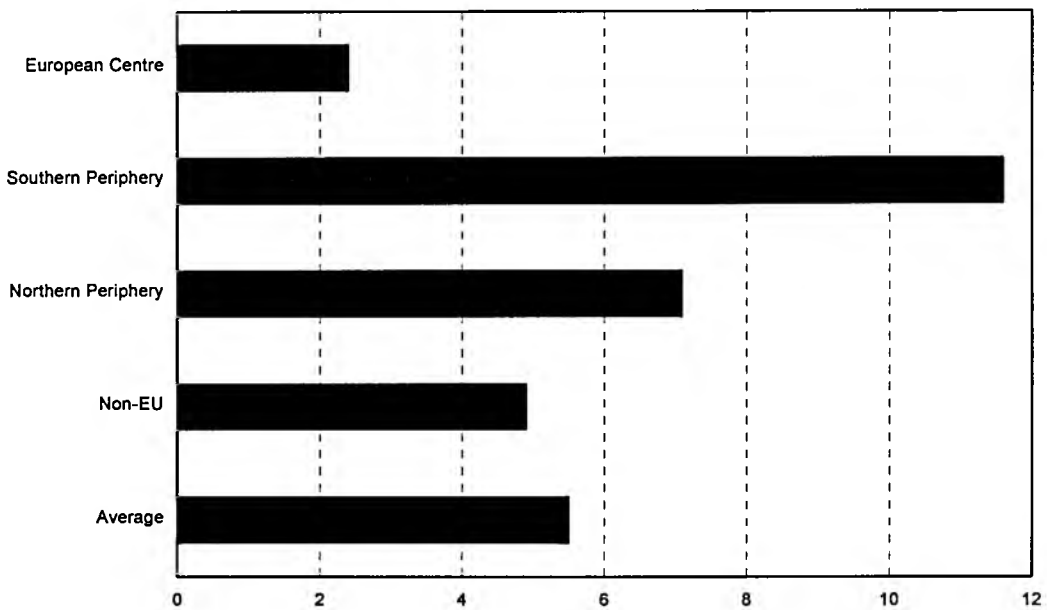
Similar patterns were exhibited in relation to employment growth, which was the lowest in enterprises of the European Centre and highest in the Southern Periphery and Ireland. The Northern Periphery and Non-EU showed scores closed to average.

Figure 12.14 Turnover growth 1994-1996 by country group (% of enterprises)



Source: ENSR Enterprise Survey 1997.

Figure 12.15 Employment growth 1994-1996 by country group (% of enterprises)



Source: ENSR Enterprise Survey 1997.

In conclusion, four groups of countries have been distinguished. The Southern Periphery and Ireland consists of four countries with the lowest GDP per capita (Greece, Portugal,

Spain and Ireland). Enterprises in this group of countries differ from other enterprises, in three important aspects:

1. they are more affected by the Single Market Programme;
2. they have been internationalising more intensively;
3. they exhibit higher rates of turnover and employment growth.

Thus, the survey results would suggest that the European Single Market Programme benefits enterprises in the Southern Periphery (Greece, Portugal, Spain) and Ireland and therefore promotes the process of economic convergence in the European Union.

12.7 THE ECONOMIC IMPACT OF THE EUROPEAN SINGLE MARKET

The relationship between enterprise characteristics and performance - as relating to the Single Market Programme - will be analysed by the use of regression analysis. In the Fourth Annual Report of the European Observatory for SMEs a first assessment has already been carried out. The main findings were that the Single Market programme has had a positive impact on exports and turnover, regardless of enterprise size or sector of economic activity. At the time, no decisive impact of the Single Market Programme on employment growth could be detected.

As mentioned in Section 12.1, the European Commission has already published the results of the Single Market review, which showed a modest positive impact on GDP and employment¹. The main results were commensurable with the findings of the Fourth Annual Report of the European Observatory for SMEs.

In this section, an assessment of the impact of the European Single Market programme will be made on the basis of the ENSR Enterprise Survey 1997 in Europe-19². On the basis of the survey results, regression equations were estimated in order to assess the effect of 40 independent variables upon export, turnover and employment growth. The description that follows focuses narrowly upon variables which concern the European Single Market. Other variables, such as general characteristics of enterprises and business environment indicators have also been included in the regression in order to allow an assessment of the impact of the European Single Market on the enterprises in the survey (controlling for other variables that might influence enterprise performance).

12.7.1 Export

The Effect of the Single Market Programme

In Table 12.5 the findings of the impact of the European Single Market programme on the export growth of individual enterprises are summarised³.

¹ See: European Commission, 'The impact and effectiveness of the Single Market'. Communication from the Commission to the European Parliament and the Council (COM(96) 520 final) and other sources referred to in footnote 1 of this chapter.

² For a description, see Appendix to this chapter.

³ Since there are too few craft enterprises active in international markets, the model could not be estimated separately for the craft trades. The impact of the European Single Market Programme on the export performance of craft enterprises could not be assessed.

Table 12.5 Determinants of export performance 1994-1996 of European enterprises

Indicator	Significance* impact (+/-)
Internal Market programme	
- Removal technical barriers	
- Abolishment physical barriers	
- Reduction fiscal barriers	
- Increase cross border business contacts	+
- Increase foreign competition	
- Cross border co-operation	
- Foreign direct investment	
Strategic enterprise behaviour	
- Strategic market position	+
- Business strategy	+
- Training efforts	
- R&D efforts	
Enterprise characteristics	
- Subsidiaries	
- Educational level	+
- Age of the enterprise	

* Level of significance: 0,05 or less (is equal to confidence of 95% or more).
Source: ENSR Enterprise Survey 1997.

No significant impact of the three types of measures that the Single Market Programme evaluated could be established with regard to the export performance of individual enterprises.

The increase of international business contacts within the framework of the Single Market Programme has a strong positive contribution on the exports growth of individual enterprises. Regarding the perceived increase in international competition, no significant impact could be established. Also increased cross border co-operation and foreign direct investment had no statistically significant impact on the export performance of these enterprises.

Market position and business strategy

It is generally accepted that the strategic market position of an enterprise is crucially important to its performance.

The findings of the regression analysis (Table 12.5) show that enterprises which adopt a deliberate growth strategy exhibit a better export performance than other enterprises. This relationships is particularly relevant to very small enterprises. The opposite holds for enterprises that choose a market niche position: they exhibit the worse export performance amongst the very small enterprises in the sample.

Also the specific strategy an individual enterprise develops is considered to be of importance to its export performance.

The regression analysis showed that enterprises which adopt quality, service-oriented or new technology-based strategies perform significantly better on international markets than those which choose the cost-reduction option (see Table 12.5). Interestingly, it has been established that the export growth in an enterprise increases in line with the educational achievement of the entrepreneur.

12.7.2 Turnover

With regard to the impact of the Single Market Programme on turnover, it appears that, on average, firms affected by the European Single Market Programme exhibit a higher turnover growth. It is important to note that this relation holds independent of such factors as size or economic activity (see Table 12.6)¹.

Table 12.6 Determinants of turnover growth 1994-1996 on European enterprises

Indicator	Significance* Impact (+/-)
Internal Market programme	
- Removal technical barriers	+
- Abolishment physical barriers	
- Reduction fiscal barriers	+
- Increase cross border business contacts	+
- Increase foreign competition	
- Cross border co-operation	+
- Foreign direct investment	
Strategic enterprise behaviour	
- Strategic market position	
- Business strategy	+
- Training efforts	
- R&D efforts	
Enterprise characteristics	
- Subsidiaries	
- Educational level	
- Age of the enterprise	-

* Level of significance: 0,05 or less (is equal to confidence of 95% or more).
Source: ENSR Enterprise Survey 1997.

Firms which acknowledge the impact of technical measures also exhibit higher turnover growth, regardless of sector or size differences. Conversely, no significant impact could be found with regard to the abolishment of physical barriers. The reduction of fiscal barriers

¹ An exception should be made for craft trades, however, whose turnover growth seems not to be influenced at all by the European Single Market Programme. Since our sample of craft enterprises was taken from amongst enterprises with less than 50 employees it was analysed whether this was due to a size class effect. However as all non-craft enterprises were significantly affected by the European Single Market Programme irrespective of size, there appears to exist a craft-effect (see also Chapter 2).

ers, however, was found to positively affect the turnover growth of enterprises - in particular those employing more than 10 workers.

Similarly, the increase in cross border business contacts and transnational co-operation had a positive impact upon the turnover growth of individual enterprises.

With regard to the increase in foreign competition and direct investment, no significant effect on turnover growth could be established.

Business strategy is considered to be important to the turnover growth of an enterprise. The results of the survey show that high-quality strategies, new technology-based strategies and customer-oriented services have a positive effect upon turnover growth. Enterprises which try to minimise costs tend to lag behind other firms in terms of turnover growth.

Finally, the age of an enterprise appears to have a negative effect upon growth: recently created enterprises exhibit higher growth rates than their older counterparts.

12.7.3 Employment

Turnover growth of individual enterprises is probably the most important determinant of employment growth. In general 1% of turnover growth during the 1994-1996 period corresponded to an employment growth of about 0.5%¹.

In addition, a positive relation between awareness of the impact of Single Market issues and employment growth could be established². The removal of technical barriers, through the harmonisation of norms and standards, had a positive impact upon employment growth in manufacturing and construction. Firstly, enterprises that modified their technical standards substantially³ in order to bring their products in line with European standards exhibited a higher employment growth than enterprises that failed or refused to modify their products.

Secondly, the abolition of physical barriers had a positive impact upon employment growth, in particular for very small enterprises.

Thirdly, the impact of the reduction of fiscal barriers on employment growth varied considerably across different size classes. For very small enterprises, reduced fiscal barriers had no impact on employment growth⁴. Conversely, for small and medium-sized as well as large scale enterprises, a reduction in fiscal barriers had a positive impact upon employment growth^{5, 6}.

¹ The employment/growth relationship is analysed in Chapter 5 of this Observatory, see Section 'labour demand elasticity's by enterprise size'.

² On the basis of the ENSR Enterprise Survey 1996, no definite conclusion could be reached with regard to the impact of the Single Market Programme upon employment growth. See: ENSR, The European Observatory for SMEs, Fourth Annual Report. Zoetermeer 1996, page 320-321.

³ For more than 50% of their products.

⁴ Except when the change in fiscal regulations coincides with a cost-increase; in that case the employment-effect is negative.

⁵ Except when the change in regulation leads to a cost-increase.

⁶ With or without a cost-increase.

Furthermore, the increase in international business contacts and foreign direct investment also had a positive effect upon employment growth. However, increased competition had no significant impact upon the employment record of *individual* enterprises (see Table 12.7).

Table 12.7 Determinants of employment growth in European enterprises, 1994-1996

Indicator	Significance* Impact (+/-)
- Turnover growth	+
Internal Market programme	
- Removal technical barriers	+
- Abolishment physical barriers	+
- Reduction fiscal barriers	+
- Increase cross border business contacts	
- Increase foreign competition	
- Cross border co-operation	
- Foreign direct investment	+
Strategic enterprise behaviour	
- Strategic market position	+
- Business strategy	
- Training efforts	
- R&D efforts	+
Enterprise characteristics	
- Subsidiaries	-
- Educational level	
- Age of the enterprise	

* Level of significance: 0,05 or less (is equal to confidence of 95% or more).

Source: ENSR Enterprise Survey 1997.

Apart from the impact of the European Single Market Programme, it was found that market leaders had substantially higher employment growth rates than 'consolidators'. The same holds for enterprises which employed more than 10 employees and which focused upon new product combinations. Interestingly, employment growth was positively related to R&D-expenditure levels.

In conclusion, this year's assessment of the impact of the European Single Market programme shows a positive effect upon the employment growth of enterprises, which is in conformity with other Macro-economic studies, carried out by the Commission into the impact of the European Single Market Programme on employment growth.¹

¹ See sources referred to in footnote 1 of this chapter.

Appendix to Chapter 12

Appendix: The set-up and analyses of the ENSR Enterprise Survey 1997

Introduction

The ENSR Enterprise Survey 1997 was designed to facilitate a more refined analysis of the behaviour and performance (and their determinants) of European enterprises. The different ways in which enterprises have dealt with the completion of the Internal Market and the impact of the Internal Market Programme were of particular interest. Ideally, this required that all 19 countries (18 Member States of the EEA and Switzerland) should be proportionally represented in the survey, with a minimum number of enterprises sampled in each country. But this would have required a larger sample than resources would have permitted. In order to ensure that enterprises from all countries were represented, the number of interviews was equally distributed amongst the 19 countries.

Interviews were carried out by native speakers in the languages required. The survey was aimed at 72 completed interviews for each of the 19 countries. In the event, 1377 completed interviews were available for analysis. In this annex the approach and methodology of the ENSR Enterprise Survey 1997 is outlined.

The survey covered all the countries of EUR-19. Interviews were carried out by the CATI¹ department of EIM Small Business Research and Consultancy in the Netherlands.

In the following five sections, more detailed information is provided on:

- Stratification;
- Fieldwork;
- Questionnaire;
- Description of sample;
- Reweighting of sample.

Stratification

For each of the nineteen countries, a stratified sample by sector of activity and firm size was identified. The three main sectors included manufacturing and construction, whole-sale and retail trade and services. In addition five selected craft-type and two tourism sectors were included. Size was determined by the number of workers employed. Four size class enterprises were distinguished: very small enterprises (1-9 workers); small enterprises (10-49 workers); medium-sized enterprises (50-249 workers) and large firms (250+ workers). In total, 570 separate combinations of characteristics have been distinguished (strata) and from within each stratum a random sample of enterprises was selected, mainly by using material made available by Dun & Bradstreet.

The objectives of the survey included the provision of developments in the private enterprise sector of Europe, within the framework of the completion of the Internal Market. In accordance with the outline of the Fifth Annual Report, specific attention was paid to craft-type enterprises and the tourism industry. In the sample design for the ENSR Enterprise Survey 1997 three groups of enterprises were distinguished:

¹ CATI stands for Computer Assisted Telephone Interviewing.

- A. European Enterprises of all size classes and in all economic sectors;
- B. Craft-type enterprises within five selected sub-sectors;
- C. Enterprises in tourist sectors, to include two selected sub-sectors.

In group A, 'enterprises', several economic sectors and size classes were distinguished in order to guarantee sufficient coverage of various types of firms (stratification). Within each combination of sector and size class distinguished - the stratification plan - a random selection was carried out in all 19 countries. The stratification plan is presented in Table 12.8.

Table 12.8 Stratification plan, by country (number of addresses sampled)

Sector-groups	Size - classes				Total
	0 - 9	10 - 49	50 - 199	200 +	
A1 Manufacturing and construction (NACE 25,26,31-37,41-49,5)	40	40	40	40	160
A2 Wholesale trade and retail trade (NACE 61 - 65)	50	50	50	50	200
A3 Services (NACE 81-84, 92-99)	20	20	20	20	80
Subtotal A	110	110	110	110	440
B1 Joiners	20	20			
B2 Plumbers	20	20			
B3 Roofers	20	20			
B4 Bakeries	20	20			
B5 Hairdressers	20	20			
Subtotal B	100	100	0	0	200
C1 Horeca (NACE 66)	10	10	10	10	40
C2 Travel agents (NACE 77)	10	10	10	10	40
Subtotal C	20	20	20	20	80
Grand total					720

Note: The number of addresses specified in each cell was randomly selected from the databases used (sample frame). The fieldwork aimed to complete 72 interviews for each of the 19 countries. The quota for each cell was 10% of the numbers indicated above (allowing for a large margin of non-response).

Fieldwork

The interviews were carried out during the April-May 1997 period. The telephone interviews used a CATI system, which guided the interviewer through the questionnaire according to the answers received (automatic routing). During these interviews, data was simultaneously entered in the data set (on-line) and was continuously monitored and checked. This ensured the quality of the data set obtained.

Questionnaire

The Questionnaire of the ENSR Enterprise Survey 1997 contained seven main sections with 68 questions:

1. General characteristics of the firm:
independence - sector of activity - age of enterprise - subsidiaries - location
2. Business performance:
employment and turnover for 1994, 1995 and 1996 - cost structure
3. Completion of the European Single Market:
opportunities and threats of the Single Market - impact of Single Market measures - international competition and business contacts
4. Enterprise behaviour:
collaboration agreements with other companies - subcontracting & outsourcing - market position - business strategies - training & recruitment - use of external advice - environmental issues
5. Working conditions / risk assessment
6. Export
7. Education and gender

Description of Sample obtained

Within stratification by sector size class and country, a total of 12,338 addresses were randomly selected (Gross list). However, not all these addresses were 'used'. In total only 5,652 addresses had to be 'used' before the sample target was reached. Table 12.9 specifies response and non-response data by category (total for EUR-19).

Table 12.9 Report on Non-response, ENSR Enterprise Survey 1997

Description	number	%
- After considerable efforts, a large number of firms could not be reached due to technical reasons (busy, engaged, number happens to be connected to fax or answer machine, wrong address, etc.)	2,034	36
- Enterprise liquidated	60	1
- Interview aborted (not eligible because of sector or being branch-office)	620	11
- Refusal	1,458	26
- Interview aborted (refusal)	98	2
- Completed interview	1,382	24
Total number of addresses approached	5,652	100

Note: Another 1,730 addresses were available for interviews, but not used because sample target had been reached.

In a later stage, during data processing, 5 more interviews had to be aborted because of major inconsistencies, so 1377 verified and approved interviews were available (1382 - 5). The aim was to complete at least 72 interviews in each country from the addresses selected for each of the 19 countries. The final distribution obtained, by country and stratum is shown in Table 12.10.

Table 12.10 Observations by country and stratum

Country		Group			Total
		A. enterprise	B. craft	C. tourism	
At	Austria	48	17	11	76
B	Belgium	41	20	11	72
DK	Denmark	46	19	8	73
D	Germany	45	20	7	72
GR	Greece	49	11	2	62
E	Spain	38	22	13	73
F	France	43	14	11	68
FIN	Finland	45	20	7	72
IRL	Ireland	44	19	10	73
I	Italy	60	20	9	89
L	Luxembourg	49	13	14	76
NL	Netherlands	44	21	8	73
P	Portugal	41	20	13	74
S	Sweden	44	20	11	75
UK	United Kingdom	45	19	7	71
EU	Subtotal EU	647	275	135	1,057
IS	Iceland	62	0	9	71
FL	Liechtenstein	56	1	6	63
N	Norway	43	20	9	72
EEA-18	Subtotal EEA	843	296	166	1,305
CH	Switzerland	43	19	10	72
Europe-19	Total	886	315	176	1,377

An analyses of the survey response established that enterprises with zero employees, (i.e. self employed) were poorly represented in the sample. As these enterprises make up more than 40% of all enterprise in the population relevant to NACE groups (Eurostat 1992 figures¹) it has been decided to exclude the self employed from the database (26 respondents). Thus, the ENSR Enterprise Survey 1997 only provide information on those private enterprise in Europe which have at least one (or full-time equivalent) employee.

In total, 1,351 completed and valid observations remained. In the report, results for the private enterprise sector in EUR-19 was obtained by analysing a combination of group A and C combined (reweighted). Group B was used to obtain results specific to craft-type enterprises.

In Table 12.11 below, the unweighted sample is shown, by sector of activity and size class (number of employees in 1996 - as recorded at the time of the interview).

¹ Taken from Eurostat/DG XXIII: Enterprises in Europe, Fourth Report, Luxembourg, Office for Official publications of the European Communities, 1996.

Table 12.11 Sample by sector of activity and size class ENSR Enterprise Survey 1997 (unweighted)

Sector	Size class 1996				Total
	1-9	10-49	50-249	250+	
Manufacturing	65	95	100	60	320
Trade	127	86	88	43	344
Services	60	54	55	40	209
Craft	144	149	12	0	305
Horeca	29	29	23	12	93
Travel	18	29	21	12	80
Total	443	442	299	167	1,351

Reweighting the Sample

Reweighting by sector and size class

In Table 12.11 the sample by sector and size class was outlined. Obviously, because of stratification, the sample does not reflect the structure of the European enterprise sector. In this section the reweighting used to obtain a representative sample will be briefly described.

Firstly, the firms in the craft-type sectors are heavily over-sampled. For these craft type sectors no population figures are available, hence the craft type observations ($n = 305$) have not been incorporated in the reweighted sample used to picture the enterprise sector. Therefore $1,351 - 305 = 1,046$ observations remain.

In designing the reweighting scheme, several decisions had to be made in view of the rather large number of strata (by sector, size and country) and in relation to the final number of observations available. After an initial exploratory analysis - described below - it was decided to apply reweighting by sector and size class.

Weights¹ were developed for five sectors (manufacturing & construction; wholesale & retail trade, services, Horeca and travel agencies) and eight size-classes (1-9, 10-19, 20-49, 50-99, 100-199, 200-249, 250-500, and 500+), leading to $8 * 5 = 40$ values for the weighting variable^{2, 3}.

By applying these weights, the following reweighted sample (Table 12.12) was obtained:

¹ For calculation of weights by sector and size class the data on enterprises in Europe was used, as adapted by EIM Small Business Research and Consultancy from Eurostat/DG XXIII: Enterprises in Europe, Fourth Report Luxembourg, Office for Official publications of the European Communities (1996). For relevant sectors of the survey, it concerned just over 8 million enterprises in the nineteen countries.

² Considering the limited number of observations for firms employing more than 100 employees in Horeca and travel agencies it has been decided to combine size class 100-199 with size class 200-249 and size class 250-499 with size class 500+. Hence the number of weights distinguished is reduced by 4, from 40 to 36.

³ Weights have been calculated in such a way that (I) the relation between weights is correct for different sample fractions by stratum and (II) weights have such an absolute value that the 'size' of the sample after reweighting is approximately equal to the original sample in order not to overestimate (or suggest too high) a reliability for the estimates made (1,023 observations in Table 12.12 after reweighting).

Table 12.12 Reweighted sample by sector of activity and size class, ENSR Enterprise Survey 1997

Sector	Size class 1996				Total
	1-9	10-49	50-249	250+	
Manufacturing	222	85	12	2	321
Trade	286	37	11	1	334
Services	203	56	10	1	270
Horeca	76	10	4	0	90
Travel agency	4	3	0	0	7
Total	791	190	38	4	1,023

By comparing Table 12.11 and Table 12.12 it is shown that - due to the over-sampling of large firms - the distribution, in particular by size class was effected by the reweighting.

Exploratory analysis to decide the weighting scheme

It was decided to check the extent of which results obtained from statistical analysis was effected by the weighting scheme. In particular, checks were made to establish the effects of simultaneous weighting by country, sector and size class.

Four weighting schemes - and series of tables - were developed for this purpose:

1. weighting by sector and size class;
2. weighting by sector and size class and three groups of countries;
3. weighting by sector and size class, and four groups of countries;
4. weighting by sector and size class and 19 individual countries.

In principle, Series_4 based on reweighting by individual country, should be preferred. However due to the large number of cells (and hence weights) combined with the relatively small number of observations, too many cells resulted with extremely small number of observations.

Moving from Series_4 to Series_1, the number of observations by cell increased further. A priori, Series_3 could be viewed as an acceptable compromise, even though 'empty' cells would be problematical.

Inspecting the four series of tables, it was found, however, that the difference between the four series was rather small¹. Two examples are illustrated (see Table 12.13 and Table 12.14) below.

¹ However, the difference between unweighted result and results reweighted (by sector and size class) is substantial. This suggests that differences between sector and size classes are much more important for characteristics and behaviour of enterprises than differences between countries (as the effect of small economies versus large economies is reweighted, the conclusion might have to be restricted to this two groups of countries).

Table 12.13 Example 1: Percentages of enterprise regarding the European Single Market as an opportunity or a threat

	Four different weighting schemes			
	Series_1	Series_2	Series_3	Series_4
	not by country	by 4 groups of countries	by 3 groups of countries	by 19 individual countries
Opportunity	44%	39%	39%	41%
Threat	17%	21%	19%	17%

Source: ENSR Enterprise Survey 1997.

For seven out of eight variables, randomly selected, results show no significant difference, i.e., no effect of reweighting by country, once results have already been reweighted by sector and size class using the structure of Europe-19 as a whole.

Next, variables were tested on the *a priori* assumption that differences will be maximised (Example 2).

Table 12.14 Example 2: Percentages of firms located in border regions.

Weighted:	Four different weighting schemes			
	Series_1	Series_2	Series_3	Series_4
	not by country	by 4 groups of countries	by 3 groups of countries	by 19 individual countries
Located in border region	25%	18%	18%	15%

Source: ENSR Enterprise Survey 1997.

Here, the re-weighting effects were, as in small regions almost all firms are by definition located in border regions, whereas in -geographical - large countries only a small minority of firms will be located in border regions. Still, the relation between 'being located in border regions' and other behavioural variables was not significantly influenced. It should, however, be stressed that the survey results could not be used to establish the share of European firms located in border regions.

Finally, we would like to summarise the considerations for deciding on reweighting.

Discussing reweighting of sample surveys, two cases should clearly be distinguished:

1. one wants to give estimates on the aggregate;
2. one wants to study a relation between two other variables X and Y, i.e. variables not used for defining the strata.

Especially in case 2, it is questionable whether you should re-weight¹. Given (1) the difficulties in reweighting due to 'empty' cells; (2) the fact that nearly all use made of the survey results in this report relates to analysing the relationship between two (other) variables such as behaviour of firm and being located in a border region, or performance of firms in relation to the effects of the Single Market programme and (3) the marginal effects of reweighting on results shown above, it has been decided to reweigh results of the

¹ See: Klomp, Dr. L., Doctoral Thesis in Statistics, Empirical Studies in the Hospitality Sector, Ridderkerk, The Netherlands, 1996.

ENSR Enterprise Survey 1997 as far as manufacturing and construction, wholesale and retail trade and services (including Horeca and travel agencies) is concerned, by sector and size class using the structure of enterprises in Europe-19 as given by Eurostat as a basis.

So three subsets of data are available for analyse in this Observatory, providing information on the same series of issues (identical questionnaire):

- A. reweighted sample, providing an indication on the enterprise sector in Europe-19;
- B. sample with five selected craft sectors, providing an indication for the craft sector in Europe-19;
- C. some results specially collected for sectors in tourism: Horeca and travel agents (this data is also included in the reweighted image of the overall enterprise sector in EUR-19 (item A).

13 THE EUROPEAN SME SCOREBOARD

INTRODUCTION

Over the past four years, the Annual Reports of the European Observatory for SMEs have presented useful information about the structure and developments of SMEs in Europe. In this fifth edition, an additional element is introduced which hopefully will be further developed in future editions. The new chapter, *'The European SME Scoreboard'*, provides data relating to the structure and development of SMEs (as well as the craft trades and the CMAFs: co-operatives, mutuals, associations and foundations) and their business environment. In a series of tables and graphs, major elements of SME development are shown. Where available, data for a range of years is presented, i.e. time series.

The data included in the first edition of The European SME Scoreboard is classified in 13 sections, labelled A to L. These sections are:

- A. SME sector.
- B. Co-operatives, mutuals, associations and foundations (CMAF).
- C. Crafts.
- D. Births and survival rates.
- E. Impact of the Internal Market.
- F. Short-term constraints for business development.
- G. Long term constraints for business development.
- H. Internationalisation.
- I. Training.
- J. Finance: late payments.
- K. Labour.

For more detailed information on the origin and definitions of the data presented in the subsequent pages the reader is referred to the original sources. These sources are indicated on the first page of each section. Basically three main sources are used:

- Estimates made by EIM Small Business Research and Consultancy; adopted from Eurostat/DG XXIII, *Enterprises in Europe, Fifth report*, Brussels/Luxembourg (forthcoming), see also Chapter 1 of this report;
- Annual European Business Surveys (1990-1996) kindly made available by Grant Thornton¹;
- Results from the ENSR Enterprise Survey 1997 (see Appendix to Chapter 12 of this report for more details).

¹ Grant Thornton, UK member of Grant Thornton International, Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP. A project implemented in collaboration with International Business Strategies Ltd.

A SME sector

Chapter 1 of this report contains a general overview of the SMEs in the EEA and Switzerland. Some main characteristics are summarised as an introduction to the European SME Scoreboard. The information is primarily based on estimates made by EIM Small Business Research and Consultancy; adopted from Eurostat/DG XXIII, Enterprises in Europe, Fifth report, Brussels/Luxembourg (forthcoming). See also Chapter 1 in this report.

In this section data for Switzerland and Liechtenstein are combined.

The number of enterprise in EUR-19 is quite obviously dominated by very small firms (Table A.1), economic contribution is, however, better illustrated by the share of employment in various size classes (Table A.2).

The development of employment and value added in all countries of EUR-19 for 1990-1996 is presented in a series of graphs for all countries (Figure A.1). As point of reference, graphs for EU and non-EU are also included on each page. The average enterprise size is also shown.

The section contains:

- Table A.1 Percentage share of enterprise numbers in 1996 by size class and country;
- Table A.2 Employment share in 1996 by size class and country;
- Figure A.1 Average Enterprise size in 1996, SMEs and total by country;
- Figure A.2 Development of real value added and employment in SMEs, individual graphs by country and aggregates, 1990-1996 (1990 = 100)

Table A.1 Percentage share of enterprise numbers 1996 by size class and country and total number of enterprises (1000)

	SMEs			Sub-total	LSEs	Total	Total
	Very small	Small	Medium-sized				
	% of enterprises						(1,000)
Austria	86.1	10.8	2.4	99.4	0.6	100.0	220
Belgium	96.5	2.9	0.5	99.8	0.2	100.0	800
Denmark	92.4	6.3	1.1	99.8	0.2	100.0	230
Finland	94.4	4.5	0.9	99.8	0.2	100.0	205
France	92.9	5.8	1.1	99.8	0.2	100.0	2,085
Germany	88.1	10.0	1.5	99.6	0.4	100.0	3,440
Greece	97.0	2.6	0.4	99.9	0.1	100.0	580
Ireland	89.8	8.0	1.6	99.4	0.6	100.0	80
Italy	94.4	5.1	0.5	99.9	0.1	100.0	3,345
Luxembourg	84.2	12.4	3.0	99.6	0.4	100.0	15
Netherlands	90.5	7.7	1.4	99.6	0.4	100.0	530
Portugal	93.8	5.3	0.9	99.9	0.1	100.0	690
Spain	94.9	4.4	0.6	99.9	0.1	100.0	2,335
Sweden	91.0	7.4	1.3	99.7	0.3	100.0	285
United Kingdom	94.5	4.7	0.7	99.8	0.2	100.0	3,760
EU	93.0	5.9	0.9	99.8	0.2	100.0	18,590
Iceland	95.0	4.2	0.7	99.9	0.1	100.0	25
Norway	92.4	6.4	1.0	99.8	0.2	100.0	185
Switzerland (incl. FL)	85.2	12.1	2.3	99.6	0.4	100.0	245
non-EU countries	88.7	9.3	1.7	99.7	0.3	100.0	460
Europe-19	92.9	6.0	0.9	99.8	0.2	100.0	19,050

Table A.2 Employment share 1996 by size class and country

	SMEs				LSEs	Total	Total
	Very small	Small	Medium-sized	Sub-total			
	% of enterprises						(1,000)
Austria	25	19	21	65	35	100	2,470
Belgium	48	14	11	73	27	100	3,835
Denmark	30	22	18	70	30	100	1,590
Finland	23	16	17	56	44	100	1,030
France	32	19	15	66	34	100	15,310
Germany	24	20	14	57	43	100	29,090
Greece	47	18	14	79	21	100	1,585
Ireland	18	16	14	49	51	100	840
Italy	48	21	11	80	20	100	14,040
Luxembourg	19	26	29	71	29	100	155
Netherlands	26	19	15	60	40	100	5,295
Portugal	38	23	18	79	21	100	2,800
Spain	47	19	12	79	21	100	10,910
Sweden	25	17	16	59	41	100	2,030
United Kingdom	31	16	12	59	41	100	20,420
EU	33	19	14	66	34	100	111,405
Iceland	35	24	24	76	24	100	85
Norway	32	21	18	71	29	100	1,045
Switzerland (incl. FL)	23	22	21	67	33	100	2,540
non-EU countries	26	22	20	69	31	100	3,670
Europe-19	33	19	14	66	34	100	115,075

Figure A.1 Average Enterprise size in terms of workers 1996, SMEs and total by country

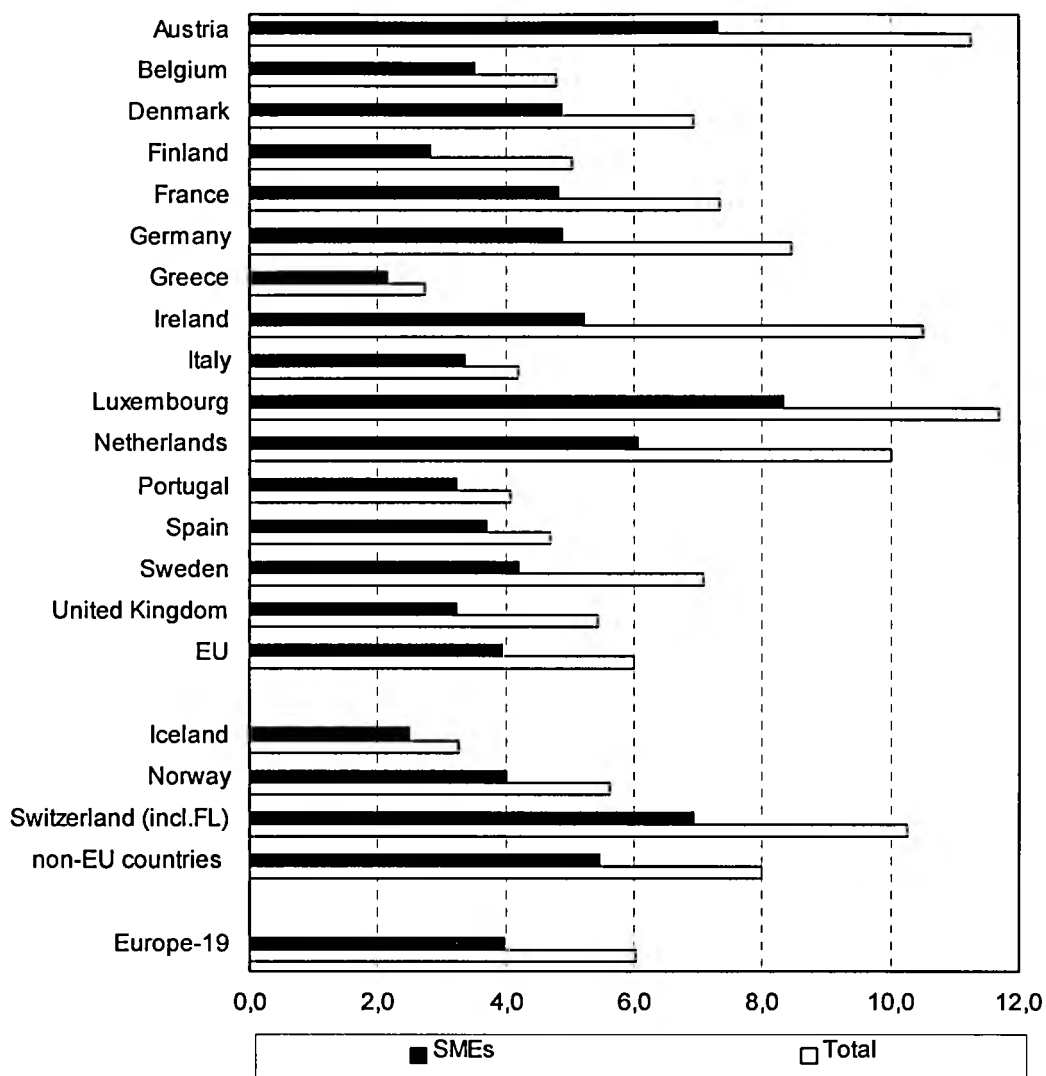


Figure A.2.a Development of real value added and employment in SMEs, 1990-1996 (1990 = 100)

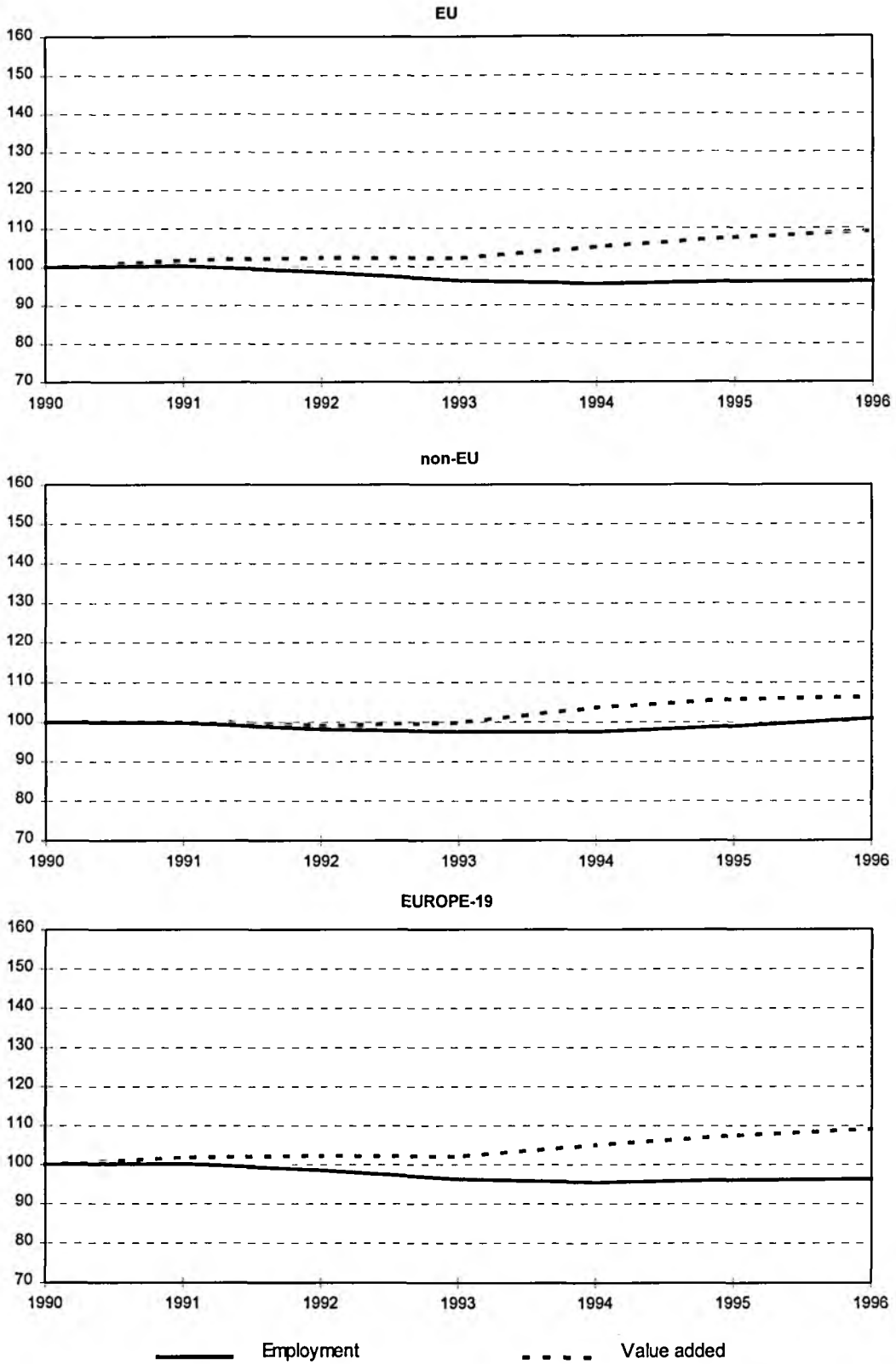


Figure A.2.b Real value added and employment in SMEs, 1990-1996 (1990 = 100)

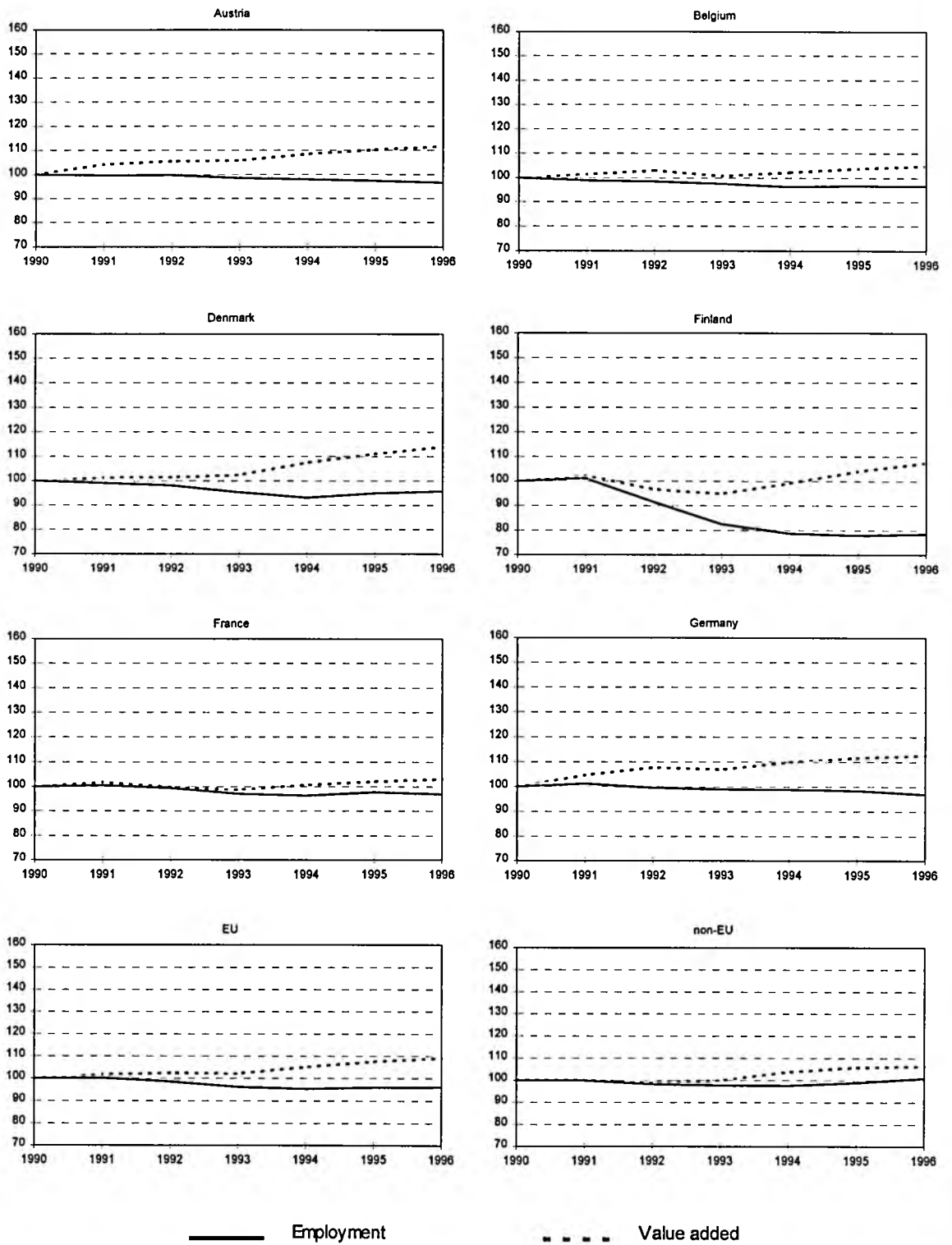


Figure A.2.c Real value added and employment in SMEs, 1990-1996 (1990 = 100)

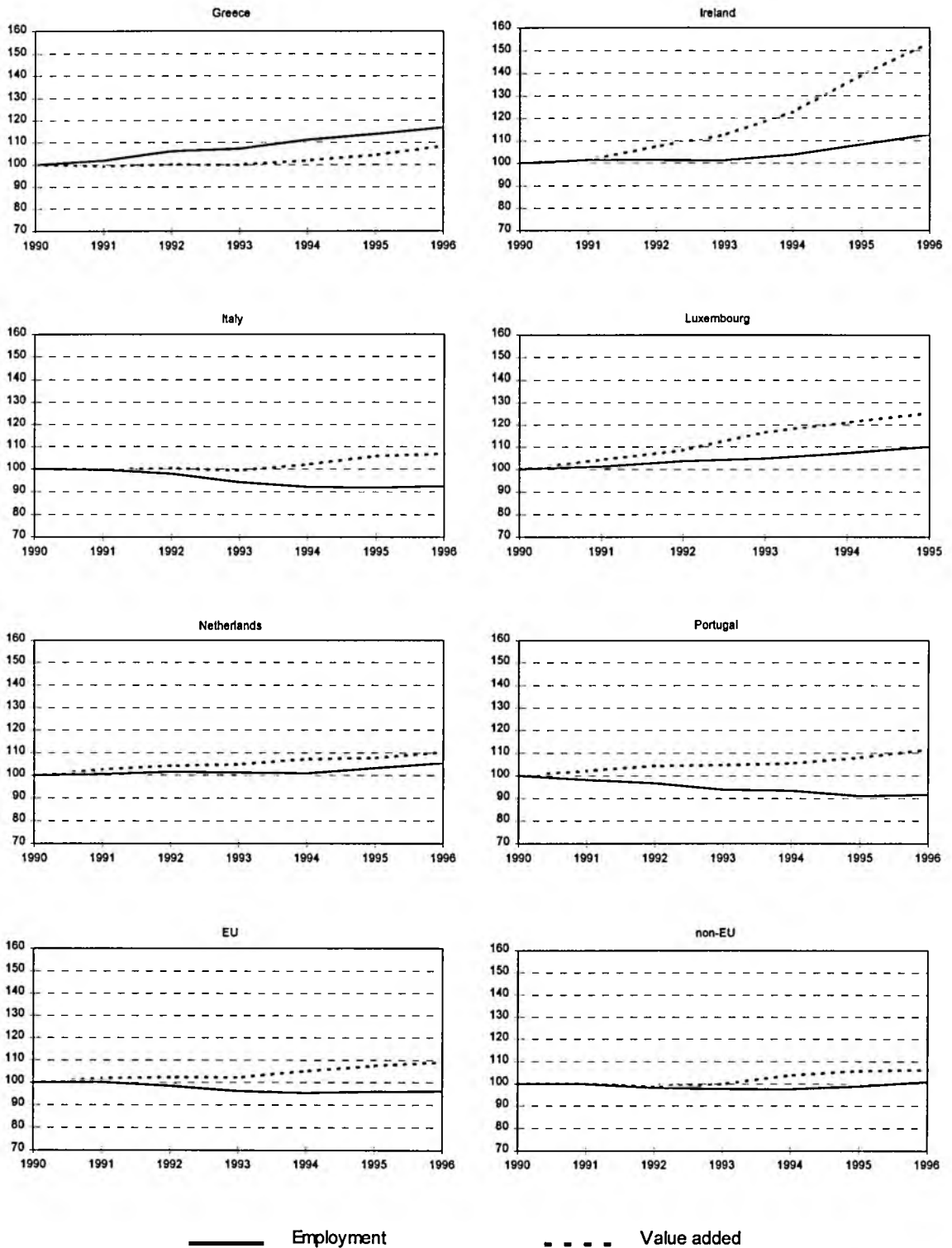
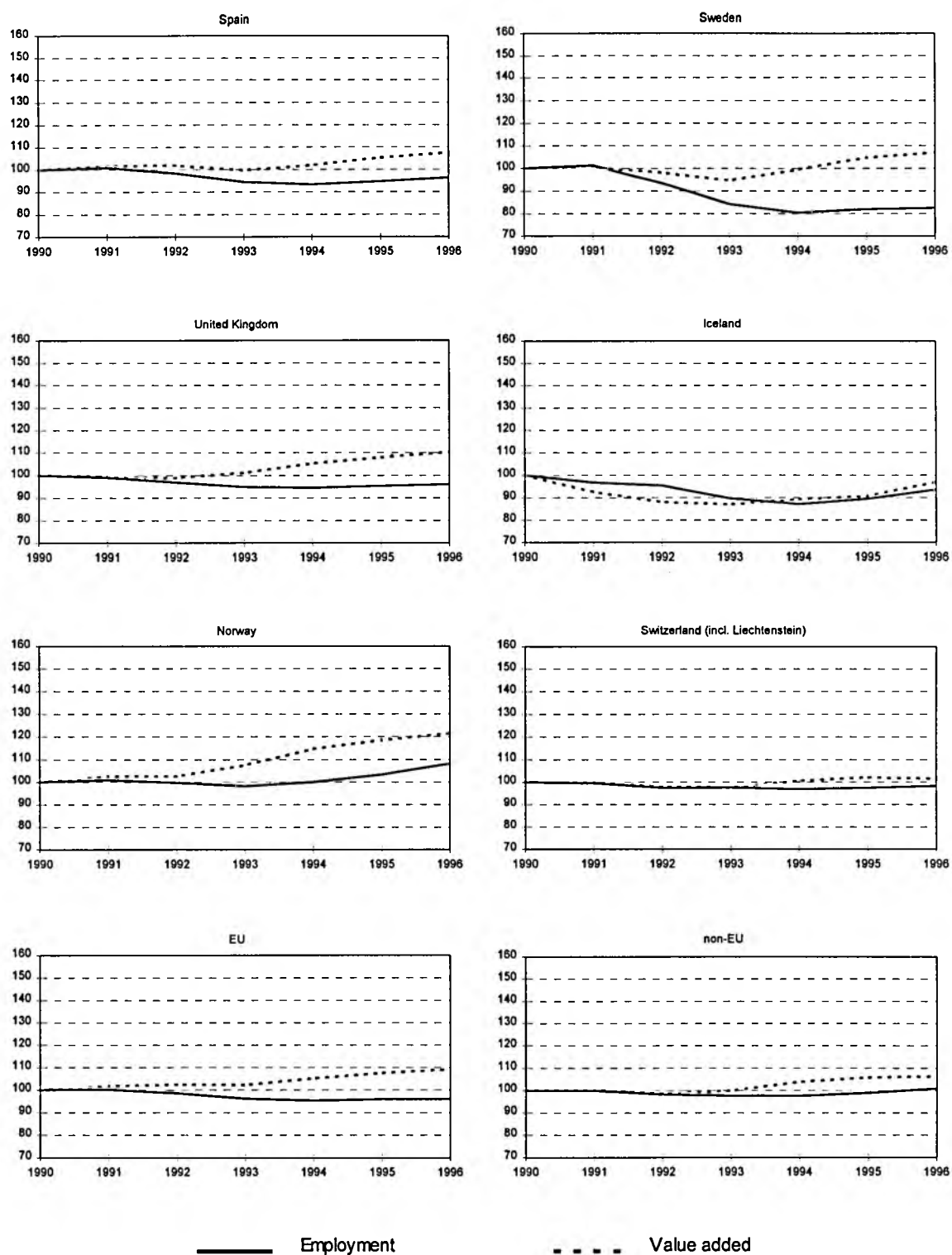


Figure A.2.d Real value added and employment in SMEs, 1990-1996 (1990 = 100)



B Co-operatives, mutuals, associations and foundations (CMAF)

Chapter 13 in the Fourth Annual Report of the European Observatory for SMEs (1996) was devoted to co-operatives, mutuals, associations and foundations (CMAF). Co-operative action, independence, primacy of the individual over capital were amongst the basic principles which initiated the development of this sector, beginning the 19th century, all over Europe. Between countries, however, the legal framework and definitions for CMAFs vary a great deal. Therefore, the figures taken from the annex to that chapter which are reproduced in this section of the Scoreboard should be interpreted with due caution.

Four tables providing data on co-operatives, mutuals and non-profit organisations, for 1994 are included:

Table B.1 number of enterprises, 1994

Table B.2 number of employees, 1994

Table B.3 number of members, 1994

Table B.1 Co-operatives, mutuels and non-profit organisations, number of enterprises, 1994

	Co-operatives	Mutuels	Non-profit org.	Total
Austria	2,153	67	(87,853)	2,220
Belgium	30,179	1,172	9,331	40,682
Denmark	4,139	85	450	4,674
Finland	794	118	n.a.	912
France	23,000	6,622	114,049	143,671
Germany	11,042	n.a.	n.a.	11,042
Ireland	742	0	259	1,001
Italy	44,523	n.a.	n.a.	44,523
Luxembourg	273	61	n.a.	334
Netherlands	3,993	275	821	5,089
Portugal	3,024	81	1,529	4,634
Sweden	15,106	n.a.	11,100	26,206
EU	138,968	8,481	137,539	284,988
Iceland	65	32	680	777
Liechtenstein	9	0	600	609
Norway	638	6	n.a.	644
EEA	139,680	8,519	138,819	287,018
Switzerland	14,338	0	25,085	39,423
Europe-19	154,018	8,519	163,904	326,441

Table B.2 Co-operatives, mutuels and non-profit organisations, number of employees, 1994 (in 1,000)

	Co-operatives	Mutuels	Non-profit org.	Total
Austria	56.6	n.a.	n.a.	56.6
Denmark	57.6	0.3	10.4	68.3
Finland	66.5	5.0	n.a.	71.5
Germany	487.3	n.a.	n.a.	487.3
Greece	n.a.	n.a.	n.a.	n.a.
Ireland	28.8	0.0	1.9	30.7
Luxembourg	n.a.	0.0	n.a.	0.0
Netherlands	115.5	7.0	18.1	140.6
Sweden	66.4	n.a.	n.a.	66.4
EU	878.7	12.3	30.4	921.4
Iceland	3.4	500.0	6.3	509.7
Norway	50.7	n.a.	n.a.	50.7
EEA	932.8	512.3	36.7	1,481.8

Table B.3 Co-operatives, mutuels and non-profit organisations, number of members, 1994 (in 1,000)

	Co-operatives	Mutuals	Non-profit org.	Total
Austria (VB f.)	2,545.4	58.5	n.a.	2,603.9
Denmark	n.a.	1,353.6	n.a.	1,353.6
Finland	2,161.0	n.a.	n.a.	2,161.0
Germany	20,392.0	n.a.	n.a.	20,392.0
Ireland	1,894.8	0.0	1,317.8	3,212.6
Italy	8,107.0	n.a.	n.a.	8,107.0
Luxembourg	n.a.	0.2	n.a.	0.2
EU	35,100.2	1,412.3	1,317.8	37,830.2
Iceland	39.2	n.a.	n.a.	39.2
Norway	1,468.7	n.a.	n.a.	1,468.7
EEA	36,608.1	1,412.3	1,317.8	39,338.1

C Crafts

Data with regard to Craft type enterprises is difficult to compare between countries in Europe as definitions vary considerably (See Chapter 2 of this report).

Two tables are reproduced here:

Table C.1 Number of craft enterprises according to national definitions;

Table C.2 Employment in craft enterprises according to national definitions.

Table C.1 Number of craft enterprises according to national definitions

	1991	1992	1993	1994	1995	1996
Countries following the profession approach						
Austria						
Absolute number	41,793	41,801	41,929	41,829	41,811	42,056
Index (1991=100)	100.0	100.0	100.3	100.1	100.0	100.6
Germany*						
Absolute number	598,000	606,100	614,000	593,700	597,800	n.a.
Index (1991=100)	100.0	101.4	102.7	n.a.*	n.a.*	n.a.*
Iceland						
Absolute number	5,374	5,459	5,536	5,748	n.a.	n.a.
Index (1991=100)	100.0	101.6	103.0	107.0	n.a.	n.a.
Liechtenstein						
Absolute number	514	n.a.	n.a.	n.a.	631	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	122.8	n.a.
Luxembourg						
Absolute number	3,766	3,822	3,888	3,984	4,066	4,056
Index (1991=100)	100.0	101.5	103.2	105.8	108.0	107.7
Countries following the sector and size approach						
France						
Absolute number	853,682	856,602	830,854	810,532	820,986	827,664
Index (1991=100)	100.0	100.3	97.3	94.9	96.2	97.0
Italy						
Absolute number	1,140,271	1,208,688	1,260,000	1,271,668	1,325,584	1,332,953
Index (1991=100)	100.0	106.0	110.5	111.5	116.3	116.9
Netherlands						
Absolute number	101,000	107,000	115,000	121,000	101,000**	n.a.
Index (1991=100)	100.0	105.9	113.9	119.8	100.0**	n.a.
Countries following the artist approach						
Spain						
Absolute number	13,921	15,165	14,765	14,730	14,920	n.a.
Index (1991=100)	100.0	108.9	106.1	105.8	107.2	n.a.
Other countries						
Switzerland						
Absolute number	64,666	n.a.	n.a.	n.a.	63,185	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	97.7	n.a.
United Kingdom						
Absolute number	n.a.	n.a.	16,892	n.a.	18,629	n.a.
Index (1991=100)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* Due to revised calculation from 1994 onwards comparisons to former years are not valid.

** Not comparable to former years due to the exclusion of non-operational enterprises.

Table C.2 Employment in craft enterprises according to national definitions

	1991	1992	1993	1994	1995	1996
Countries following the profession approach						
Austria						
Absolute number	287,767	289,560	287,703	294,322	291,697	292,747
Index (1991=100)	100.0	100.6	100.0	102.3	101.4	101.7
Germany*						
Absolute number	4,516,000	4,670,000	5,018,000	6,872,100	6,409,100	n.a.
Index (1991=100)	100.0	103.4	111.1	n.a.	n.a.	n.a.
Iceland						
Absolute number	16,344	15,740	14,765	14,339	n.a.	n.a.
Index (1991=100)	100.0	96.3	90.3	87.7	n.a.	n.a.
Liechtenstein						
Absolute number	5,247	n.a.	n.a.	n.a.	5,807	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	110.7	n.a.
Luxembourg						
Absolute number	41,405	42,878	43,024	43,002	43,879	43,490
Index (1991=100)	100.0	103.6	103.9	103.9	106.0	105.0
Countries following the sector and size approach						
France						
Absolute number	2,245,000	2,205,000	2,165,000	2,010,000	2,063,000	n.a.
Index (1991=100)	100.0	98.2	96.4	89.5	91.9	n.a.
Italy						
Absolute number	3,111,954	3,097,126	3,010,666	3,108,470	n.a.	n.a.
Index (1991=100)	100.0	99.5	96.7	99.9	n.a.	n.a.
Netherlands						
Absolute number	354,000	353,000	331,000	317,000	308,000	n.a.
Index (1991=100)	100.0	99.7	93.5	89.5	87.0	n.a.
Countries following the artist approach						
Spain						
Absolute number	47,554	56,868	58,508	53,879	46,345	n.a.
Index (1991=100)	100.0	119.6	123.0	113.3	97.5	n.a.
Other countries						
Ireland						
Absolute number	99,033	95,644	89,066	97,202	98,810	101,576
Index (1991=100)	100.0	96.6	89.9	98.2	99.8	102.6
Switzerland						
Absolute number	445,438	n.a.	n.a.	n.a.	393,832	n.a.
Index (1991=100)	100.0	n.a.	n.a.	n.a.	88.4	n.a.

* Due to revised calculation from 1994 onwards comparisons to former years are not valid.

D Births and survival rates

In Chapter 3 of the Fourth Annual Report of the European Observatory for SMEs (1996) data on entry and exit of enterprises for 19 countries were published.

As described in this chapter, the harmonised definition of entry includes, for all countries, the following:

- a start up by a new entrepreneur starting a new activity;
- a start up by an existing enterprise or entrepreneur (subsidiary);
- a new firm resulting from a merger or a demerger.

In Figure D.1 the birth rate for selected countries and aggregates, i.e. EU, EEA, EUR, USA and, Japan is shown using a harmonised definition. An indication of the confidence interval is also given.

In Figure D.2 data is outlined on survival rates after 1, 3 and 5 years from 14 European countries have been included.¹ The start-up year of the enterprises studied varied from 1980 to 1990. A legend referring to individual countries is not included, as the chart illustrates that the pattern in all countries for which data are available is very similar².

¹ Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, The United Kingdom, Finland, Norway, Sweden.

² For detailed data by country and information on sources: ENSR, The European Observatory for SMEs, Third Annual Report, Zoetermeer, 1995.

Figure D.1 Unified definition of entry, 1988-1994 (in % of stock of enterprises)

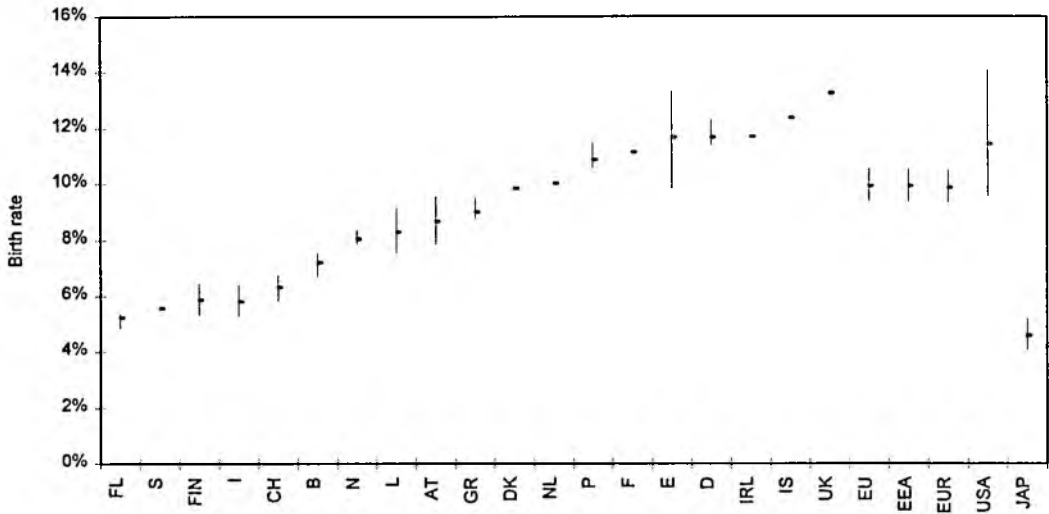
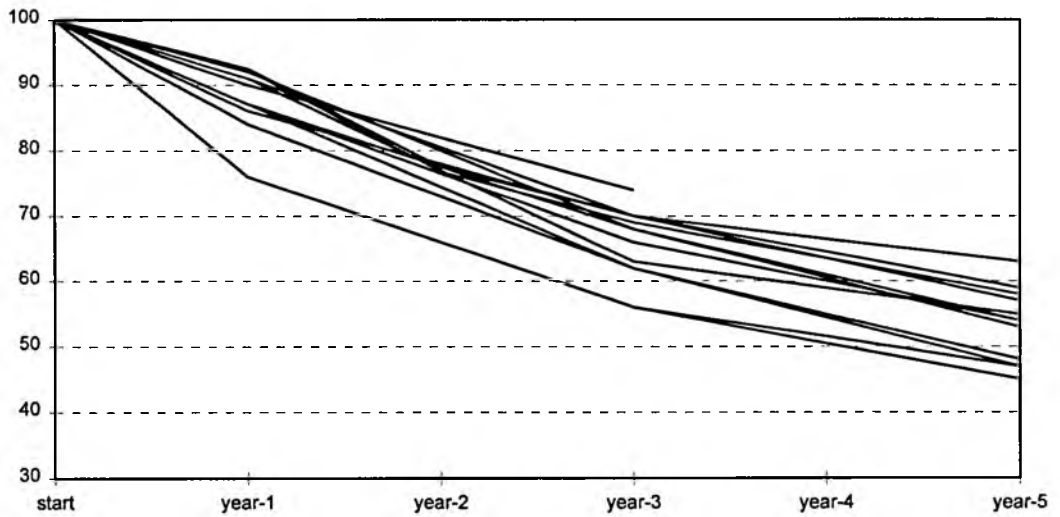


Figure D.2 Survival among newly-registered or newly established enterprises, (percentage) 13 selected countries



Please refer to the previous page for explanations.

E Impact of Internal Market

Selected data from the ENSR Enterprise Survey 1997 is included in this section (see Chapter 12 of this report for more details on the survey)

Figure E.1 Percentage of enterprises perceiving no opportunities at all, by size class and sector;

Figure E.2 Specific opportunities perceived, percentage of enterprises, by sector;

Figure E.3 Specific opportunities perceived, percentage of enterprises, by size class;

Figure E.4 Percentage of enterprises perceiving no threats at all, by size class and sector;

Figure E.5 Specific threats perceived, percentage of enterprises, by sector;

Figure E.6 Specific threats perceived, percentage of enterprises, by size class;

Figure E.7 Opinion on Single Market, percentage of enterprises, by size class and sector;

Figure E.8 Impact of three specific EU measures in the framework of the Single Market Program (standards, customs, VAT).

In the ENSR-97 Enterprise survey, three specific Single Market measures have been evaluated:

- the harmonisation of norms and standards with regard to products and production processes to reduce technical barriers (technical measures);
- the abolishment of customs control and delays at borders in order to remove physical barriers (physical measures);
- the streamlining of regulations with regard to VAT procedures as a means to relax tax barriers (tax measures).

Scores on these three groups of measures are shown in Figure E.8

Figure E.1 Percentage of enterprises perceiving no opportunities at all, by size class and sector

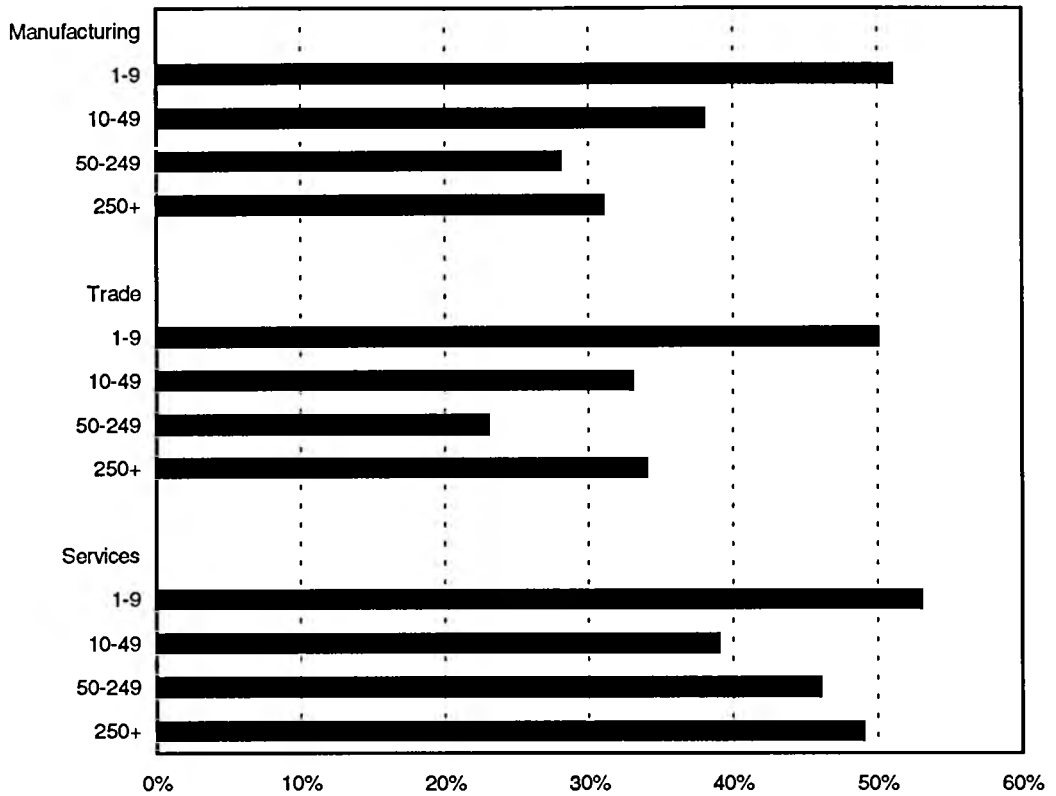


Figure E.2 Specific opportunities perceived, percentage of enterprises by sector

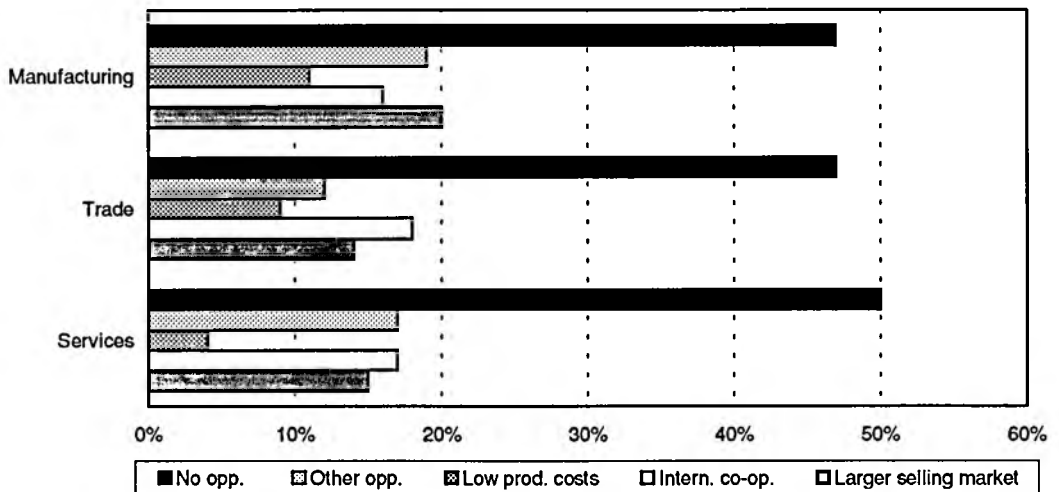


Figure E.3 Specific opportunities perceived, percentage of enterprises by size class

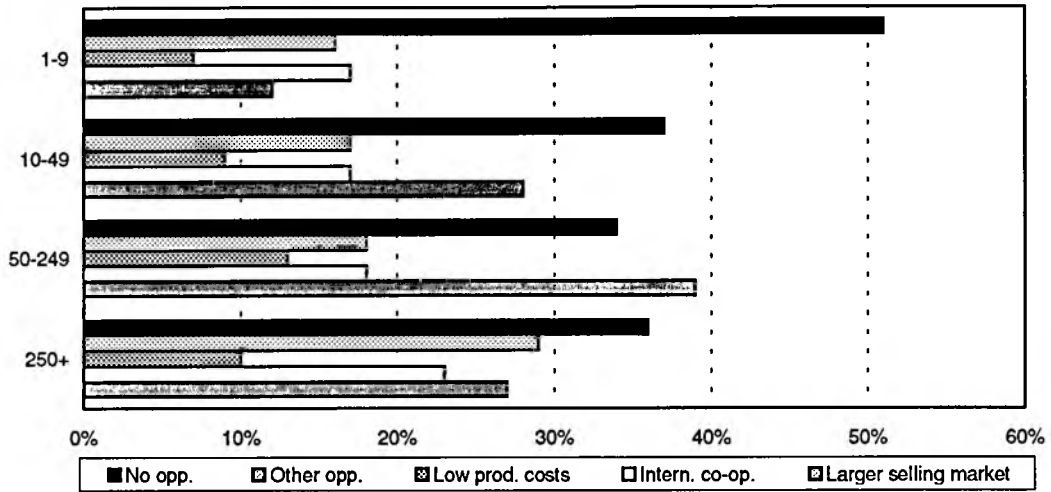


Figure E.4 Percentage of enterprises perceiving no threats at all, by size class and sector

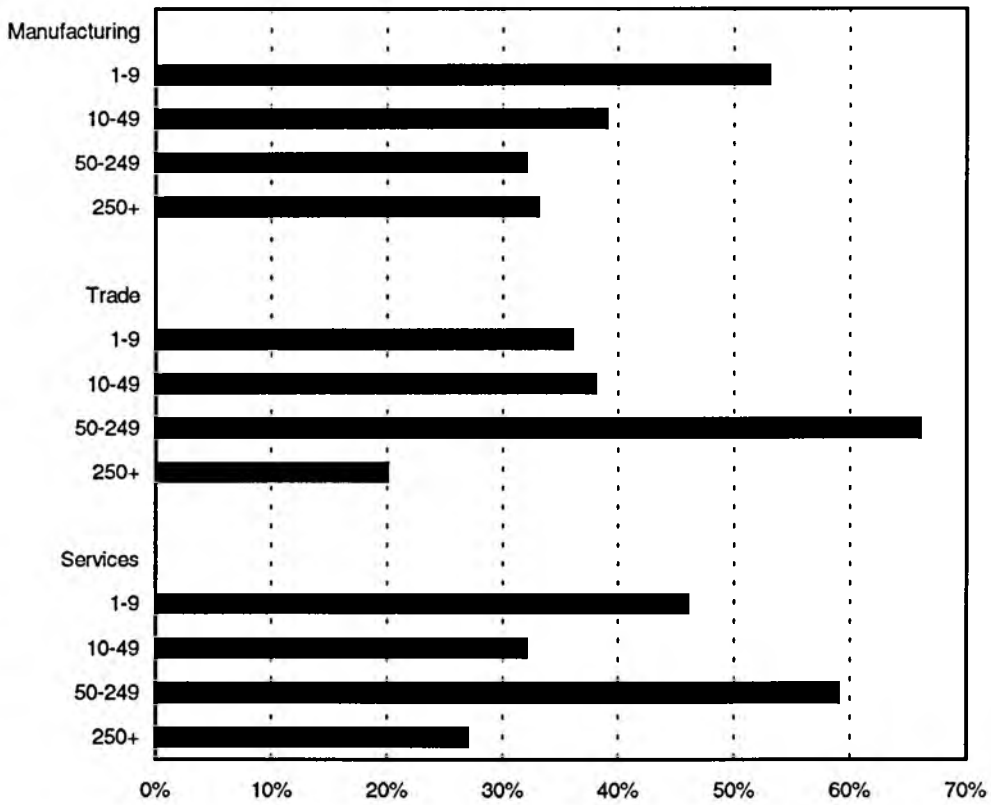


Figure E.5 Specific threats perceived, percentage of enterprises, by sector

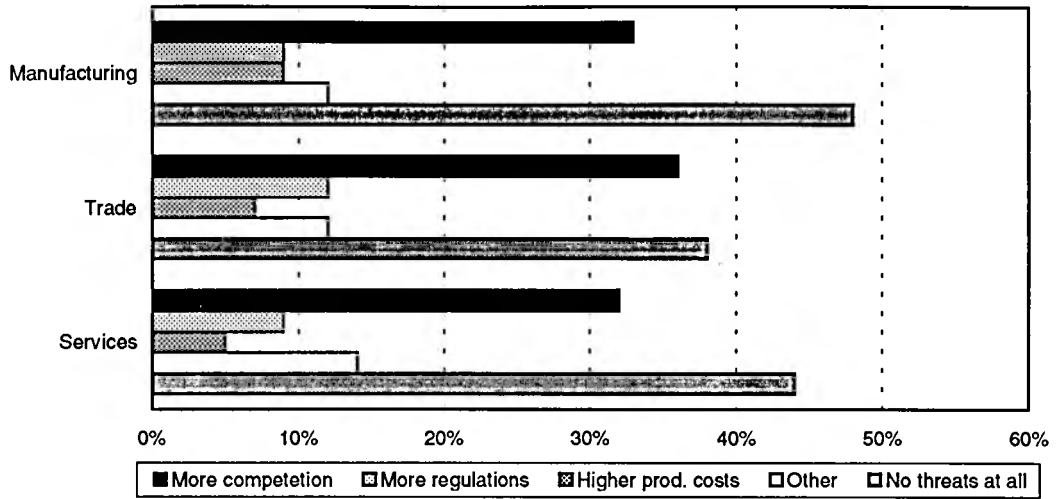


Figure E.6 Specific threats perceived, percentage of enterprises, by size class

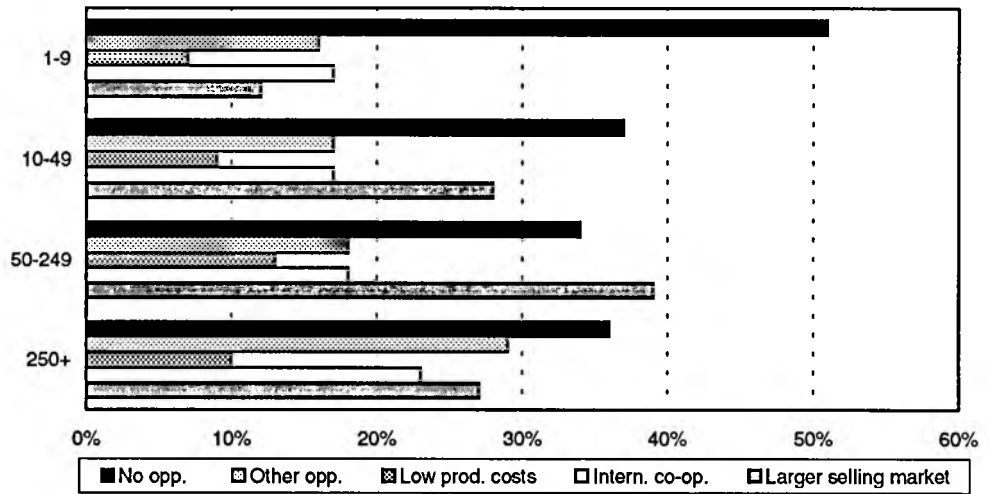


Figure E.7 Opinion on Single Market, percentage of enterprises, by size class and sector

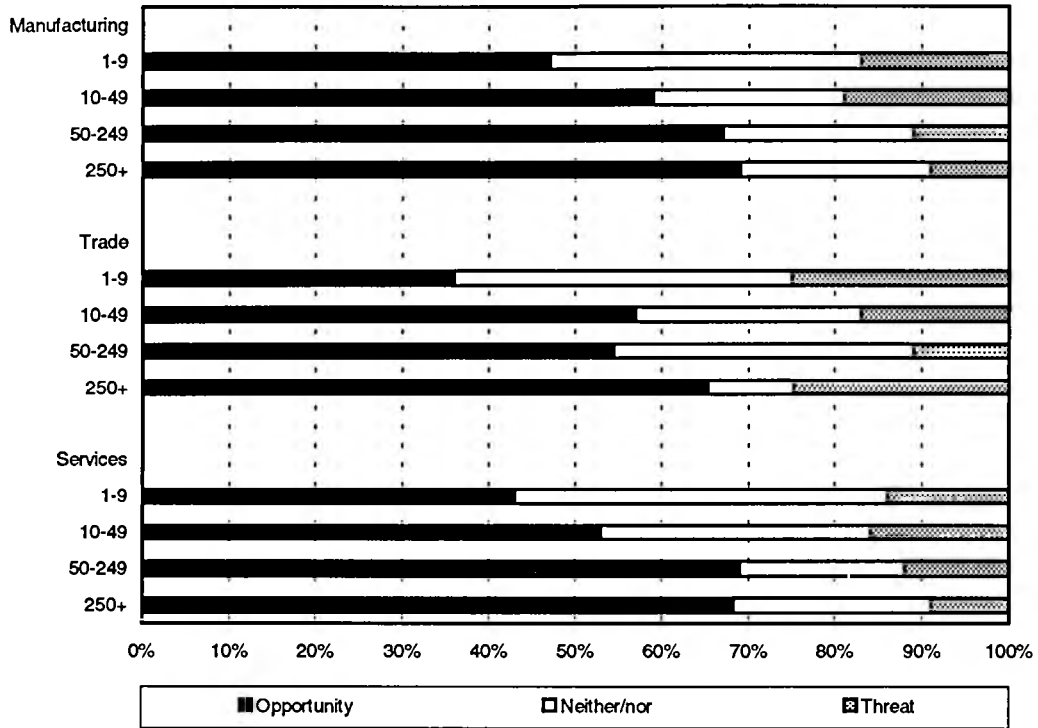
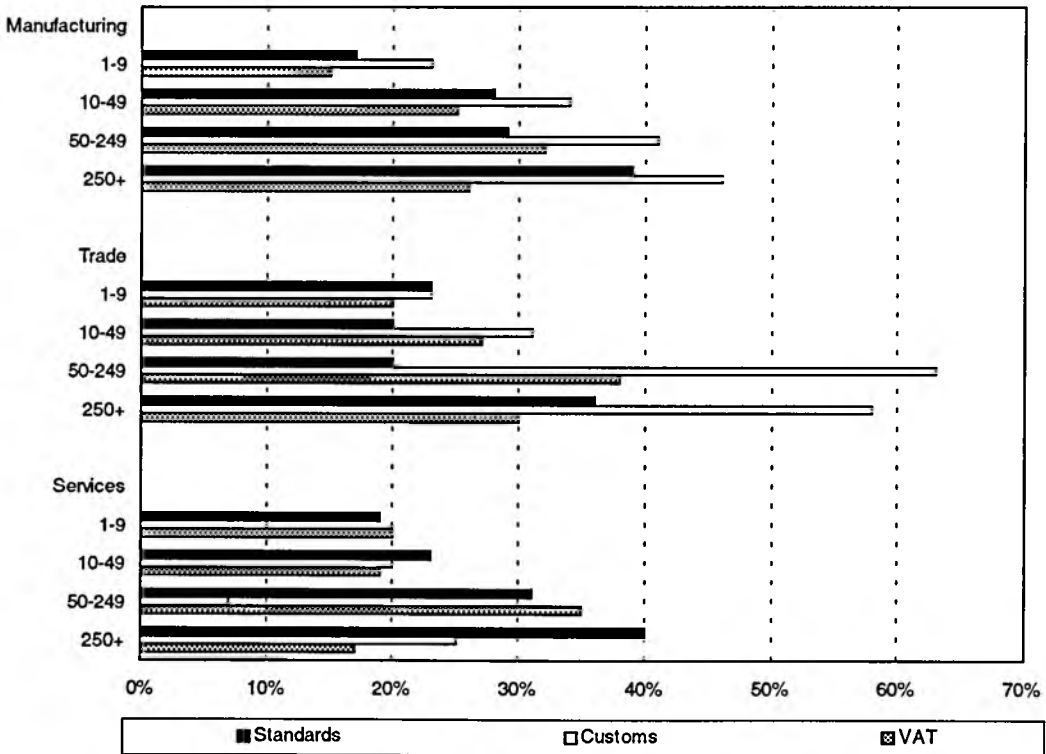


Figure E.8 Impact of three specific EU measures in the framework of the Single Market Program (standards, customs, V.A.T)



F Short-term constraints on business development

Short-term constraints on business development. Various short-term constraints on further expansion of SMEs are presented in this section. This information was produced by Grant Thornton in their annual European Business Surveys 1992-1996.¹

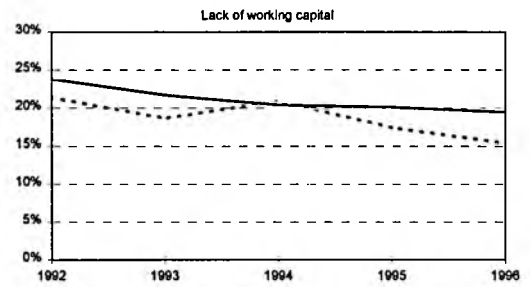
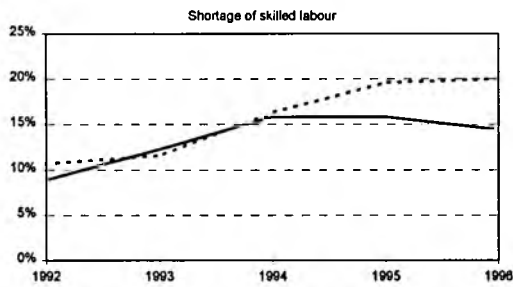
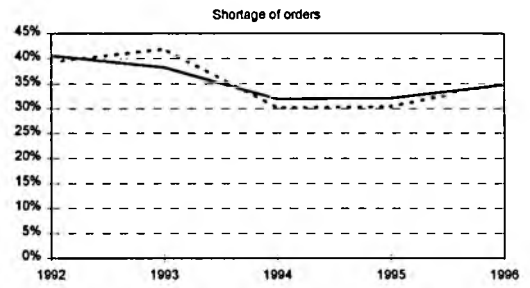
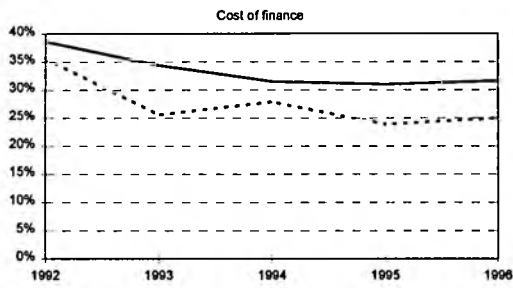
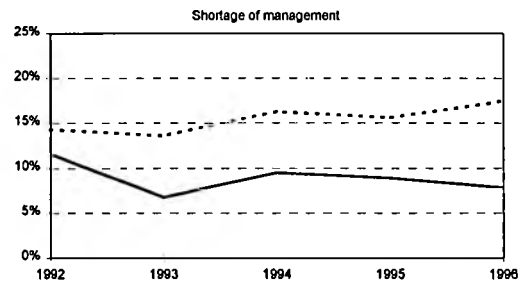
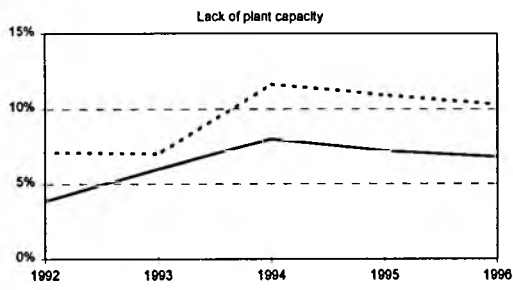
In this survey entrepreneurs are specifically asked to indicate the main short-term constraints on their ability to expand their enterprises. The following alternatives have been listed in the questionnaire:

1. Lack of plant capacity;
2. Shortage of management;
3. Cost of finance;
4. Shortage of orders;
5. Shortage of skilled labour;
6. Lack of working capital;
7. Exchange rates;
8. Domestic legislation/taxes;
9. EU legislation;
10. Cost of R&D.

Section F contains 10 tables (F.1 up to F.10) which include the percentage of firms that have reported short-term constraints in the period 1992-1996. Two size classes could be distinguished: 1-100 and 101-500 employees.

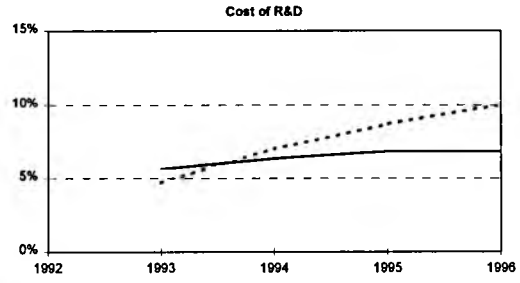
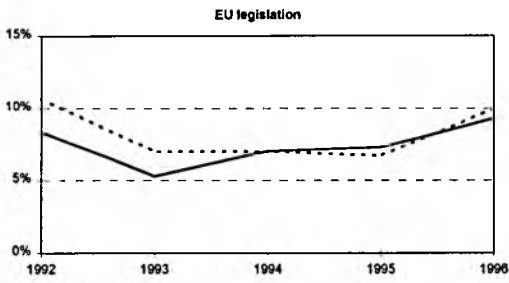
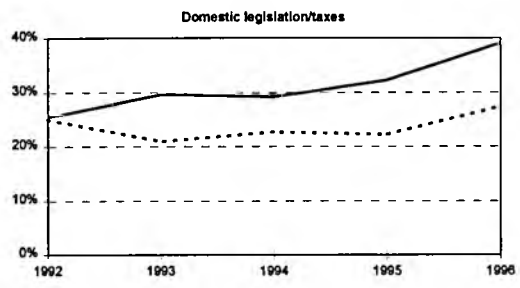
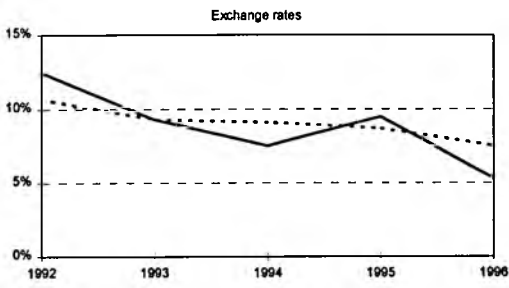
¹ Grant Thornton, UK member of Grant Thornton International, Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP. A project implemented in collaboration with International Business Strategies Ltd.

Figures F.1-F.6 Short-term constraints on business expansion. Percentage of enterprises, by size class



— 1-100 empl. ···· 101-500 empl.

Figures F.7-F.10 Short-term constraints on business expansion. Percentage of enterprises, by size class



— 1-100 empl. - - - 101-500 empl.

G Long-term constraints on business development

In the annual European Business Survey by Grant Thornton, several long-term constraints on further expansion of SMEs was evaluated¹.

In this survey, entrepreneurs are specifically asked to indicate the main long-term constraints on their ability to expand their enterprise. The following alternatives were evaluated in the survey:

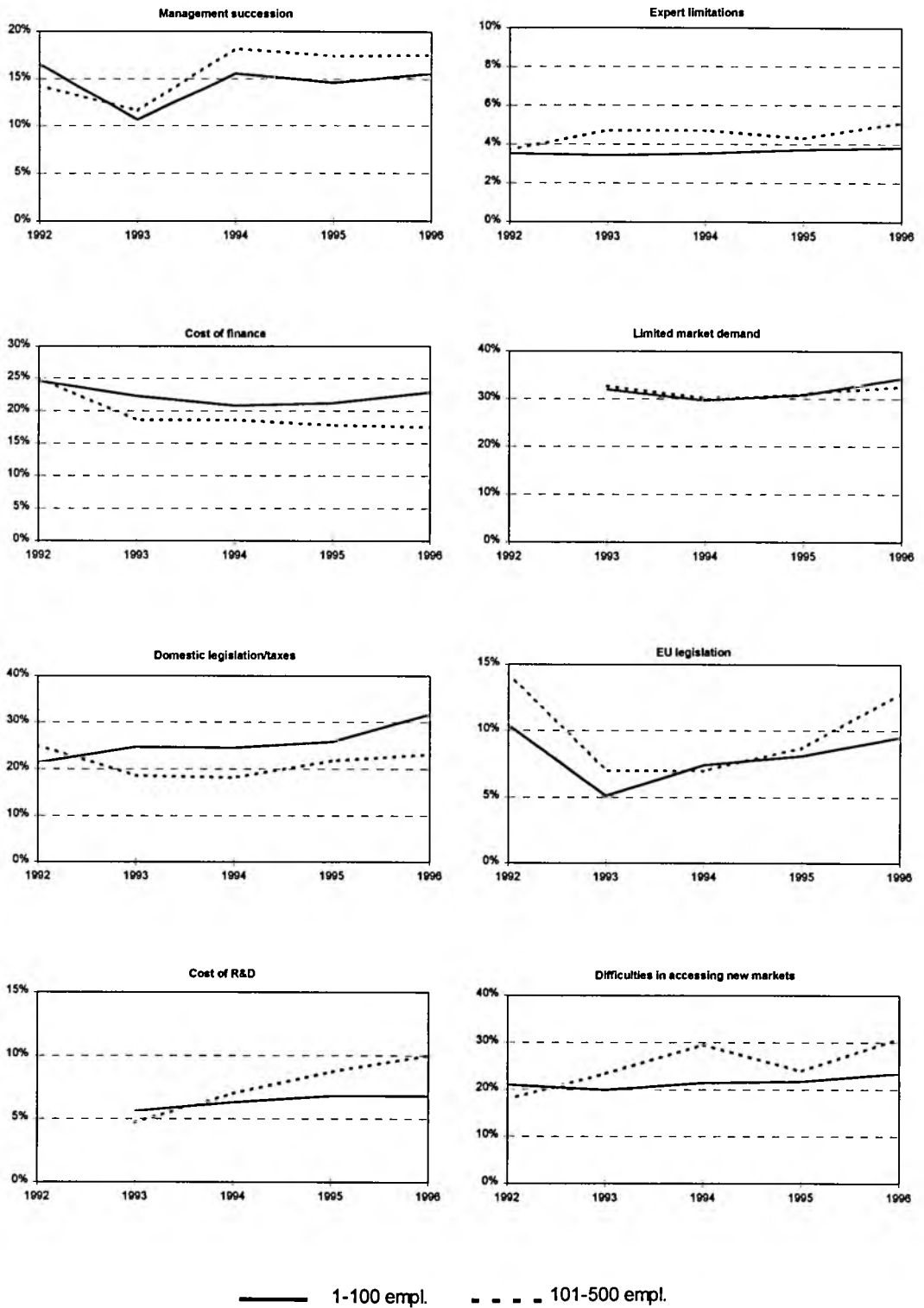
1. Management succession;
2. Export limitations;
3. Cost of finance;
4. Limited market demand (market saturation);
5. Domestic laws and taxes;
6. EU-legislation;
7. Cost of R & D;
8. Difficulties in accessing new markets;
9. Shortage of long-term finance.

Section G contains 9 tables (G.1 up to G.9) which outline the percentage of enterprises which reported long-term constraints in the period 1992-1996. Two size classes could be distinguished: 1-100 and 101-500 employees.

In addition to the question on shortage of long-term finance as a constraints on business expansion, respondents were asked to indicate whether this relates to 'equity' or 'loan'. The area plots in Figure G.10 and G.11 show the contributing of shortages of 'equity' and 'loan' to shortages of long-term finance in general for enterprises with 1-100 and 101-500 employees respectively.

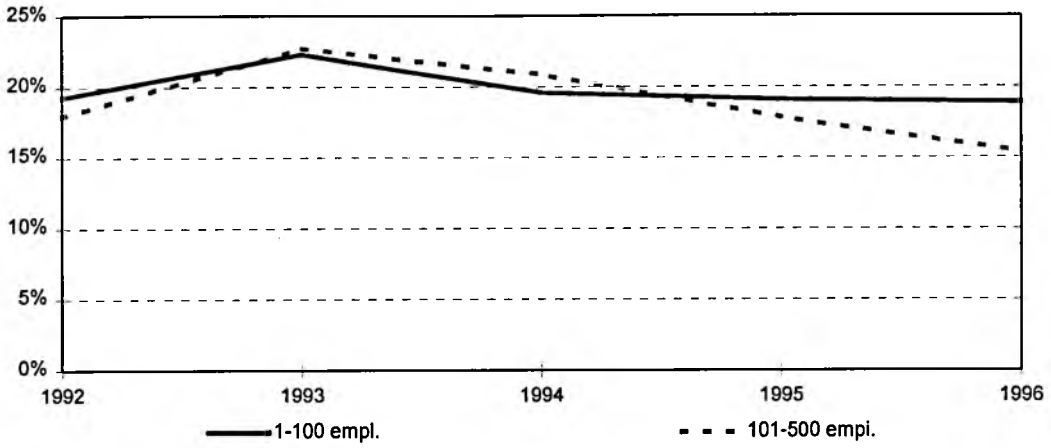
¹ Grant Thornton, UK member of Grant Thornton International, Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP.

Figures G.1-G.8 Long-term constraints on business expansion

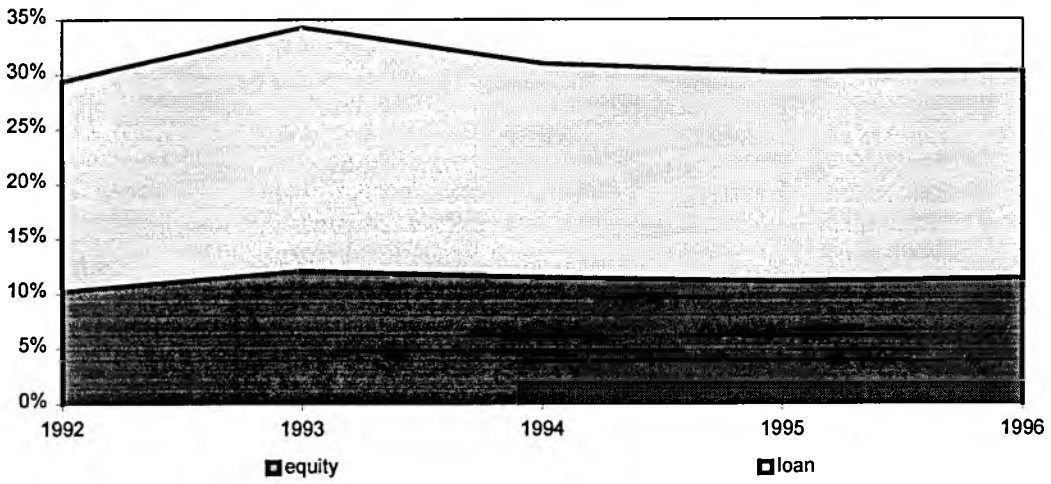


Figures G.9-G.10 Long-term constraints on business expansion

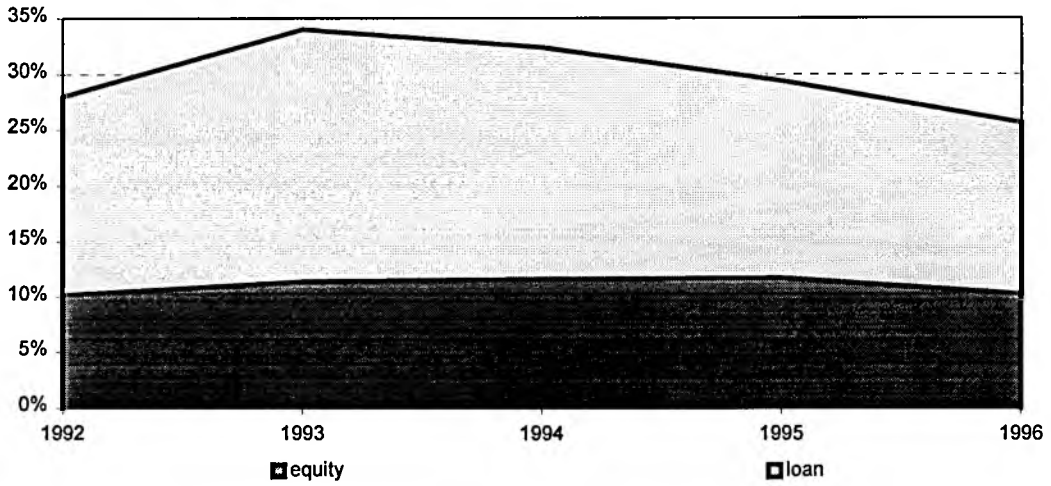
Shortage of long-term finance



Shortage long-term finance 1-100 empl.



Shortage long-term finance 101-500 empl.



H Internationalisation

In this section data from Eurostat as elaborated by EIM (see Chapter 1 of this report) is presented in the form of individual graphs for countries in which the share of exports in turnover is shown for both SMEs and LSEs (for the period 1990-1996, in Figure H.1). In addition, data from the ENSR Enterprise Survey, 1997 on changes in international competition and international business contacts as reported by enterprises is shown (Figure H.2 and H.3).

Figure H.1 Export share in turnover for SMEs and LSEs, 18 countries (in addition each page contains graphs for EU-15 and non-EU for ease of reference)

Figure H.2 Changes in foreign competition during the last 5 years, by enterprise size and sector

Figure H.3 Changes in international business contacts during the last 5 years, by enterprise size and sector

Figure H.1.a Export share in turnover for SMEs and LSEs, 1990-1996

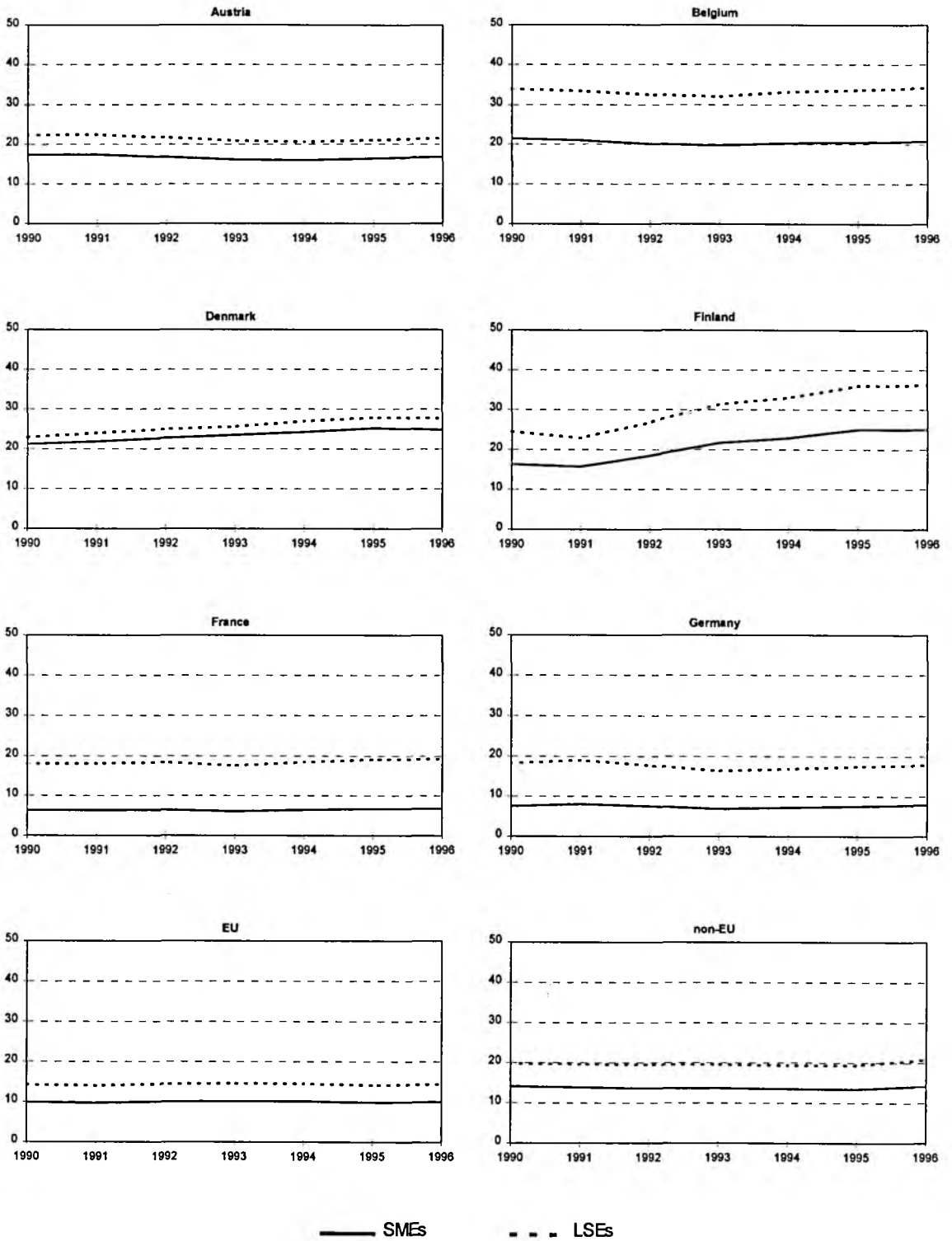


Figure H.1b. Export share in turnover for SMEs and LSEs, 1990-1996

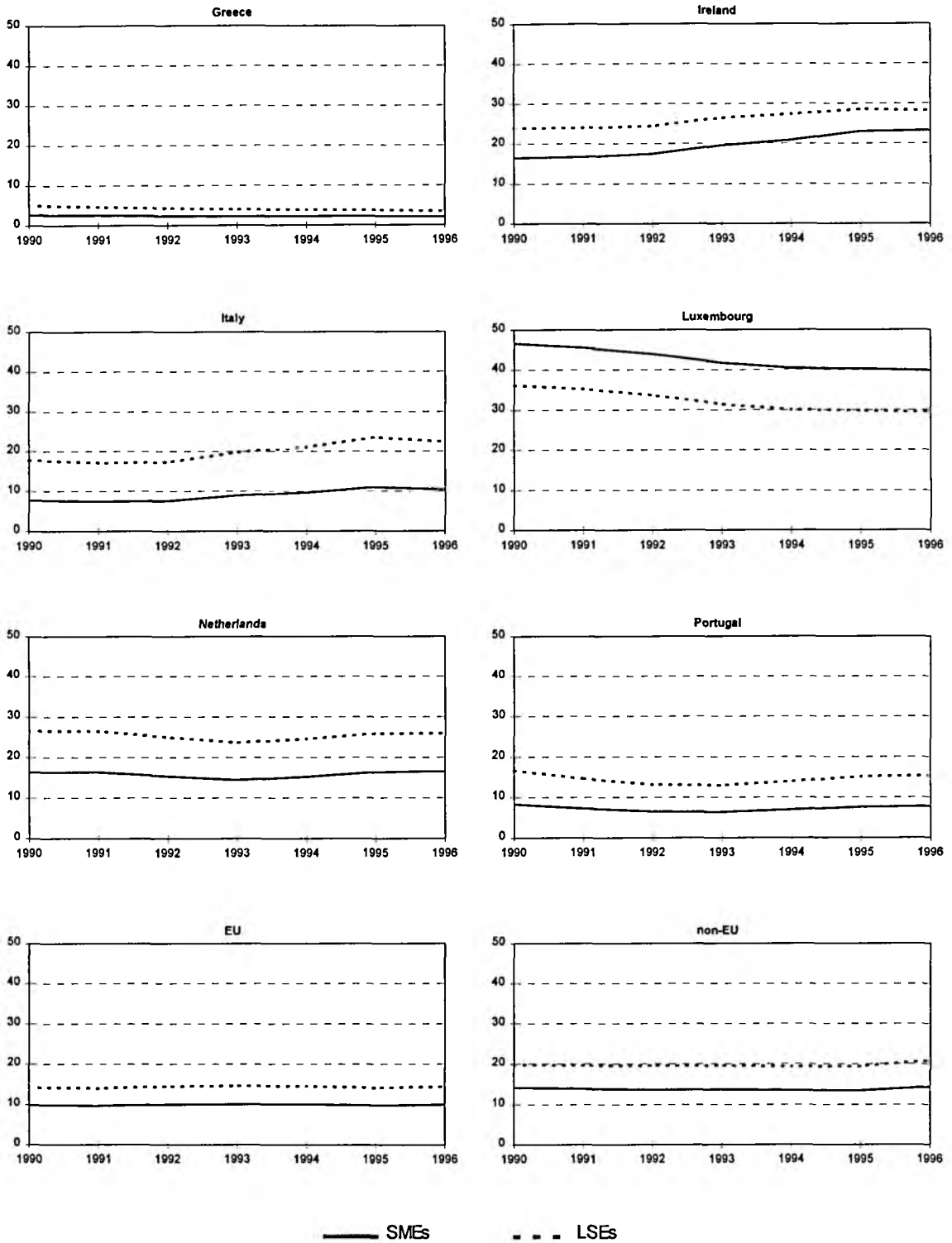


Figure H.1c. Export share in turnover for SMEs and LSEs, 1990-1996

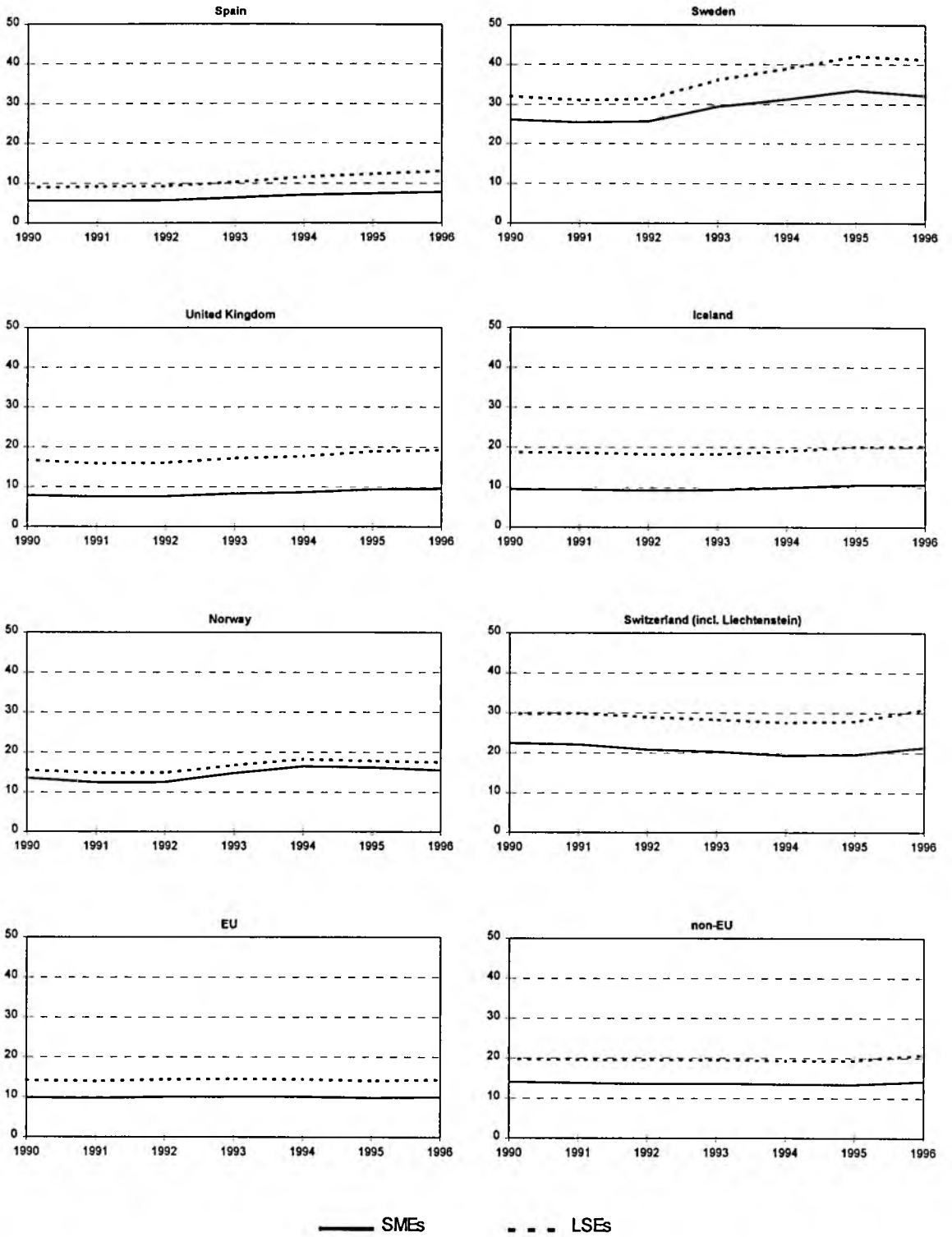


Figure H.2 Change in foreign competition during the last 5 years, by size of enterprise and sector

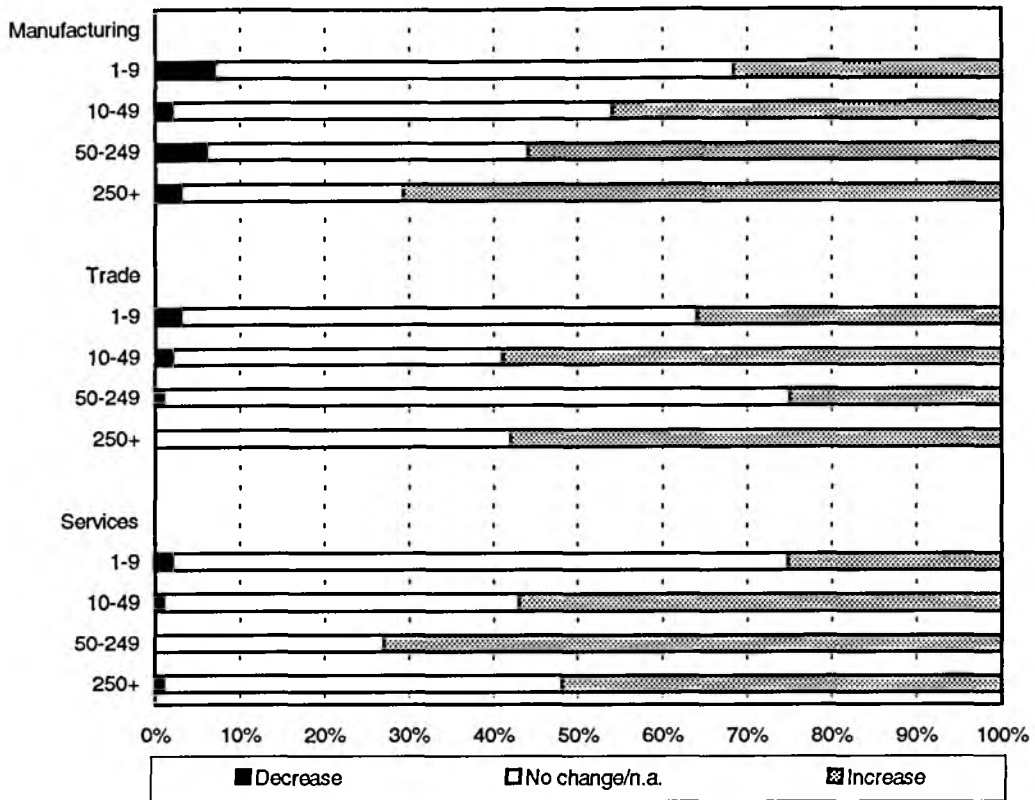
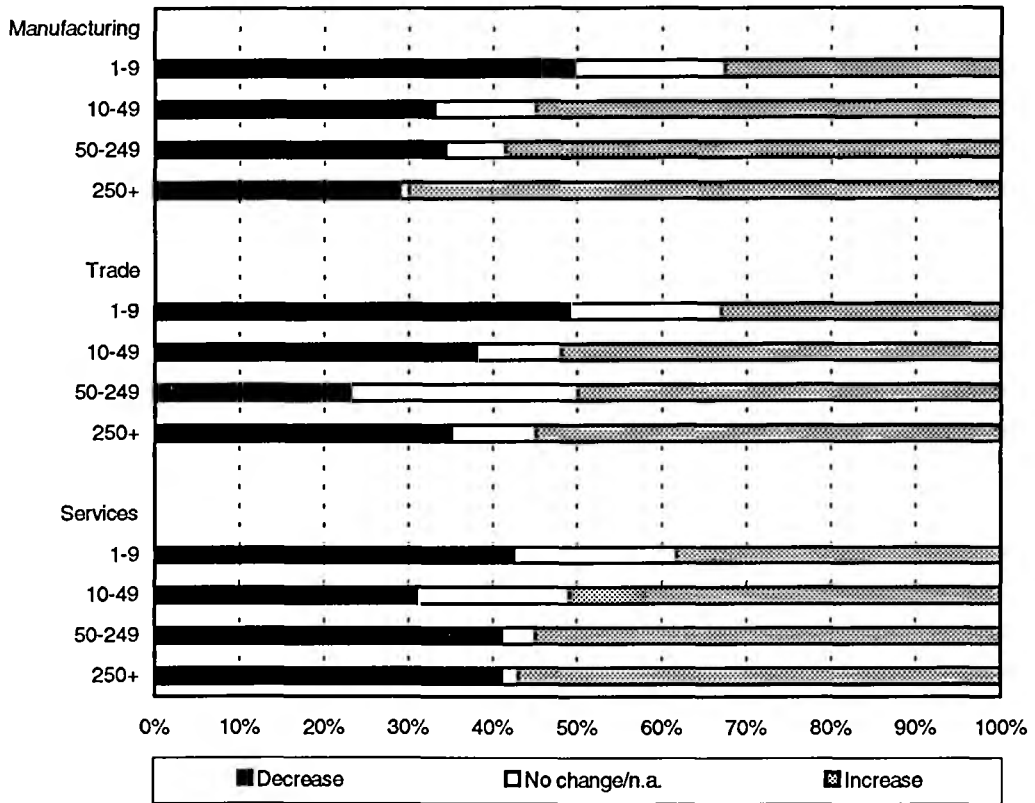


Figure H.3 Change in international business contacts during the last 5 years, by size of enterprise and sector



I Training

Data from the ENSR Enterprise Survey 1997 is shown in:

Figure I.1 Average number of training days for employees (excl. managers) in 1996

Figure I.2 Average number of training days for managers in 1996

More information on this survey is presented in the appendix to Chapter 12 of this report.

Figure I.1 Average number of training days for employees (excl. managers) in 1996

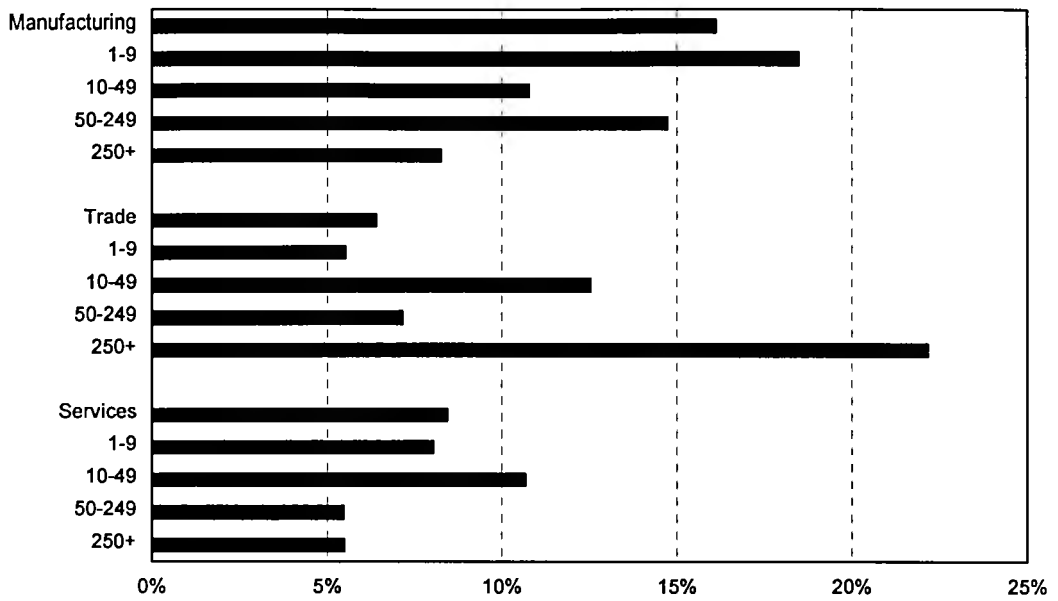
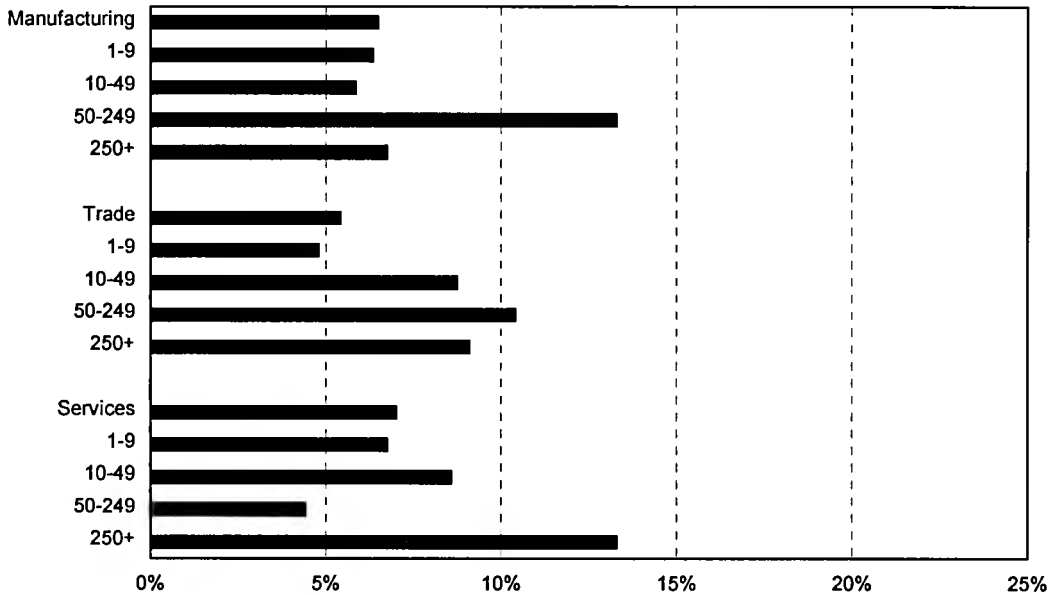


Figure I.2 Average number of training days for managers in 1996



J Finance: late payments

An important condition for the development of small businesses involves payment terms. If long periods of time elapse before customers pay, the financial burden might be considerable, and the need for additional external finances increases accordingly.

For this section, the percentage of firms which have to wait for more than 60 days before customers pay was calculated, using data from the Annual European Business Survey (1990-1996) carried out by Grant Thornton¹.

Figure J.1 Percentage of enterprises with average payment periods over 60 days, by country, 1996;

Figure J.2 Percentage of enterprises with average payment periods over 60 days, 1992-1996, by size class.

¹ Grant Thornton, UK member of Grant Thornton International, Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP.

Figure J.1 Percentage of enterprises with average payment periods over 60 days, by country, 1996

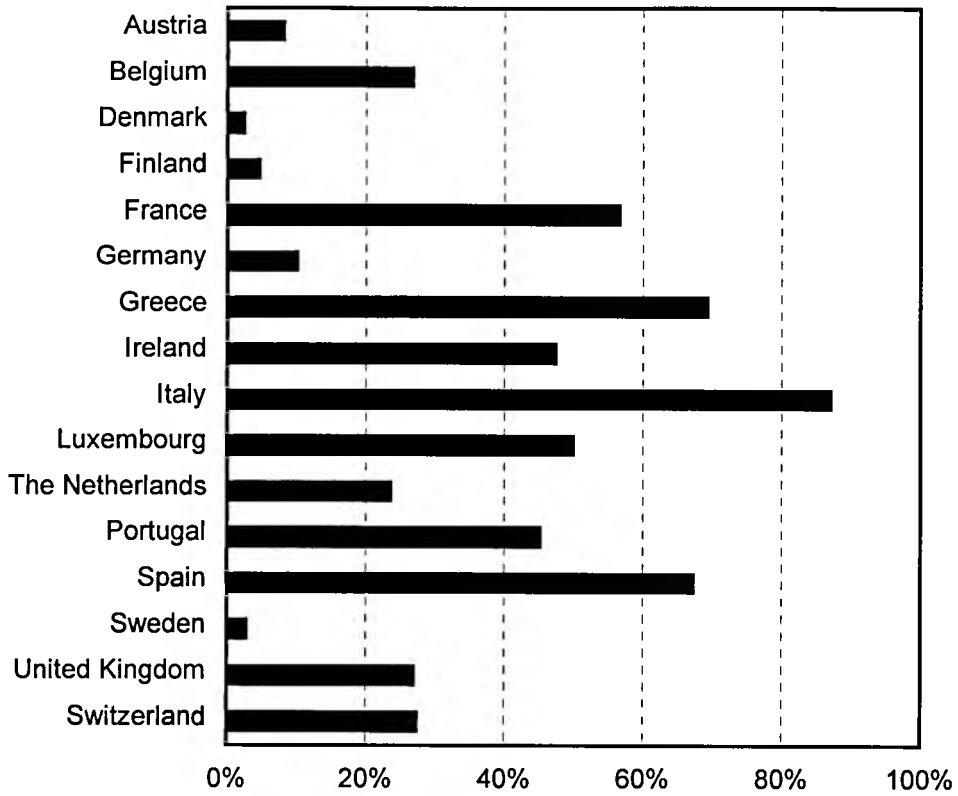
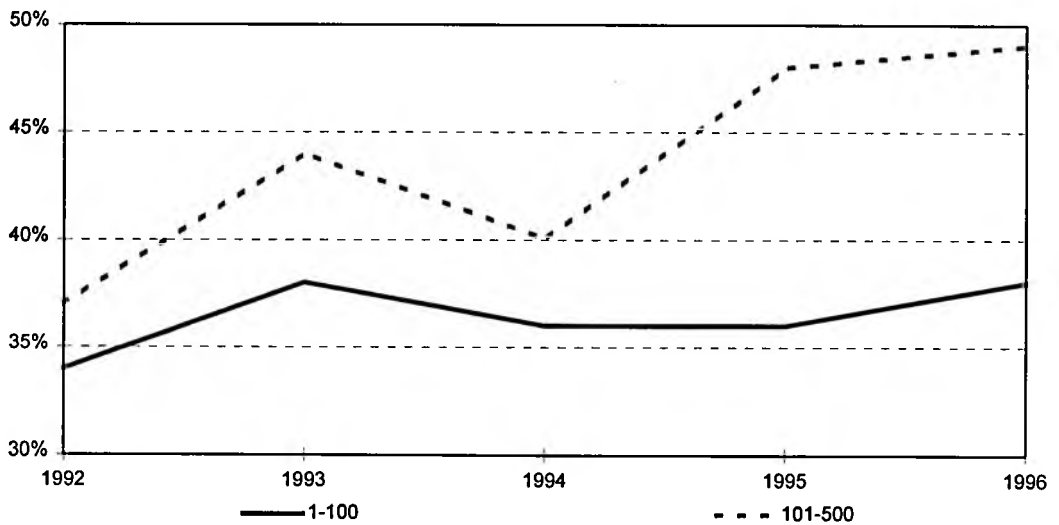


Figure J.2 Percentage of enterprises with average payment periods over 60 days, 1992-1996 (total of 16 countries shown in Figure J.1), by size class



K Labour

This section presents selected information from the ENSR Enterprise Survey 1997.

Figure K.1 Percentage of enterprises having bottlenecks in the recruitment of staff in recent years, by sector and size;

Figure K.2 Percentage of enterprises having specific bottlenecks in the recruitment of staff in recent years, by sector;

Figure K.3 Percentage of enterprises having specific bottlenecks in the recruitment of staff in recent years, by size;

Figure K.4 Percentage of firms having vacancies.

More information on the ENSR Enterprise Survey 1997 is given in the appendix to Chapter 12 of this report.

Figure K.1 Percentage of enterprises having bottlenecks in the recruitment of staff in recent years, by sector and size

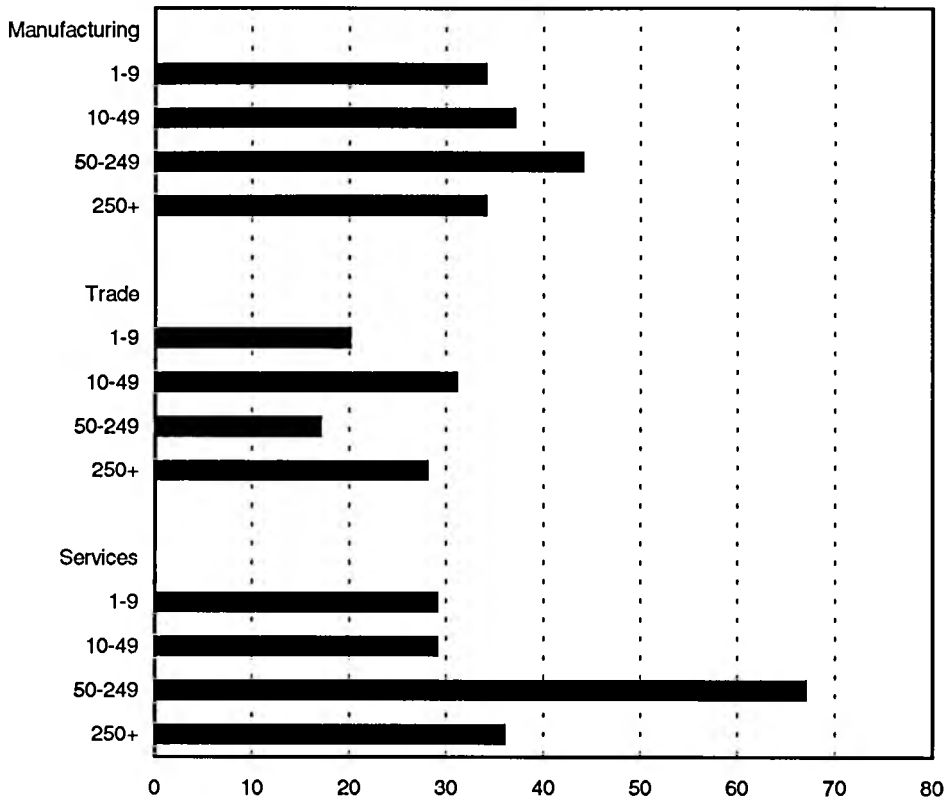


Figure K.2 Percentage of enterprises having specific bottlenecks in the recruitment of staff in recent years, by sector

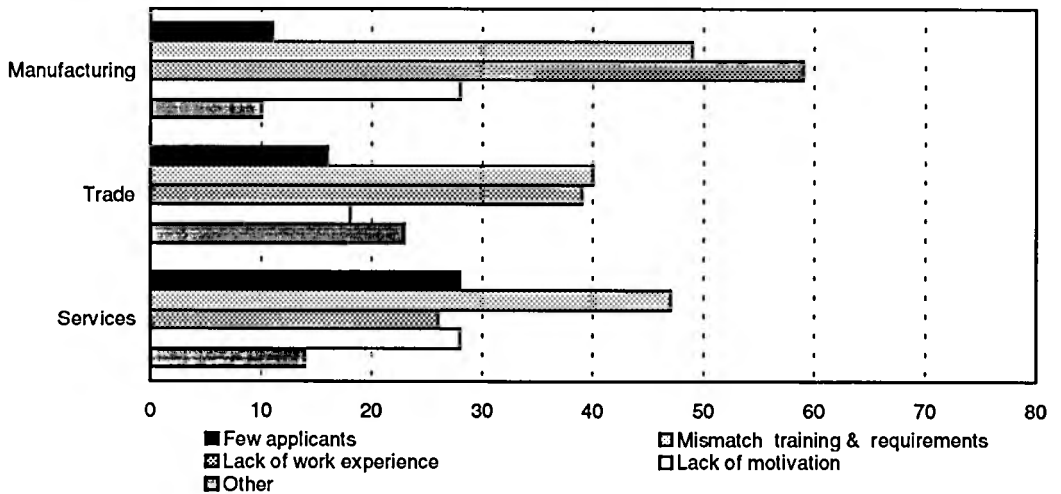


Figure K.3 Percentage of enterprises having specific bottlenecks in the recruitment of staff in recent years, by size

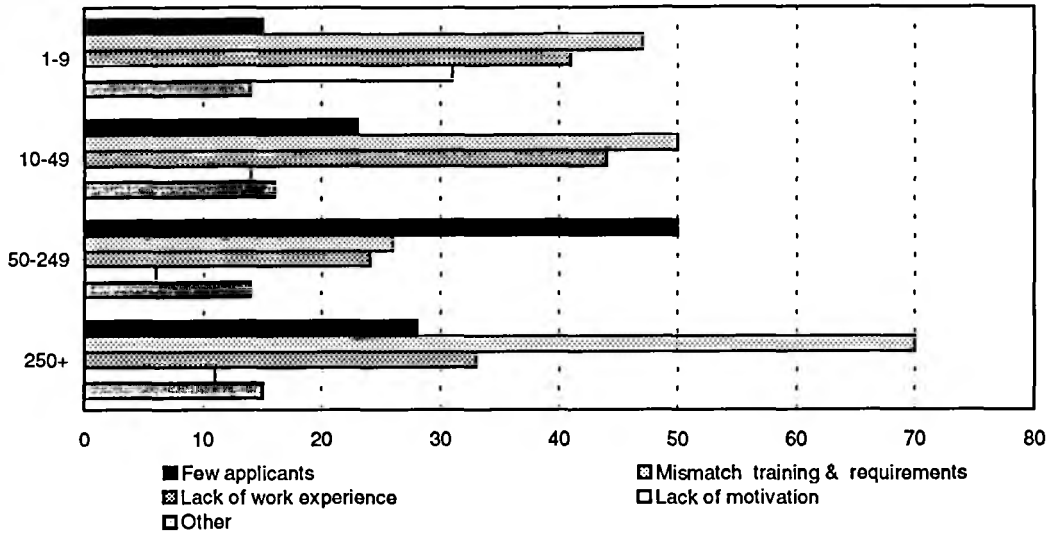
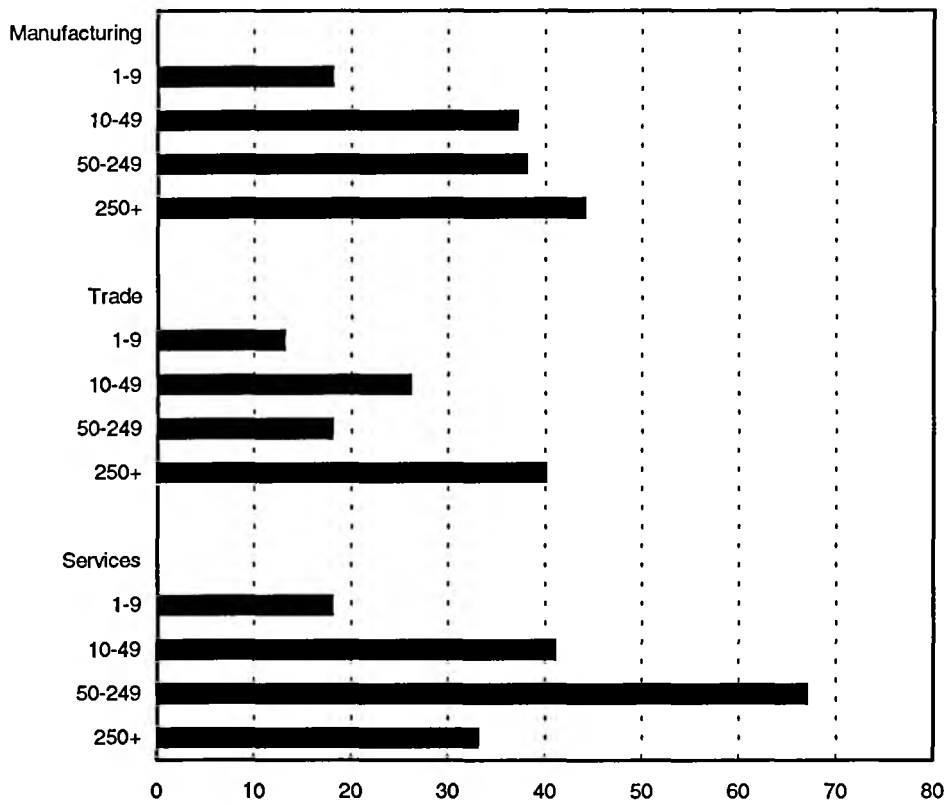


Figure K.4 Percentage of firms having vacancies



14 POLICY ISSUES: A SYNTHESIS

Co-ordinated by EIM Small Business Research and Consultancy

This Observatory Report deals with a number of topics related to the performance of SMEs and craft enterprises, the business environment and behaviour of SMEs, enterprise-oriented policies, internal market monitoring and special in-depth studies on tourism and the environment. These topics can all be covered under one umbrella, which is achieved through European integration. The main elements of European integration are: the Single Market Programme and the Economic and Monetary Union. Through the European Single Market Programme a transparent market is created in Europe. As regards state interventions and government policies, the EMU and the Inter Governmental Conference aim to realise a comparable business environment in all Member States.

Accordingly, SME Policy at the Union level aims to encourage an environment favourable to the development of SMEs throughout the EU, improve the competitiveness of European enterprises and encourage their Europeanisation and internationalisation process.

In the 'Agenda 2000' programme, the Commission states that: '*Priority will have to be given to programmes for which there is full justification for implementation at Community level and which can make the biggest contribution to growth and employment (including the development of environment-friendly technology), education, training and measures for small businesses*¹. The Commission acknowledges the importance of SMEs in terms of contributors to growth, competitiveness and employment. In this respect, one of the four guidelines for Member States Employment Policies (1998) is to promote a new culture of Entrepreneurship in the EU in order to stimulate the creation of more and better jobs². The SME-oriented policies of the EC are related to an understanding of responsibilities by SMEs themselves and to the complementary role which is played by the Commission. The Commission can play an essential role in overcoming rigidities and distortions which prevent Europe from fully exploiting its potential for growth and employment creation. The same intentions are valid at Member States level, for fully using their potential for growth and employment creation.

Competitiveness plays a vital role in the whole concept of utilising the potential for growth and employment. The European Commission states that: '*Competitiveness does not concern industry alone. It touches every citizen in the European Union. A strong economy is an efficient economy that creates jobs and raises standards of living. Productivity, employment, and living standards are all linked together. High productivity provides the basis for raising living standards. However, increases in labour productivity should not be achieved at the expense of job creation. The ability to achieve high rates of employment also affects living standards directly by generating income for a larger proportion of the population*³.

¹ European Commission, Agenda 2000, Strasbourg / Brussels, July 1997.

² European Commission, Joint Employment Report 1997.

³ European Commission, The competitiveness of European industry, Luxembourg, 1997.

This Observatory can be viewed in the context of SME competitiveness and their (potential) contribution to growth and employment creation:

- The (potential) contribution of SMEs to growth and employment is dealt with in the chapter (1) on SMEs in the EEA and Switzerland, in the chapter (2) on the Position and Development of the Craft Trades in the EEA and Switzerland, in the chapter (6) on Regional Development, SMEs in Less Favoured Rural Areas and in the chapter (10) on SMEs in Tourism. The chapter (7) on Failures and Bankruptcies can also be viewed in terms of (potential) loss of growth and employment.
- The relationship between labour productivity and employment can be found in the chapter (5) on Economic Growth, Employment and the Role of SMEs and in the chapter (8) on Health and Safety in SMEs.
- The issue of competitiveness is touched upon, to a certain extent, in every chapter of this Observatory. The chapter (12) on SMEs in the European Single Market brings forward major information concerning this topic. Similarly, the chapter (3) on Transnational Co-operation between SMEs is also important in terms of competitiveness. Furthermore, there is a link between competitiveness and the topics reviewed in the chapter (4) on The Use of External Advice by SMEs in the Different Phases of the Life Cycle. Environmental quality has become an integral part of doing business and it directly affects the long-term competitiveness of industry: a special chapter (11) is devoted to this issue.

This report provides conclusive data on the state of affairs concerning major issues related to competitiveness, growth and employment. It also provides information about current and new SME policies - pursued at EC and/or at national level - to promote, improve and stimulate this crucial sector of the economy. It appears that new developments in SME policy are still strongly affected by high unemployment rates and the need to achieve sustainable economic growth. Major issues reviewed in this respect are: the reduction of administrative burdens, the improvement of financial environments, labour-related issues, internationalisation and the enhancement of R&D and innovation (see Chapter 9). The following main topics were distilled from the chapters of this report:

- the quality of entrepreneurs and their employees
- employment opportunities
- international co-operation
- information and advisory services
- the environment
- administrative burdens

The quality of entrepreneurs and their employees

The business environment for enterprises is getting more complicated and the demand for products/services is becoming increasingly focused and customised. If enterprises wish to become competitive, entrepreneurs and their employees need to address these issues on a daily basis.

However, entrepreneurs and their employees are not always fully aware of their need to upgrade their knowledge. Therefore, the awareness for quality upgrading among entrepreneurs and their employees should be increased significantly. Quality upgrading could be applied to management training, continuous vocational education and life-long learning concepts. Upgrading entrepreneurial quality could also mitigate failures and/or bankrupt-

cies and thus, act as an important preventive measure against growth and employment losses.

Start-up entrepreneurs are another target group which could benefit considerably from quality improvements. Initiatives to improve the quality of start-up entrepreneurs are very important. The better prepared a (potential) start-up entrepreneur is, the higher the chances could become that the new enterprise would survive and prosper. Initiatives to increase SME recruitment of well educated graduates could significantly contribute to improved quality in this type of enterprise.

Initiatives to improve awareness of, and access to, research and innovation, are increasingly part of the drive to improve the quality of entrepreneurs and their employees. Reinforcing the link between education, training and R&D programmes could further improve awareness and access to relevant research and innovation.

SMEs play a vital role in the tourist sector, even though large, dominant industry players can sometimes pose a threat to them. The development of SME-related human resource management measures could significantly assist the drive to raise the quality of products and services. Attention should be paid to linking training programmes with technological innovations and their implementation in the field of security, logistics, supply, environment and marketing.

Employment opportunities

In this report, data is provided on new developments, at national level, concerning labour-related policies (see Chapter 9). Furthermore, attention is also paid to employment opportunities in relation to disadvantaged groups, part-time jobs, ageing of the population and the transition to self employment.

Most of the member countries have implemented additional measures to stimulate job creation in SMEs. Instruments range from injecting flexibility options into labour market regulations, tax redemption on recruitment, reduced social security contributions to allowances and training courses.

Competition, research and development and human resource management tend to improve the overall competitiveness and growth of existing enterprises and related employment.

Initiatives to encourage individuals from disadvantaged groups to become entrepreneurs are already in place and can be further enhanced by tailor-made training programmes and specific advisory and information services which focus on these sections of the population. Several countries have developed policies that offer reductions in social security contributions for employees recruited from disadvantaged groups.

Individuals seeking only part-time employment are often considered to belong to the growing category of flexible workforce. They experience disadvantages because existing labour market rules and regulations do not always favour part-time or temporarily contract workers. More flexibility in labour-related contracts, rules and regulations could contribute to the improvement of employment opportunities for individuals in disadvantaged groups. This could also contribute to SME-related flexibility of input factors - which, in turn, could improve the competitiveness and viability of this type of enterprise.

Employment opportunities for older persons are worsening. Older individuals are increasingly perceived to belong to disadvantaged groups and this will lead to severe problems in the near future. Improved labour conditions and retraining programmes can contribute to better employment opportunities and consequently lead to the retention of experienced employees of real value to enterprises. Initiatives to encourage flexible retirement schemes could also improve the employment opportunities of older individuals.

Currently, such persons need to overcome considerable obstacles, particularly in the field of existing social security regimes and in the transition from employment to self employment. Smoother transition to self employment should be facilitated in order to create better employment opportunities for older persons.

International co-operation

International or transnational co-operation between enterprises constitutes another important means of improving the competitiveness of SMEs. Nevertheless, many reasons exist to hamper transnational co-operation between SMEs (see Chapter 3). At national and EU levels, logistic and public finance support programmes have been implemented in order to improve transnational co-operation between SMEs. Financial programmes aim to support co-operation between SMEs within the EU and enterprises outside of it. Initiatives to raise awareness on transnational co-operation should be encouraged. The provision of information, seminars, training and best practice case studies could help entrepreneurs overcome their inherent reluctance.

Financial assistance to stimulate the first steps in the process of transnational co-operation between SMEs in different Member States would also constitute suitable support to encourage networking between entrepreneurs.

Information and advisory services

In recent years, the supply of information and advisory services has increased rapidly. Nevertheless, it often fails to reach small and medium-sized enterprises. Chapter 4 provides more data on the access barriers to information and advice. This chapter also supports the view that enterprises which use external advice are relatively more successful, more growth-oriented and internationalise more extensively.

Currently, the supply of information is considerable. Many enterprises, however, face an overflow of information and related channels. It is increasingly important that entrepreneurs are supported in their efforts to acquire relevant, customised information. The process requires specialist information and advisory support services. An advisor could facilitate the whole process by defining, selecting and collecting the required information and also by giving advice on its uses. Furthermore, information about advisers who are able to assist the enterprise in the follow-up process could lead to more concise usage and implementation of relevant databases.

Small and medium-sized professional organisations play a major role as providers of support and advisory services.

The close link between information and advice also has implications for the provision of this type of services. The provision of information and advisory services from single sources (one-stop-shop concept) could significantly improve the ease of access and

communication with customers. At national level, a number of initiatives have already been taken to improve overall access to information.

Information and advisory services could also improve the overall quality of entrepreneurs. Many programmes are implemented, by Member States, to support the use of such services. However, programmes for training and qualifying SME-related consultants are in need of attention. Further initiatives are needed to improve the implementation of advice to SMEs. These could be supported by the provision of finance to facilitate the monitoring of services offered by advisers. In this way, a higher success rate and, consequently, a better enterprise performance could be ensured.

Information and advisory services could also play a major role in regional development. In the field of access to technological knowledge and international markets, advisors could improve economic and employment growth, in the EC in general and in less favoured rural regions in particular.

Environment

Environmental issues are likely to remain a major discussion topic for policy makers and entrepreneurs alike. First, ecological activities represent opportunities for job creation in SMEs which are active in this innovative sector of the economy (e.g. new environment-friendly products and production processes, related new services, etc.). Second, environmental protection means that SMEs have to integrate environmental constraints into their overall business strategy. Meeting relatively high environmental requirements is a precondition of long-term industrial competitiveness. For SMEs, meeting such requirements invariably leads to additional costs and this could significantly affect the competitive performance of this important sector of the EU. SMEs seem to lag behind LSE in the awareness, activities and investment for the protection of the environment as well as in environment management systems.

Many entrepreneurs perceive a conflict in the relationship between environment and employment. However, although small, the overall impact on employment is positive (see Chapter 11).

Stimulating start-ups and existing SMEs in the eco-sector of the economy could be achieved by specific instruments, such as: adequate technical information and assistance and easier access to finance (e.g. loan guarantees, risk capital, green investment funds, etc.). Economic and fiscal instruments for coping with new developments in the field of environment are implemented both at EU and national levels. New EC policy measures include improved access to relevant information, the development of environmental advice services and the adaptation of pertinent directives and regulations. Environmental policies affect and are affected by other policies and co-ordination between them becomes vitally important.

In most cases, enterprises active in the field of environmental issues and those affected by related policies, have to invest in meeting relevant standards and requirements. It is important, for such enterprises, to receive quality and up-to-date information about environmental standards and requirements. This way, enterprises can integrate action and cost in their current and future business plans. The dissemination and advice related to such data can be provided by specialised information centres and through support organisations.

Standards and requirements could be based upon the 'State-of-the-art' in enterprises which have taken the lead in environment behaviour in a sector. They should also not change too much, as this could cause, in some enterprises, uncertainty as well as additional expenditure. The feasibility of time and progress schedules for meeting environmental standards and requirements should be co-ordinated and monitored accordingly. Otherwise the whole process could create even more uncertainty for participating enterprises and could also lead to a lack of understanding/communication between policy makers and entrepreneurs.

Administrative burden

Generally, the total cost of administrative burdens to SMEs can be very high. New initiatives and/or changes in existing measures are contributing to increases in related costs.

The European Commission has developed a number of initiatives which focus upon reducing unnecessary administrative burdens. For new policy measures, in addition to the *ex-ante* evaluation of administrative burdens, *ex-post* evaluations should also be undertaken in order to gather relevant information with regard to the extent of cumulative environmental costs to SMEs. Awareness of environment-related costs could assist ongoing discussions on the reduction and avoidance of administrative burden for enterprises.

At national level, many new developments in the field of business environment consist mainly of simplified administrative procedures. Typically, examples of most recent policies in Europe would include the single contact point principle, the simplification of forms, deregulation, etc. Measures to spread information and exchange best practise methods regarding these initiatives and evaluation instruments/practises are strongly encouraged.

ANNEXES

ANNEX I MEMBERS OF THE REFERENCE BOARD

International organisations

- CCACC, Comité de Coordination des Associations de Coopératives de la CE
- CECD/FEWITA/Eurocommerce, Confédération Européenne du Commerce de Détail/
Federation of European Wholesale and Trade Associations
- CECOP, Comité Européen des Coopératives de Production et de Travail Associé
- CEDI, Confédération Européenne des Indépendants
- EBC, European Builders Confederation, Paris
- EMSU, European Medium and Small Business Union
- 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, Directorate-General XXIII (observer)
- EUROPMI, European Committee for Small and Medium-sized Independent Companies
- EVCA, Europe's Venture Capital Association
- HOTREC
- 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
- UN/ECE, United Nations/Economic Commission for Europe, Geneva
- YES for Europe, European Confederation of Young Entrepreneurs

National organisations

- AIP, Associação Industrial Portuguesa, Portugal
- APCM, Assemblée Permanente des Chambres de Métiers, France
- CEPYME, Confederación Española de la Pequeña y Mediana Empresa, Spain
- CGPME, Confédération Générale des Petites et Moyennes Entreprises, France
- CGPMEAC, Confédération Générale des Petits et Moyens Entrepreneurs, Artisans et
Commerçants de Grèce, Greece
- Chambre des Métiers, Luxembourg
- CNA, Confederazione Nazionale Artigianato, Italy
- CNAMS, Confédération Nationale de l'Artisanat, des Métiers et des Services, France
- CONFARTIGIANATO, Confederazione Generale Italiana dell'Artigianato, Italy
- CONFINDUSTRIA, Comitato Nazionale per la Piccola Industria della Confindustria,
Italy
- FABRIMETAL, Belgium
- Federation of Master Builders, the United Kingdom
- Fédération des Artisans, Luxembourg

- FPB, The Forum of Private Business, the United Kingdom
- Håndvaerksrådet, Danish Federation of Small and Medium-Sized Enterprises, Denmark
- Koninklijke Vereniging MKB Nederland, the Netherlands
- NCMV, Nationaal Christelijk Middenstandsverbond, Belgium
- SFA, Small Firms Association, Ireland
- UCM, Union Syndicale des Classes Moyennes de Belgique, Belgium
- ZDH, Zentralverband des Deutschen Handwerks, Germany

ANNEX II

NAMES AND ADDRESSES OF THE ENSR PARTNERS

Institute	Address	Telephone Telefax
Austria		
Institut für Gewerbe- und Handwerksforschung	Gusshausstrasse 8 1040 VIENNA	43-1-5059761 43-1-505976122
Belgium		
Small Business Research Institute (K.U. Brussel)	Vrijheidslaan 17 1081 BRUSSELS	32-2-4124228 32-2-4124200
Denmark		
Danish Technological Institute (DTI)	P.O. Box 141	45-43504350
DTI Industrial Analyses	2630 TAASTRUP	45-43504767
Finland		
Small Business Institute	P.O. Box 110	358-2-3383548
Turku School of Economics and Business Administration	20521 TURKU	358-2-3383268
France		
Association pour la Promotion et le Développement Industriel (APRODI)	P.O. Box 151.16 75764 PARIS Cedex 16	33-1-47275149 33-1-47275150
Germany		
Institut für Mittelstandsforschung Bonn (IFM Bonn)	Maximilianstrasse 20 53111 BONN	49-228-729970 49-228-7299734
Greece		
University of Pireaus	Ipsilantou 130 PIREAUS 185 32	30-1-4175217 30-1-4170608
Iceland		
National Economic Institute	Kalkofnsvegi 1 150 REYKJAVIK	354-5699500 354-5626540
Ireland		
The Economic and Social Research Institute (ESRI)	4 Burlington Road DUBLIN 4	353-1-6671525 353-1-6686231
Italy		
C.R.I.S.P.-Research Centre on Production Systems (Catholic University)	Via Emilia Parmense 84 29100 PIACENZA	39-523-599342 39-523-599303
Istituto Guglielmo Tagliacarne	Via Appia Pignatelli 62 00178 ROME	39-6-780521 39-6-7842136

Institute	Address	Telephone Telefax
Liechtenstein		
Schweizerisches Institut für gewerbliche Wirtschaft, Universität St. Gallen	Kirchlistrasse 44 9010 ST. GALLEN Switzerland	41-71-2447790 41-71-2447147
Luxembourg		
Chambre des Métiers du Grand-Duché de Luxembourg	P.O. Box 1604 1016 LUXEMBOURG	352-4267671 352-426787
Netherlands		
EIM Small Business Research and Consultancy	P.O. Box 7001 2701 AA ZOETERMEER	31-79-3413634 31-79-3425786
Norway		
Agder Research Foundation	P.O. Box 2074, Posebyen 4602 KRISTIANSAND	47-38-025055 47-38-025090
Portugal		
Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento (IAPMEI)	Rua Rodrigo da Fonseca, 73 1297 LISBON	351-1-3860966 351-1-3864950
Spain		
Instituto Vasco de Estudios e Investigación (IKEI)	Avda. de la Libertad 20-3 20004 SAN SEBASTIAN	34-43-426610 34-43-423501
Switzerland		
Observa St. Gallen - Geneva c/o Schweizerisches Institut für gewerbliche Wirtschaft, Universität St. Gallen	Kirchlistrasse 44 9010 ST. GALLEN	41-71-2447790 41-71-2447147
Sweden		
Swedish National Board for Industrial and Technical Development (NUTEK)	Närings och teknikutvecklingsverket 117 86 STOCKHOLM	46-8-6819100 46-8-6453795
United Kingdom		
Centre for Small and Medium Sized Enterprises, University of Warwick	COVENTRY CV4 7 AL	44-1203-523741 44-1203-523747



EIM

Small Business Research and Consultancy



Coordinated by:
**EIM Small Business
Research and Consultancy**
P.O. Box 7001
2701 AA Zoetermeer
The Netherlands
Phone +31 79 341 36 34
Fax +31 79 342 57 86