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THE EUROPEAN OBSERVATORY FOR SMEs

Comments by the Commission on the third annual report (1995)

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INTRODUCTION

In the context of Community initiatives aimed at promoting better observation of the economic development of enterprises as part of the dynamics of effective implementation of the Internal Market ¹, and namely in the framework of the European Observatory for SMEs set up by the Commission on December 1992, the "Economisch Instituut voor het Midden-en Kleinbedrijf" (EIM), coordinator of the network made up by the "KMO Studiecentrum", the Danish Technological Institute (DTI), the "Institut für Mittelstandforschung" (IFM), the Hellenic Organisation of Small and Medium-Sized Industries and Handicrafts (EOMMEX), the "Instituto Vasco de Estudios e Investigación" (IKEI), the "Association pour la Promotion et le Développement Industriel" (APRODI), the Economic and Social Research Institute (ESRI), the "Università Commerciale Luigi Bocconi", the "Chambre des Métiers du Grand Duché de Luxembourg", the "Economisch Instituut voor het Midden-en Kleinbedrijf" (EIM), the AGDER Research Foundation, the "Institut für Gewerbe-und Handwerksforschung", the "Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento" (IAPMEI), the Turku School of Economics and Business Administration, the "Närings-och teknikutvecklingsverket" (NUTEK) and the University of Warwick School of Industrial and Business Studies, has submitted to the Commission a third independent Report on the situation of, and the prospects for SMEs ².

Like its predecessors, this Report is mainly in the nature of a review which presents the latest enterprise developments and prospects in the European economy, quite often in areas where data is scarce but vital for an effective analysis. It provides specific coverage and detailed consideration of the impact of the Internal Market on SMEs and discusses a series of current issues which are relevant to understanding present and future SME trends. It considers recent developments in Community and national policies which affect the business environment and SME performance. And, by doing so, it aims at stimulating, and providing a basis for, substantive debate and greater understanding of horizontal issues relating to SMEs.

¹ Council Decision 93/379/EEC of 14 June 1993, O.J. L 161 of 2 July 1993.

² Following the coming into force of the European Economic Area on the 1st January 1994, participation in the Observatory network was extended to research institutes originating from EFTA/EEA Member States, on an informal and voluntary basis. Austria, Finland, Norway and Sweden have thus joined this project, with valuable support from the competent national authorities. Accordingly, this annual Report actually covers the 15 EU Member States and Norway and its future editions should refer also to Iceland and Liechtenstein.

The Commission is pleased to note that previous reports have been well received, and widely discussed in all quarters ³ and trusts that this new Report will be as important a source of ideas, information and experience. The contribution of SMEs to employment generation and sustainable growth is quite significant. 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 for the creation of new employment opportunities. But successful problem-solving and policy-making in favour of SMEs require access to information which has not traditionally been readily available in all Member States. The Commission therefore considers that the Observatory can surely continue to act as one of the most important analytical sources on which are to be based practical proposals to stimulate, innovate and supplement the range of existing actions, in the new form of partnership proposed under the Integrated Programme in favour of SMEs and the craft sector ⁴, and hopes that this Report will help towards meeting the information needs of all those concerned with the future of SMEs and involved in policy debates at both national and European levels.

This document, which closely follows the Report's structure, sets out a summary of the Commission's comments on the Report, referring mainly to new data and results provided by the Observatory, and focuses primarily on its most controversial findings or aspects that are particularly open for outside criticism. It thus presents the Commission's comments on the business performance (Chapters 1-5) and the business environment (Chapters 6-13) parts of the Report, whilst also covering its theme studies (Chapters 14-16) and conclusions (Chapters 17-18). As it has been the case with regard to its comments on the first and second reports ⁵, the Commission did not appraise systematically the data for each Member State or the annexes to the Report although incidental use has been made of them in order to illustrate or highlight some of the ideas and concepts used.

GENERAL COMMENTS ON THE REPORT

The Commission very much welcomes this third Report considering the state of SMEs, particularly as it clearly reaffirms the need to promote mutual consultation and joint coordination leading to the exchange of best practices between Member States as a means to give full scope to the dynamism and innovative potential of SMEs, along the lines presented in the Council Resolution of 10 October 1994 ⁶.

³ See in particular the Resolution from the European Parliament (PE 186.411 of 19 January 1995) and the Opinion from the Social and Economic Committee (CES 52/95 of 25 January 1995) on the second annual report from the European Observatory for SMEs.

⁴ COM (94) 207 final of 3 June 1994.

⁵ COM (93) 527 final of 5 November 1993 and COM (94) 352 final of 7 September 1994, respectively.

⁶ O.J. C 294 of 22 October 1994.

The third annual Report of the European Observatory for SMEs aims in particular at providing both institutions and individuals with some comprehensive information about the performance of SMEs in the Internal Market and the factors which influence them. It is largely based on comparable data collected by EUROSTAT as well as on the conceptual framework set out in its "Enterprises in Europe" reports and, following the Commission's suggestion ⁷, its structure has been adapted to explicitly consider the various items to be presented and variables to be analysed as elements of either the performance of SMEs or their business environment.

As has been the case with previous reports, the European SME sector is taken to comprise enterprises (except in agriculture, hunting, forestry and fishing) employing less than 500 persons. Additionally, the following broad size classes are distinguished within the SME sector:

- micro enterprises: 0-9 employees;
- small enterprises: 10-99 employees, sometimes further subdivided into 10-19, 20-49 and 50-99 employees;
- medium enterprises: 100-499 employees, sometimes further subdivided into 100-249 and 250-499 employees ⁸.

The Commission acknowledges that the methodology used by the Observatory has already proved to secure the use of comparable data throughout the reports, thus providing a structured and comprehensive basis to guide their development in subsequent years. It nevertheless recalls that the statistical thresholds retained by the Observatory for defining SMEs clearly need to be reconsidered to reflect as accurately as possible the socio-economic reality of this category of enterprises. Moreover, the limited availability of data referring to the period 1991-95 invites to the use of some precaution when looking at the relevance and accuracy of qualitative assessments made in the Report, particularly whenever developments which are estimated to have occurred during this period are compared to those identified in previous years.

⁷ See COM (94) 352 final of 7 September 1994, p. 19.

⁸ The general expression "SME" is the only one used throughout this document as to designate all enterprises employing less than 500 persons. Any other reference to micro, small and medium enterprises should therefore be read as referring to specific size classes.

1. Economic growth and sectoral development

As this Report is drawn on the basis of the same core statistical data set used in the context of the second Observatory's report and referring mainly to 1990 there are, obviously, no significant differences to be noticed with regard to the main characteristics and structure of the European non-primary private sector, apart from those resulting from the extension of its geographical coverage⁹. On the basis of the Observatory own estimates, it could thus be assumed that there are at present in Europe more than 17 million enterprises, of which some 99.9% employ less than 500 employees and some 93% are micro enterprises. Including large firms, the average enterprise in the European economy has about 6 persons employed (ranging from 3 in Greece to 13 persons employed in Sweden), while the average SME employs slightly less than 4 persons. As a result, SMEs would now provide well over 70 million jobs, accounting for an impressive 71% of total employment¹⁰ in the European non-primary private sector.

Notwithstanding the statistical limitations referred to above there is at least a general, relatively new finding in the Report that deserves further consideration. Although labour productivity in SMEs, as measured by value added per occupied person, seems to be below the national average in almost all countries (the only exceptions being Belgium, Denmark, Germany and Norway), its size class pattern appears to follow an inverted V-shape, reaching its highest value for medium-sized enterprises. Together with other findings relating to sectoral and national variations in SME relative labour productivity, and assuming that there is a positive relation between average enterprise size and capital intensity, this would suggest that the relative distribution of SMEs and large enterprises across the economy is related to the very nature of the production process and partly governed by economic efficiency¹¹. When considered from a political point of view, this result seems to give a clear indication as to the need to further consider and develop differentiated policy approaches and instruments, tailored to the specific needs of different types of enterprises according to their size, category and place in the economic fabric. Moreover, when taken together with the already available evidence on the existence of fundamentally different problems, attitudes and behaviour within the SME sector¹², this finding can only strengthen the Commission in reconsidering the current definitions of SMEs with a view to adopt a general, though flexible, size class classification which would better reflect observed differences between different types of enterprises.

⁹ See note 2 above. As was noted in the Commission's comments on the second report Austria, Finland and Sweden are much more oriented towards large enterprises than former EU Member States since they depict, as a whole, a lower number of enterprises per 1,000 inhabitants and higher average firm size than any other country.

¹⁰ Defined as the number of persons working at least 15 hours weekly and including the self employed.

¹¹ In this sense, the market forces alone would work towards an economic optimum, with SMEs and large firms tending to dominate those sectors and markets in which they generally can benefit from higher labour productivity. However, these results must be seen as provisional and still require further investigation.

¹² See COM (94) 352 final of 7 September 1994, p. 4.

The Observatory has also considered useful to analyse estimated developments between 1988 and 1995 by distinguishing three sub-periods, as those years can be seen as encompassing a succession of three different phases of growth (1988-1990), stagnation (1990-1993) and recovery (1993-1995). The results presented in the Report are in tune with previous findings suggesting that SMEs have in general outperformed large enterprises during the first part of that period, at least if their respective performance is measured by average annual growth rates in real value added, real turnover and employment. A reversal of this tendency, which could be the result of a decline in the economic performance of micro enterprises, appears nevertheless to take form from 1990 onwards as the growth differential between SMEs on the one hand and large firms on the other is found to become gradually smaller in all three dimensions, and is particularly evident in 1993-1995, when large firms grow even faster than SMEs.

For the entire period of 1988-95 however, average yearly real turnover as well as employment growth in SMEs would have been in excess of that of large firms, and micro enterprises, although far from being recession-proof, would have been the only ones able to secure some significant net job creation. In particular, the employment growth differential was found to be positive in all countries but Ireland, Spain and Norway, and quite substantial in such sectors as wholesale trade, retail distribution, transport and communications, and producer services. Furthermore, some results from recent research indicate that the growth performance of SMEs has a considerable impact on overall economic growth, and suggest that small firm policy can be deemed as an instrument for reduction of unemployment or as a means of furthering economic growth. Whilst it is certainly conceivable that there are alternative routes to achieve the same rate of economic growth, the research evidence would thus imply that policies which put more emphasis on the small firm sector would have better chances to, at the same time, secure higher levels of employment. Thus being, it would be worth examining whether that apparent reversal in the relative position of SMEs and large firms is significant and pervasive or merely the transitory result of distinctive size class behaviour and temporal adjustment paths to the economic cycle, as some indications in the Report, referring to productivity and profitability development patterns, seem to point to.

2. Business dynamics and entrepreneurship

A considerable part of this chapter can be read as an update of work already done by the Observatory in the context of its first annual report. As it was then underlined, the heterogeneity of data and information sources available does not allow any definite conclusions to be drawn and the results presented therefore have to be considered with caution. Some new insights into the significance of new enterprises in generating jobs and promoting industrial and commercial renewal have also been added, but these are, to a large extent, based on limited, and mainly anecdotal evidence only.

Notwithstanding this analytical limitation the Report thus confirms the economic vitality of the European private sector in general, and the importance of self employment in the SME sector in particular. Quite unsurprisingly though, the remarkable stability that can be noticed in European trends referring to registration of new enterprises and self employment between 1988 and 1993 turns out to be the most visible effect of several opposite, compensating developments when the analysis is carried out at a lower level of aggregation. In fact, whilst sectoral data underlines the significance of the ongoing process of tertiarisation of the European economy and seems to confirm prior evidence of faster renewal of the economic fabric in services, registration data seems to show that a significant increase in business creation in Denmark, Luxembourg, the Netherlands and Portugal went along with a dramatic reduction of start-up activity in such countries as Greece, the United Kingdom and Norway during the period in consideration ¹³. Moreover, some results relating to new firm survival, the starter's entrepreneurial background and the motives and driving forces behind business start-up, as well as to the main obstacles and barriers to start-up and enterprise growth, would suggest that the best performers, as regards new firm survival, are to be found within Member States where some formal systems of professional training and qualification requirements related to the access to some professions or activities were already well developed.

The policy implications of these findings are not straightforward, as the data presented under different tables in the Report is hardly comparable and sometimes even looks contradictory ¹⁴. Yet, judging from the reported major causes of business failure and considering that the risk of unemployment was found to be an increasingly important motive to start up an enterprise, they clearly reinforce the Commission's belief on the importance of providing adequate information and counselling, as well as appropriate education and training to newly created enterprises. Likewise, they underline the importance of promoting mutual consultation and coordination between Member States, namely as regards the improvement and simplification of the business environment with a view to reducing burdens on businesses and unlocking their potential to create jobs, as advocated by the Integrated Programme.

¹³ More recent information nevertheless indicates that the number of business start-ups resumed an upward path in 1994 in the United Kingdom.

¹⁴ For instance, figures for self employment include agriculture and are not always in line with those presented in previous reports, whilst data referring to new registrations per 1,000 inhabitants and per 1,000 enterprises doesn't always receive confirmation from statistical information available on the number of enterprises per 1,000 inhabitants.

3. Labour

Whilst noting that policy making requires knowing not merely where the new jobs are created but also how and why they are created, the Observatory carefully assesses the current debate on job creation by enterprise size and adds some new empirical findings to the results it has already produced on this subject. It is concluded that the methodological criticism raised by some studies on SME job creation does not invalidate its previous analysis and that the statement that SMEs generally create more jobs than large enterprises remains valid in Europe. Moreover, it would seem that net job creation rates decline with the enterprise starting size, which would allow that conclusion to apply regardless of the relative position of the firm along its life cycle. On the basis of employment data for 1990 and the Observatory's own estimates for average annual growth rates in employment by size class, it can in fact be noticed that job creation in SMEs has more than compensated job losses in large enterprises during the period 1988-1995¹⁵.

In spite of these encouraging signs, it remains clear that employment creation in the European business sector is far from impressive and still a long way from contributing significantly to curb unemployment. Moreover, the evidence presented in the Report clearly indicates that SMEs may also have been losing jobs in the most recent years. In general terms, and on a medium term perspective, the Commission therefore considers that increased attention should be paid to such issues as improving employment opportunities for the labour force by promoting investment in vocational training and raising the quality of human capital, increasing the employment intensity of growth by encouraging changes in work organisation and working time, reducing non-wage labour costs, especially at the lower end of the wage and productivity scale, and improving the effectiveness of labour market policies and measures designed to fight against social exclusion, namely by enhancing flexibility in the fields of professional and geographical mobility and considering incentives to create and take over new jobs. As regards SMEs, the Commission will endeavour to stimulate, innovate and supplement the range of existing actions, namely those already adopted under the SME Initiative and the Integrated Programme, in order to facilitate the creation and subsequent development of enterprises, to reduce the administrative burdens borne by SMEs, to improve their access to capital and finance, and to assist them in their efforts to fully benefit from the opportunities of the Internal Market, namely when it comes to reinforce their participation in the various Community programmes and to engage into some form of international cooperation. With that in view, and in line with the conclusions of the Cannes European Council, it intends in particular to submit a report on the means of improving the effectiveness of current SME policies to the Madrid European Council.

¹⁵ Actually, both medium and large enterprises seem to have been losing jobs at an average annual rate of about -0.5% (meaning a total of some 75,000 and 140,000 jobs lost per year during the period in consideration, and respectively). Thus being, job creation was almost completely due to micro enterprises (0.75% or about 235,000 new jobs per year), since small firms have only achieved a small increase in their employment level (less than 0.1% per year, on average).

At the same time, it is generally recognised that SMEs are not a completely independent engine of employment growth and that special attention has to be paid to industrial interactions between enterprises of all sizes. Thus, the contribution of SMEs towards flexible production, and its implication on job quality is also considered in this chapter. Although clearly recognising SMEs to be instrumental in absorbing the less sought-after categories of the workforce, the Report then suggests that flexible production, as a by-product of large enterprises' reaction to an uncertain, ever-changing economic environment, has a considerable negative impact on SME job quality.

In particular, it builds on some well known, extensively documented and interacting trends (increase in the female participation rate and employment share, sectoral shift in employment from manufacturing to services, and increase in the number of part-time and temporary jobs, amongst others) to conclude that SMEs are, in general, more likely to have a significant proportion of their workforce covered by part-time or temporary contracts than large enterprises. At the same time, SMEs are also found to make relatively more use of a less educated, and therefore less productive, workforce, to be relatively less inclined to engage in vocational training, and to offer poorer working conditions, at least in terms of wages and fringe benefits.

However, the evidence presented in the Report to support the view that SME job quality is somehow "the dark side of flexible production" seems far from conclusive. Alongside with considerable differences observed between Member States, that can be due to a combination of developmental and cultural factors¹⁶, the involuntary dimension of part-time and temporary work is largely overlooked by the Observatory, and there are reasons to assume that sectoral aspects are at least as important as size class differences in explaining job tenure and job quality. As they stand, the Report's findings can only but stress the need for further analysis on these issues before any operational conclusions can be drawn.

In the mean time, and considering that inferior job conditions in SMEs, as long as they lead to lower costs of production, might provide a compensation for size-related cost disadvantages compared to large firms, it is important to stress that SMEs do have their own specific problems that must be addressed, if they are to develop, namely by means of new targeted innovative initiatives, particularly ones aimed at resolving problems of scale, knowledge, complementarity and coordination. Yet, the issue is not primarily whether SMEs or large firms are better locations of employment so much as improving the social and economic performance of all firms. At a time when labour is increasingly seen as a resource rather than simply a cost, the Commission would therefore suggest that instruments be sought which directly link the raising of working standards with the raising of competitiveness.

¹⁶ It is interesting to note, for instance, that part-time working is almost insignificant in Southern/peripheral countries (Greece, Italy, Ireland, Portugal and Spain) and that most of them can be ranked amongst those having longer working weeks (the United Kingdom replacing Italy in the top five), and that temporary contracts are, by far, particularly important in Spain.

4. Regional disparities

Recognising the importance of the regional dimension in SME and employment policy, the Commission welcomes the inclusion of a chapter on regional disparities in the Report, especially as it seems to confirm a number of key trends in relation to the role of SMEs in alleviating those disparities.

The data in the Report, which, incidentally, refers only to manufacturing employment, confirm that SMEs make a particularly significant contribution to employment creation in less developed regions. However, if an analysis like this is to add value to the Commission's policy-making effort, it must either present some new facts or provide more in-depth explanations of the present regional situation of SMEs. The main criticism of this chapter is that it does not seem to fully achieve these objectives.

On the one hand, the Report states that Objective 2 regions are relatively less dependant on SMEs in employment terms but this is hardly relevant from a policy-making point of view, as the basis for the adoption of Community initiatives RECHAR, RESIDER and KONVER was not that Objective 2 regions were less dependant on SMEs but that for historical reasons there was no tradition of entrepreneurship in these regions. It is for this reason that SMEs are less important in Objective 2 regions. Accordingly, the programmes now being put into operation under the Community Initiatives have as a major objective to stimulate SME development to compensate for the loss of employment in large declining industries such as coal and steel.

On the other hand, the Observatory found that Objective 5b regions do not display a consistent pattern as to their level of dependence on SMEs for employment. The Commission nevertheless considers that SMEs constitute the very essence of the entrepreneurial fabric on rural areas and that their development is one of the determining factors to ensure economic diversification of these areas. It would therefore suggest that future reports tackle this question and address the specific difficulties with which SMEs have to cope in rural areas, in particular with regard to insulation, insufficiency and maladjustment of support services, absence of sub-contracting companies, difficulties of attracting high qualified personnel, and the high cost of connection to modern communication networks. Moreover, the Commission wishes to point out that the European Observatory of innovation and rural development, set up within the framework of the Community initiative LEADER II in order to identify, characterise, validate and facilitate the transfer of innovations undertaken in rural environment, could in particular contribute to the exchange of good practices aiming at the support of SMEs in the rural areas.

The Report puts much emphasis on the importance of micro-entreprises to the creation of employment. However, there is no analysis of the impact of displacement both within regions and between regions which can be a by-product of micro-entreprise dynamics. Furthermore, there is no indication of the sectors in which micro-entreprises are relatively more important at the regional level and the issue of the indirect employment contribution of micro-entreprises, which can vary significantly amongst sectors, is still to be addressed.

The Report refers to the spatial process of decentralisation and indicates that smaller towns and peripheral areas have increased their employment relative to larger towns and cities. It would be more interesting to know whether employment in smaller towns has actually increased in absolute terms.

The Report also puts some emphasis on analysis of divergences between border regions. Nevertheless, there is no clear explanation of why such detailed analysis is carried out on this point and it does not seem to lead to any strong conclusions from a policy perspective.

The Commission thus feels that the topic examined in this chapter was too broad to enable one to draw strong policy conclusions and that for the future it would be more valuable to examine a more clearly defined topic. For example, as the analysis of this year's Report suggests that some less developed regions have been very effective in stimulating SME activity to address employment needs, it would be valuable to have a detailed analysis of how SMEs have evolved in these regions including case studies and surveys, as were used in earlier reports of the Observatory. A second area worth examining is the process of entrepreneurship itself in less developed regions. The conclusions on entrepreneurship of this Report are predictable. It would be useful to have some data on the impact of different types of policy initiatives, namely those which currently receive Community support under the Structural Funds, in stimulating entrepreneurship in declining regions. Again case studies or surveys would be useful.

On the other hand, assuming that neither a high dependence on small and medium-sized firms nor on large firms solely are to be optimal, it could be worthwhile examining whether the regions which have experienced the most favourable development of economic well-being are those that had a good mix of industries and business sizes, and whose business sector was characterised by a relatively rapid pace of change. In fact, if the potential for net job growth via new firm births is the greatest in regions that have historically not been SME-dominated, and is to be explored at reasonable cost without actually discriminating against existing businesses, there should therefore be some room for policies aiming both at improving the general business climate and increasing the number of start-ups in industries for which the regional market conditions are relatively favourable or relatively unimportant.

5. Export and international orientation

This chapter of the Report is meant to deal with SME export and international orientation. In fact only exports are treated and this leaves a large part of the current process of internationalisation untouched¹⁷. Since the Commission's enterprise policy does not deal with export promotion but with the other aspects of internationalisation, the Report is of direct little help in formulating future policy or in assessing the efficiency with which its instruments promote the internationalisation of SMEs, whether it be within the Union or on the Internal Market or outside the Union.

Much of the chapter is taken up by the observation that firms from smaller economies export more than those from large ones. This is inevitable since smaller countries can sustain a narrower range of industries on their domestic markets than larger ones and must therefore trade to acquire the products for lacking industries. Larger countries engage in more intra-sectoral trade and in many ways this represents a more interesting subject of examination. In any case, the distinction made should be between intra and extra EEA trade rather than EU trade. By combining this approach with regional regroupings into for instance the Northern countries, Benelux, British Isles and the Iberian peninsula, the effects of the size of national economies and local preferences could be minimised and more worthwhile analysis of exports undertaken.

Concerning the higher export propensity of large firms, a statement of this kind requires qualification, even if a positive correlation can be found between the average firm size in an industry and its share of exports in turnover. On the one hand, technological intensity is likely to constitute a key variable for exporting by SMEs and, on the other hand, many SMEs, particularly in the service sector, serve local consumer markets. Firms serving such markets can not usually export in the traditional sense since overseas clients must come to them. The increasing tendency for exports from service sector SMEs is likely to be the result of producer services development, where either the supplier goes to the client or telecommunications are used to offer a truly cross-border service. It would in any case be more useful to compare the export propensity of firms in those sectors where exporting can easily be undertaken¹⁸.

¹⁷ For example, and according to UNCTAD, one out of ten investments abroad is currently undertaken by SMEs. Moreover, modern forms of international business cooperation such as alliances or licensing agreements could also be of increasing interest for SMEs.

¹⁸ Apart from these general comments, it can also be noticed that the text is less accurate in some points. It is not strictly correct to speak of deregulation of trade tariffs, which have been lowered over successive GATT rounds, nor of harmonisation of standards, since mutual recognition also occurs. Finally, Norway voted not to accede to the Union and should not be presented as a Member.

6. Macroeconomic environment

There are no particular comments on this chapter, which heavily bears on macroeconomic data published by the Commission services. On the whole, it confirms that the European economy has entered a phase of recovery, led by some rapid growth in external demand, and that significant progress has been made towards nominal convergence, improving both the price competitiveness of European industries and their profitability. Yet, some additional efforts seem to be required in several Member States to bring down their public and external debt to a more acceptable level, and unemployment is expected to show only a modest decrease in the near future.

Recent improvements in the current state and perspectives of the European economy do not significantly change the nature and dimension of the macroeconomic challenges faced by the Community, as they have been presented in the "White Paper on Growth, Competitiveness and Employment" and relate mainly to achieving and consolidating high rates of job creation and ensuring that the necessary conditions for a smooth transition to the Economic and Monetary Union are met. Fulfilling these objectives will therefore require the adoption and development of policies aiming at increasing the overall levels of competitiveness and efficiency of the European industry, improving the functioning of the labour market, creating favourable conditions to an increase in production capacities, and securing a stable macroeconomic environment.

7. Recent policy developments affecting SMEs

The Report reviews a number of initiatives and policies undertaken by the Member States in support of SMEs. This illustrates the increasing recognition by the Member States of the decisive role played by SMEs in job creation, competitiveness and economic growth. The nature of the different measures adopted also shows that there is a certain convergence between the various Member States both as regards the key problems affecting SMEs and the possible ways of dealing with them. This also suggests that the European Institutions could play a complementary role in this field, particularly by promoting the exchange of best practice.

As regards the methodology adopted by the Observatory, the Commission nevertheless thinks that the quality of the analysis could be improved in several respects in the future. For example a clear and concise presentation of recent developments by type of measure rather than by Member State, along the lines of what has been done in connection with environmental policy, would have facilitated comparative analysis and hence increased the value of this chapter.

8. Labour market

This chapter largely focuses on the enterprise environmental aspects of labour issues and usefully complements those on "labour" and "education and entrepreneurship". The Commission will therefore refrain from further commenting here those points that are already being addressed elsewhere.

In the light of the undergoing, and much expected, general economic recovery, some of the evidence in this chapter can nevertheless be disturbing. To name just a few examples, there are signs in many parts of Europe that, in spite of high labour availability, enterprises are facing difficulties in finding people with the skills they require and that this may still inhibit output growth and job creation. Or that increasing use of numerical and functional flexibility, important as it may be for economic efficiency, can lead to a suboptimal utilisation of human resources and contribute to the emergence of some kind of "dual" labour market, due to an expected polarisation of work qualifications.

But facts need to be looked at as a means of analysing problems and identifying possible solutions, and not as matters to be dismissed if they do not meet with how we would like things to be. In this vein, and by showing that similar constraints are being dealt with in very different ways by different Member States, as seems to be the case with regard to labour market issues¹⁹, this Report clearly underlines the need to promote mutual consultation and joint coordination, namely in the field of considering and exchanging "best practices" between Member States.

Certainly, the complex nature of labour markets, and their central role in fulfilling social as well as economic objectives, means that Member State systems need to be understood in the context of distinctive national features in the business environment as well as in the institutional and legislative arrangements that are in place. Yet, the Community has an important role to play in providing a framework within which Member States can freely choose the means they use to pursue their employment objectives. While fully respecting national choices or preferences it would thus seem useful to consider whether it is possible to combine different experiences to improve overall performance, and to encourage Member States to cooperate in policy development in order to minimise its costs and ensure compatibility between different national systems whenever they need to interact across the Union.

¹⁹ Both the level (% of GDP) and the structure of public expenditure on labour market policies can be noted to vary markedly across Europe. In particular, Denmark, Germany, Luxembourg, Norway and Sweden have a relative high level of expenditure (particularly as opposed to Greece, Italy, Spain and the United Kingdom), and spending on training and youth measures dominates in France, Italy, Ireland and Portugal, while job subsidies are more important in Belgium, Denmark and Spain.

9. Capital and finance

This chapter in the Report does not call for particular comments on the part of the Commission. However, it should be pointed out that the SME facility mentioned by the Observatory for interest rebates on EIB loans to SMEs creating new jobs was a temporary instrument scheduled to expire on 31 July 1995.

This chapter gives an overview of the various efforts made by Member States to facilitate access by businesses to sources of finance. This is still a problem for SMEs even if the Report lists a large number of measures in force. It would therefore be interesting to examine the reasons why the specific programmes or other activities conducted by the public authorities or the financial institutions themselves are not providing an adequate response to the needs of SMEs.

It should also be pointed out that the relations between banks and SMEs, which are an important aspect of improving SME access to sources of finance, are a central issue at the Banks-SMEs Round Table, following up the Communication from the Commission on the Report of the Round Table of leading representatives from the banking sector²⁰. The Commission will also continue its work on improving access by businesses to finance and credit, particularly as regards strengthening own resources in innovative and high-tech companies and facilitating access by SMEs to capital markets.

10. Infrastructures

In view of the importance of communications infrastructures in today's economy, the Commission is particularly pleased that this question was dealt with in a specific chapter of the Report, especially as the study was not restricted to infrastructures in the traditional sense, but also took account of modern virtual infrastructures. The quality of infrastructures directly affects business productivity but, as the Report stresses, regional disparities continue to be substantial.

The Commission is also pleased that the Report looked into the question of the leverage effect of public investment on business productivity. However, it would have been useful if the approach to investment in infrastructure had not been exclusively macro-economic and if a few specific examples had been provided. This chapter could also have tried to determine the place of infrastructures among the factors determining business location, compared with other factors which might influence an investment decision (proximity to the market, quality of the workforce and environment or financial incentives). The Report also made no mention of the elements which would have allowed identification of the types of companies, in terms of size, sector or nationality, for which the quality of infrastructures had the greatest influence on the production process.

²⁰ "Towards a more efficient partnership between financial institutions and SMEs", COM(94)435 final of 28 October 1994.

Moreover, and since this chapter is meant to consider infrastructures in a broad sense, it would also have been useful to take already into account the effects of energy costs and of the realisation of the internal energy market on SMEs, in line with a previous remark made by the Commission ²¹. In fact, proper availability of energy at the best possible prices and on the best possible terms, namely by ensuring security of supply and guaranteeing sustainable, non-inflationary growth while protecting the environment, is deemed to be a determinant factor in strengthening the overall competitiveness of the European economy, and that of SMEs in particular.

While approaching the effects of the new infrastructures by type is relevant, insufficient use has been made of the data, particularly as regards roads and railways. For example, there is not much point in knowing how many kilometres of motorway were built in Spain and Portugal between 1986 and 1992, and the proposed analysis of railway infrastructures is too brief to take full account of the effects which the establishment of a network of new high-speed lines or the development of combined rail/road transport could have in Europe. However, telecommunications have been dealt with better and could serve as a model for both the contents and presentation of an analysis.

As regards the questions arising from the introduction of new infrastructures, the Commission fully agrees with the conclusions of the Observatory. The construction of new infrastructures cannot in itself provide a solution to the problems of saturation or pollution. Only a long-term vision taking account of the social usefulness of the various types of infrastructure could be of use. As stressed in the Report, efficient infrastructures are necessary but not sufficient to bring about positive effects on the economy. However, it would have been useful if the Observatory had drawn more practical conclusions concerning the preferable type of infrastructure and the benefits which the SMEs should draw from it.

Finally the Commission is pleased that the Report deals with virtual infrastructures and to a great extent shares the Observatory's concern that the information society should be placed in a liberal context and that the new technologies should be disseminated among SMEs.

The Report stresses the problems encountered by SMEs in gaining access to the information society and rightly lists the advantages which such access could provide. In this respect the three fields identified (training, teleworking and award of public contracts) are relevant, and this chapter gives a useful picture of what is at stake in the establishment of infrastructures in Europe. Nevertheless, it is regrettable that insufficient emphasis was placed on the risk of regional disparities, particularly as regards the development of new technologies. Thus, although the analysis is mostly accurate, it is too general in some respects and does not pay sufficient attention to the specific characteristics of SMEs.

²¹ See COM (94) 352 final of 7 September 1994, p. 6.

11. Technology and innovation

The Commission recognises the quality of the analysis performed in the Report as regards the technology and innovation chapter. The indications showing that SMEs are responsible for a very high share of the innovations are certainly one of the most prominent elements of this analysis. Nevertheless, the reading of this chapter clearly shows the limitations of the quantitative information used by the Observatory as the statistical data collected only provides very partial highlights on the situation of SMEs in specific countries leaving very little room for effective comparisons and overall conclusions.

In this vein, it would have been desirable to have more statistical information on the economic importance over time of small technology based enterprises. They are described as playing a significant role in the overall innovation process of the largest countries in the Union, but little is said about their development pattern in less advanced countries or whether they can be expected to become more and more important in their economies.

Regarding the financing of innovation in SMEs, it would have been appropriate to look in more detail at the characteristics and importance of internal resources which usually represent the number one source of finance for innovation. At the same time, it would have been interesting to analyse the importance of collaborations with other enterprises or universities as a critical factor for innovation in SMEs.

Finally, participation in European R&TD programmes is said to become increasingly popular among SMEs. However, looking at the number of SME participants in the 3rd framework programme shows that it is only a tiny minority of SMEs that participate and those enterprises usually have high research capabilities. Community R&TD programmes base their selection of applicants on very competitive criteria such as technological excellence and innovative character of the project. The application of these criteria will inevitably dismiss enterprises with little or no research capability of their own. The CRAFT programme was introduced to answer the needs of more traditional enterprises as it allowed groups of SMEs to contract out their research needs for a specific project. The introduction of this SME specific type of project in the Brite-Euram (1991-1994) programme led to the tripling of the number of SMEs participating in this programme, most of these new participants belonging to traditional sectors. As a result, this type of project has now been introduced in other programmes. A clearer distinction between the traditional projects and the expanding CRAFT type programmes would have been necessary.

12. Education and entrepreneurship

This chapter of the Report aims at drawing a general picture of the current state of affairs in education and tentatively assesses its importance and limitations for fostering entrepreneurship. Although valuable in itself, namely since it is the first time that the Observatory explicitly addresses these issues, it largely amounts to a reasonable, honest survey of available research and inquiry results, with little value added of its own as to the possibility of identifying some would-be specific features of entrepreneurship-based, as opposed to general education.

As it is stated in the Report, observed differences between Member States as regards the education level of their population and student participation rates are less important now than they were in the past and largely restricted to the percentage of students in tertiary education. Although welcoming this general finding, which clearly shows that significant progress is being made towards a better educated and trained workforce, in itself more able to adapt to the pace of change in technological progress and the requirements of increasingly flexible labour markets, the Commission nevertheless wishes to point out that any serious analysis of education and entrepreneurship also has to take into consideration a whole range of social and cultural factors that influence both the relative position of different Member States and their developments paths in this field ²².

The Report nevertheless shows that for all countries for which data is available, entrepreneurs and starters have a higher level of education than the average in the labour force. Furthermore, there are positive links between the level of the entrepreneurs' education and the growth of the enterprise and its likelihood to export. However, most entrepreneurs have no specific education on entrepreneurship. The Commission strongly agrees with the Observatory that further attention should be paid to encouraging the development of entrepreneurial skills through the education and training system, including such issues as a multi-disciplinary approach, personal skills and the training of teachers. Stimulating exchanges of information and experience on the several pilot projects that already exist in Member States, such as those reported in this chapter, would be welcome.

13. Legal environment

This chapter of the Report is largely a statistical overview of the legal forms of companies and their implications towards risk, liability, capital requirements and administrative formalities. There are also clear links with such issues as the transfer or transmission of enterprises, whether by inheritance or sale.

²² Complementary data published by Eurostat shows, for instance, that the percentage enrollment in education for 15-24 years old persons is remarkable low in the United Kingdom and Ireland, probably corresponding to an earlier entry into the workforce, and that knowledge of data processing and post-compulsory education are the lowest in Southern countries (Greece, Italy, Portugal and Spain) whilst being particularly high in such small, central countries as Denmark and the Netherlands.

As the conclusion points out, there are not so much good or bad legal forms of companies but the entrepreneur should have the possibility of choosing the legal form which best suits his business and personal circumstances ²³. In this respect, the Report gives a good overview of the issues and underlines the need for some Member States at least to find a better balance between such aspects as capital requirements and liabilities. Tax rates, that is either income tax or corporation tax, have an impact here too.

A major policy implication to be drawn from this study could be that the Commission should continue to encourage Member States to look at their company law structure in order to best meet the need of entrepreneurs wishing to set-up a business. It should also look at the possibility of expanding the concept of the EEIG by reducing or simplifying the conditions towards setting one up, and to remove the barriers to the activities that they can undertake. This would also be in line with one of the Recommendations in the Molitor Group Report.

On the standards issue the Report confirms the Commission's previous understanding that SMEs feel left out of the standards-making process and do not have enough information about what is happening. There is probably something in the suggestion that standards can be used by large companies to limit competition. The Commission would therefore agree that SMEs should be better represented in the standards-making process and that bodies such as CEN and CENELEC should pay increased attention to their views.

The short section on quality assurance for European SMEs is also in line with the Commission's previous understanding. There are a number of issues such as quality assurance and certification, eco-audit and eco-labelling requirements, which are not compulsory, but which become so when SMEs are either required to do so to qualify as sub-contractors, or feel that need in order to remain competitive. This means that the quality assurance and certification processes need to be user-friendly and not too expensive for SMEs. As the Report clearly shows, the cost of ISO 9000 certification per employee is higher for SMEs than for large companies.

14. Administrative burdens

In view of the interest currently focused on improving and simplifying the business environment, particularly for SMEs, this is a very timely theme study. This is probably the first time that a serious attempt has been made to present an inventory of the current state of play of administrative burdens on businesses in Europe and to give some estimates as to the impact this has on them.

²³ As one should expect, the Report considers that the sole trader and partnerships formats have significant relative advantages during the first stages of the enterprise's life cycle (namely as regards start-up and early development) and that the limited company format (whether private or public) makes it easier to deal with such issues as later development or transmission.

The estimates indicating that obligations that result from being in business actually caused between 60 and 70 % of all administrative burdens support the Commission's understanding of the main problems for enterprises, particularly those which have just started-up and small businesses. The problems of understanding both company and income tax, as well as the social security and other obligations from taking on employees are clearly a heavy burden.

It is reassuring to see that the Report also suggests that the key to reducing administrative burdens lies both in individual Member States as well as in the European institutions. This is an aspect which is increasingly recognised in other reports, and has been underlined by the Molitor Group. Indeed, it is clear from the recent work undertaken that national legislation is a major source of administrative burdens, particularly in the areas of taxation and social security contributions.

It is also interesting to see the Report indicates that in the opinion of entrepreneurs the main causes for administrative burdens are the complexity and the number of forms that they are required to complete. This issue will continue to call for particular attention by the Commission and was already highlighted as a theme in its recent Forum in Paris (19-20 June 1995) on improving and simplifying the business environment, particularly for start-ups.

This Report is also the first which attempts an overall assessment of the costs of administrative burdens for businesses in Europe. The estimate of between 180 and 230 billion ECU, or between 3 and 4 % of GDP, gives ample justification for what the Community is doing and more particularly what the Commission is advocating through its Integrated Programme in favour of SMEs and the craft sector. It is perhaps not surprising to see from the figures that the total costs of administrative burdens on each enterprise are higher for large enterprises than the small ones, but that the costs per employee are higher amongst smaller enterprises. This gives further justification, if it was still necessary, to focus attention on the particular problems of SMEs.

Finally, the Report suggests that, at the European level, the most important actions in order to reduce administrative burdens are to improve information and advice, to consider the replacement and/or simplification of existing laws, and to look at the possible impact of new legislation on businesses. It also points to the differing levels of progress in this area that have been made by the Member States. Again, this is further evidence for the Commission to carry on its work within the remit of the Integrated Programme, and in particular to advocate the spread of best practice between the Member States through concerted actions.

15. Producer services

The Commission welcomes the inclusion of a theme study on producer services in the Report, particularly as it demonstrates a clear grasp of the subject and issues at hand on this field. In general terms, producer services are correctly defined as being service activities whose outputs are, in the main, purchased by enterprises. They thus include business and professional services (consulting, advertising, engineering and software), financial services, insurance services and real estate services, as grouped under classes 81-85 of the NACE 70 classification of economic activities, and are deemed to be of paramount importance to SMEs, both from a supply and a demand point of view.

It can nevertheless be considered that the usefulness of that definition, as well as of subsequent analysis, is then limited by excluding transport and communications, which are said to be distributive services, from the scope of producer services. An alternative application of the definition given above could in fact be based on a fourfold division of the input-output tables according to two criteria: whether the output is mainly to other enterprises or to final demand and whether inputs are mainly from the enterprises own resources or from purchases from other enterprises.

Sectors which purchase less than the economy average from other enterprises but sell more than the average of their output to other enterprises would then be deemed primary input sectors. Today in Europe, they comprise all producer services and nothing but producer services. Their output is used by all sectors of the economy rather than going to one or other sector in particular, and this illustrates their strategic role in the modern economy. Sectors which both purchase more than the average from and sell more than the average to other enterprises could be deemed intermediate manufacturing ones. They comprise such traditional primary sectors as agriculture and energy, whose added value now comes from processing and refining rather than growing or extraction, along with capital and investment goods suppliers such as office machines and transport equipment producers. The last two categories would relate to sectors which sell more than the economy average to final demand. According to whether they purchase more or less than the economy average from other enterprises, they could be characterised as final manufacturing or final services. Bearing in mind that services are to be found either at the beginning or at the end of the economic process, would then make clear that they ought to be treated separately, and that any policy implications were likely to be different for each category.

The chapter also correctly identifies the sub-sector of producer services usually known, for want of a better word, as "business services"²⁴. Again, however, the content of this sub-sector is subsequently too narrowly defined. In addition to the so-called advanced tertiary industry of professional and technical services are to be found many more banal activities such as office cleaning, temporary work agencies or security services. In the past these have made a significant contribution to the growth of business services, which is the second largest market sector in the European economy after wholesale trade and retail distribution.

According to the Observatory, the relatively low demand for producer services on the part of SMEs is mainly due to the difficulties they have in identifying their requirements and their lack of awareness of the services on offer to meet these requirements. However, these problems could be alleviated through training and information for SME staff and by measures encouraging SMEs to make use of service providers. This tends to confirm the usefulness of activities such as Euromanagement, aimed at the training of SME staff, as well as, amongst others, certain aspects of the Portuguese PEDIP programme, of which SMEs can take advantage only if they use selected service providers for drawing up their applications.

Another reason for the low level of use of producer services by SMEs is the cost of these services, which smaller companies often regard as too high compared with the limited funds available to them. In such cases, measures such as those in force in certain Member States including, in particular, France and Italy, involving the granting of aid in the form of tax exemption or subsidies if companies make use of services, would be suitable remedies and their extension to other Member States should be encouraged²⁵.

In addition, it would seem that SMEs and particularly micro-enterprises are the most important providers of producer services. In particular, employment in the producer services sector has increased substantially in recent years. This remarkable growth, which should continue still further with the Internal Market, confirms the importance of these sectors in terms of employment and hence the importance of sustaining the development of employment in service SMEs as recommended in the White paper on Growth, Competitiveness and Employment, both by improving the productivity of producer services and by means of initiatives such as the enterprise and innovation centres aimed at promoting the creation and development of innovative enterprises by making a whole range of services available to them.

²⁴ In fact producer and business are synonyms in this context, but one is used in a broad and the other in a narrow sense.

²⁵ It is possible though, in addition to the issue of price raised in the chapter, that externally provided services can only be supplied in a minimum quantity that exceeds the requirements of the smallest firms. Equally, smaller firms may have greater recourse to the services provided by their own organisations rather than the market sector, in particular in those countries with public law chambers which they are obliged to contribute to.

When considering the growth of producer services and the development of productivity, the serious inadequacy of the national accounts as a data source needs nevertheless to be taken into consideration. There are no adequate measures of physical output for services, so that labour input is very often used as a surrogate for output. In practice this sets labour productivity gains at zero and seriously distorts the growth potential of services, whose value tends to rise faster than that of the economy as a whole for qualitative reasons indicated in the Report as well as a result of their higher labour intensive nature. Furthermore, the question on whether and to what extent does the development of producer services provide new growth opportunities for European SMEs either as suppliers of such services or by enhancing their performance on domestic and international markets remains largely unanswered, as the overly quantitatively oriented analysis of basic service statistics still masks these more fundamental problems. Recognising the need to overcome these fundamental difficulties the Community has already adopted a comprehensive development programme of service statistics ²⁶ which should allow for increased availability of comparable, more useful data in the near future.

16. The craft trades

The Report rightly draws attention to the considerable discrepancies in the way the various Member States define the craft trades and for this reason the Commission often adds the phrase "small enterprises" when referring to the craft trades, since in spite of organisational and legislative differences, the craft trades and smaller enterprises have a great deal in common. The organisational structure of the craft trades is often the result of a long process of evolution and craftsmen recognise each other through their national structures, which they do not wish to see changed. There is no need for harmonisation of definitions because of the Internal Market.

For this reason, the Commission has always said that it has no intention of proposing an harmonisation of the definitions of the craft trades. Admittedly, it is difficult to obtain consistent statistics on the craft trades because of the many differences in the number of professions included, the economic weight of the sector, the size of businesses, the organisational structure or the training of apprentices, journeymen and master craftsmen, but the Commission cannot go along with the Observatory's wish to recommend harmonisation of the definitions of the craft trades in order to resolve statistical problems as suggested in the Report. However, it is prepared to support the statistical work in close co-ordination with Eurostat, with a view to improving the existing statistics whilst minimising risks of any undue increase in enterprises' compliance costs.

As to the results of the second European Conference on the craft trades and small enterprises held in Berlin on 26 and 27 September 1994, the Commission has presented a brief report which outlines how it intends to react to the its conclusions and what initiatives it might recommend to the Member States.

²⁶ Council Decision 92/326/EEC of 18 June 1992.

17. SME Internal Market Monitor

By extending the analysis carried out in earlier reports, this chapter focuses on the threefold interrelationship between SME performance, SME dynamics and the business environment in the light of completion of the Internal Market. Moreover, as actual and estimated developments in those variables refer to the period 1988-1994, the Observatory has considered useful to distinguish between two different groups of countries (EUR-12 and EFTA-4), according to whether or not they were Union members during that period.

On the whole, the information included in the Report clearly shows that recent improvements in the overall economic situation and progress made in real and nominal convergence at the macroeconomic level²⁷ do have an equivalent at the enterprise level. In fact, not only did SMEs perform fairly well in the EUR-12 as their business environment doubtless evolved towards a higher degree of coherence²⁸. At an aggregate level, convergence is particularly noticeable in such domains as fiscal and monetary policies, technology and innovation, capital and finance, labour markets, and macroeconomic strength and presence in global markets, whilst at an indicator level only three of the individual variables taken into consideration by the Observatory have shown some significant divergence over that period. Moreover, the business environment in the EFTA-4 also appears to have become increasingly similar to that prevailing in the Union in most of those domains, the only exception being capital and finance where some relatively unfavourable developments in fixed capital formation and availability of venture capital appear to have taken place.

Notwithstanding this general tendency, some divergence is reported to have occurred, however, in labour market policies (coupled by some diversion of the EFTA-4 from the EUR-12, and in spite of identified convergence tendencies in unemployment benefits, as measured by replacement rates, and start-up policies), burdens on businesses (especially regulatory burdens) and industrial relations (especially on labour regulations, which, incidentally, were not found by the Observatory as significantly affecting SME performance). Although it should be noticed that these domains are exactly the three that were found to be the most coherent in 1988, in this sense allowing also for a higher degree of liberty in national policies, this result seems to provide further evidence as to the importance of paying specific attention to the distinctive features of different Member States' employment and legal systems, as has been underlined in previous sections, whenever an assessment of the business environment impact on SME performance is to be made.

²⁷ See, for instance, the "1995 Annual Economic Report", COM (94) 615 final of 13 December 1994.

²⁸ As in the Report, the concept of convergence (or divergence) has here a dynamic nature and corresponds to a movement towards increased (or decreased) coherence, which is viewed as its static counterpart.

In fact, and as could be expected, a closer look into the various country-plots drawn by the Observatory most of the times makes it possible to identify distinct groups of countries, and thus to look at general similarities and differences between them. Yet, nowhere is this more striking than with regard to burdens on businesses, where four distinct patterns clearly emerge²⁹. Considering that divergence in labour market policies was, by and large, found to be the result of a general movement towards higher levels of public expenditure on active labour market policies and that it can probably be explained by a similar trend in the dual nature of labour markets, the Commission therefore feels that the Report's findings considerably emphasise the importance of pursuing its own efforts towards further simplification of the (administrative) business environment, namely by means of concerted actions with the Member States, as advocated by the Integrated Programme.

As regards SME performance, and apart from having found a certain degree of divergence that seems to result from a few, individual deviant cases, the Report suggests that recent improvements in profitability and generation of value added were only to a limited extent matched by employment growth. Whilst a general increase in the enterprises' self-financing capabilities is certainly to be welcomed, especially since it can surely act as an enhancing factor for future investment, other studies also suggest that the business propensity to invest is still being negatively affected by inflationary expectations, interest rates differentials and exchange rate instability. Thus being, promoting the development of a stable macroeconomic environment by means of sound macroeconomic policy would indeed seem to be one of the most important single factors in stimulating business development and entrepreneurship, as well as employment growth and the international competitiveness of SMEs. Again, policies that put more emphasis on the small firm sector would be particularly well suited to achieve these objectives, as the Observatory has found that the structure, rather than the level of public expenditure tends to be associated with stimulating, or depressing factors of SME performance³⁰.

Finally, the Report's overall conclusions can only but be particularly welcomed by the Commission. In general terms, the business environment was found to have improved during the last six years, convergence in the business environment is said to have contributed towards SME performance and, most of all, completion of the Internal Market appears as having a positive influence on both the business environment and SME performance.

²⁹ Meaning higher than average financial and regulatory burdens in Austria, Belgium and Germany, higher regulatory and lower financial burdens in France, Denmark, Luxembourg and the Netherlands, higher financial and lower regulatory burdens in Greece, Italy, Ireland, Portugal and Spain, and, finally, lower regulatory and financial burdens in Finland, Norway, Sweden and the United Kingdom.

³⁰ In this sense, fiscal and social policy, as well as R&D efforts have been considered in the Report as elements of the business environment that have deteriorated, from the point of view of SME performance, during the 1988-1994 period.

Naturally, these conclusions have to be read with some caution, as it is still too early to fully evaluate the impact of the Internal Market on SMEs. In particular, as longer time series become gradually available and the time elapsed since its official coming into force allows more of its effects to be visible, the Observatory will certainly be called to further pursue and refine its analysis, namely by considering new causal relations and adjusting their size scope. Yet, since the Internal Market has been billed as an enabling programme that should open up new possibilities for companies previously confined to one Member State's market by offering them an opportunity for growth, it is reassuring to find out that, as far as the available evidence goes, it is keeping up its promises. By strengthening coordination of its own activities with those undertaken by Member States, the business community and intermediaries responsible for providing assistance to enterprises and supporting the development and adaptation of SMEs and the craft sector, the Community will continue to devote its best efforts to ensure that those objectives are met in the best possible way.

18. Policy issues

The Report contains a number of recommendations on policies to promote SMEs. These are addressed primarily to the European Institutions, although they are broadly speaking also valid at national and regional levels.

The Commission broadly supports the view that policies in favour of SMEs should be better adapted to the fundamental changes in the context in which SMEs are operating in the European Union. The Report rightly refers to the globalisation of markets, at both European and World level, the development of the information society and the challenges to SMEs resulting from the White Paper on Growth, Competitiveness and Employment.

These fundamental changes have already led the European Union to strengthen its policies aimed at supporting SMEs, particularly in the following areas which are quoted in the Report:

- a stable macro-economic framework;
- an open competitive environment;
- a network of infrastructures, transport, telecommunications and information technologies;
- strengthening the competitiveness of businesses;
- a favourable environment for businesses;
- support measures for businesses.

A stable macro-economic framework

The Report says that the most efficient approach which governments could take to support SMEs would be to improve the macro-economic conditions in which they operate.

The Commission has made a number of recommendations in this field in the White Paper on Growth, Competitiveness and Employment, in which it stresses that progress towards EMU is one of the essential elements in the establishment of a stable macro-economic framework for businesses.

An open competitive environment

The Report confirms that the efforts of the European Union aimed at expanding the markets for businesses both within the European Union and in non-member countries, (EEA, WTO) have generally been of benefit to SMEs in spite of certain adjustment costs. SMEs have rapidly increased their share of exports and have benefited from greater competition on their domestic markets. The Commission will continue to keep an eye on the smooth running of the Internal Market, particularly as regards SMEs, and to encourage exports to non-member countries.

Public authorities are also responsible for avoiding distortion of competition on the markets. The Commission has its own responsibilities in this field, both within the European Union (competition policy applicable to businesses and monitoring of state aids) and vis-à-vis non-member countries (commercial policy).

In its annual reports on competition policy, the Commission has stressed the vital complementary role played by competition policy in the context of globalisation of trade and the requirements of growth, competitiveness and employment³¹. As stressed in the Report, it is vital to take account of the specific characteristics of SMEs in this context. The Commission has also adapted its competition policy and monitoring of state aids in the light of the size of businesses³², particularly with a view to enabling SMEs to cooperate with each other or to establish partnerships with large companies in order to ensure their survival in a climate of increasing internationalisation, while avoiding agreements or practices which would disturb the smooth running of the markets.

A network of infrastructures, transport, telecommunications and information technologies

The Report recommends public authorities to offer businesses appropriate networks of infrastructures, telecommunications and transport and, in particular, to facilitate access by SMEs to such networks.

The European institutions will continue their work in this field, particularly through action by the EIB and the Structural Funds and the development of trans-European networks and the information society.

³¹ See in particular the XXIVth (1994) and XXIIIrd (1993) reports on competition policy.

³² See in particular the XXIIInd report (1992) on competition policy, p.57.

Strengthening the competitiveness of businesses, particularly through an improved education system and a strengthening of R&TD

As stressed in the Report, the education and vocational training systems should be better geared to the needs of companies, particularly in the craft sector. The White Paper on Growth, Competitiveness and Employment recommends a number of specific Community initiatives to complement the work being done by the Member States.

Strengthening the competitiveness of businesses also calls for an additional effort in the field of research and technological development (R&TD). In its reports on the co-ordination of activities in favour of SMEs³³, the Commission described the various actions in this field, particularly those aimed at SMEs.

A favourable environment for enterprises

The Report rightly stresses the importance of establishing an improved legal, administrative, fiscal and social environment for business. The White Paper on Growth, Competitiveness and Employment also stresses that one of the SME weak points is their structural capacity to cope with the complexity of the administrative and legal environment (particularly administrative and legal obligations, the establishment of new environmental or social regulations, the introduction of a new system of standardisation and certification in connection with the implementation of the Internal Market and the obstacles to conducting certain activities).

Obviously, the legislators and administrations in this field at national or Community level have a direct responsibility, and for this reason the Commission is continuing with its own activities aimed at reducing excessive burdens and constraints (particularly the system for evaluating the impact of Community legislation on enterprises) and is continuing to support action by the Member States. In connection with the later, the Commission has already organised a forum in Paris on 19 and 20 June 1995, as part of its concerted actions with the Member States provided for in the Integrated Programme in favour of SMEs, which enabled best practice in the Member States to be identified and exchanged.

³³ See in particular "Community actions to assist SMEs and the craft sector", COM(94)221 final of 7 September 1994.

As pointed out in the Report, an improved legal environment for businesses would not only mean deregulation, since for certain key problems, such as payment periods, transfer of businesses and legal forms, legislative initiatives may be very useful. The Commission has therefore adopted recommendations to the Member States in the fields of payment periods³⁴ and the transfer of enterprises³⁵. It also encourages the development of appropriate legal forms for enterprises operating at intra-Community level (particularly the EEIGs, for which the REGIE network has been set up, and the European legal forms for co-operatives, associations and foundations).

Support measures

The Report also refers to the important contribution to the competitiveness of enterprises that may be made by support services. Indeed, the complexity of the management of a company and development of strategic orientations still raise particular difficulties for a considerable number of SMEs. As stressed in the Report, progress in this field necessitates wider availability of such services, particularly in peripheral regions, and a greater demand for, and use of, the existing support measures by SMEs.

The Commission will continue to improve the support measures which it offers, particularly in the fields of information (EIC network) and co-operation (BC-NET, BRE, Europartenariat, Interprise). In addition, it will conduct concerted actions with the Member States aimed at the exchange of best existing practice as regards the supply of services for businesses (Madrid Forum, November 1995) and ways of promoting the demand for information, training and advice on the part of enterprises.

CONCLUSIONS

The Observatory annual reports have seen the day with the completion of the Internal Market, and developed ever since. Not only by means of a careful adaptation of their scope and structure, but also thanks to a gradual extension of their geographical coverage, which now encompasses most of the EEA Member States, they regularly provide a comprehensive, useful analysis of SMEs within the European economy.

Broadly speaking, the first report has drawn up a general overview of European SMEs and analysed the prospective consequences of the completion of the Internal Market in a qualitative way. In this sense, it amounted to a "zero-measuring" of the state of SMEs in the European Union.

³⁴ OJ C 144 and L 127 of 10 June 1995.

³⁵ OJ C 400 and L 385 of 31 December 1994.

The second report had more focus on dynamics than the first one. Whether on employment creation and training, capital and finance, or innovation and diffusion of technology it proved possible to present developments in addition to structures, and presented the results of a preliminary convergence/divergence analysis, thus monitoring anticipatory effects of the completion of the Internal Market during the period 1988-1993.

The present third Report, like its predecessors, is full of facts and useful information. Apart from the usual annual update on SME performances, it has focused more in particular on several aspects of the business environment and paid increased attention to the development of the SME Internal Market Monitor. Theme studies have been carried out on administrative burdens, a field to which much policy attention is drawn, and producer services, a sector that is of special interest for upgrading operations and productivity in SMEs.

In particular, the Report clearly shows that during the past six years the business environment in which SMEs operate has converged in the former twelve Member States, as conditions on capital markets, domestic efforts regarding technology and innovation and fiscal and monetary policies became increasingly similar in the European Union. Moreover, in the same period the business environment in the new Member States (Austria, Finland and Sweden) and in Norway already became closer to the business environment in the Union.

However, it also leads to the conclusion that SMEs are not yet fully benefiting from the current economic recovery. Compared to the 1988-93 period, in which SMEs more than compensated for job-losses in larger enterprises, the SME job-machine is now stagnating, as slow recovery in SMEs was preceded by a slowdown in the growth of the number of enterprises in Europe, due to a slight decline in new enterprise creation and an increase in closures. There are large differences in birth rates of new enterprises across Europe, the birth rate being relatively high in Germany and Finland, and rather low in Italy, Spain and the United Kingdom. This contrasts with the similarity of motives throughout the Union (such as the will to be independent, or the threat of unemployment) and success factors associated with starting an enterprise (such as management experience and the educational level). Apparently, remaining differences in the business environment, such as the prosperity of the population and specific tax policies directed at SMEs, have an important influence in new entrepreneurship.

The initiative of entrepreneurs, their decisions on hiring and investing are paramount to growth. The aim of any public policy must then be to provide a coherent and transparent framework within which economic operators can compete freely on the basis of equal treatment, and therefore to induce a virtuous circle of initiative, employment and growth. To do that, individual incentive to productivity need to be strengthened, competition stimulated and, in general, market flexibility increased.

The Council Resolution of 10 October 1994 gave full scope to the dynamism and innovative potential of SMEs in a competitive economy, whilst clearly recognising that their development, and in particular their flexibility and adaptability to changing circumstances, is still being hampered by a number of both internal and external hurdles. A simple, logical and coherent policy framework would accordingly be essential in seeking the most effective ways for overcoming their difficulties and building on their strengths. As it stands, the Report clearly confirms this reasoning and reaffirms the need for fostering the Community's continuous commitment towards improving the business environment and supporting the development and adjustment of enterprises along the lines presented in the Integrated Programme in favour of SMEs and the craft sector, which paves the way towards a second generation of enterprise policy.

In this vein, the prime objective of the Commission will continue to be to ensure that there is a high degree of added value in the Community's enterprise policy and to contribute to economic resurgence and growth in employment by developing activities of direct interest to enterprises and stepping up interaction between existing instruments. With this in mind, it will in particular endeavour to stimulate and reinforce mutual consultation and cooperation with all its partners, the Member States, the European institutions and the business organisations, so that the efforts of the Union in favour of SMEs are translated into growth, competitiveness and employment.

EXECUTIVE SUMMARY**THE EUROPEAN OBSERVATORY FOR SMEs****Third annual report**

Report submitted to Directorate-General XXIII
(Enterprise policy, distributive trades, tourism and cooperatives)
of the European Commission by:

ENSR - European Network for SME Research

and co-ordinated by:

EIM - Small Business Research and Consultancy

INTRODUCTION

This is the executive summary of the Third Annual Report of the European Observatory for SMEs. The First Annual Report was published in May 1993 and concentrated on the structure of SMEs and their fields of operation. The Second Annual Report reviewed developments that affected SMEs and was published in April 1994. Both reports dealt with the twelve European Member States. In this year's report also Austria, Finland, Norway and Sweden are included, anticipating on the joining of these countries to the European Union on the first January 1995. Unfortunately Norway decided otherwise. So this Third Annual Report covers all countries of the European Economic Area, except for Iceland.

To a limited extent the structure of the Report has changed. The main part concerns the development of the SME Internal Market Monitor (SIMM). This monitor measures the effects of the completion of the internal market on SMEs. The completion of the internal market has influenced both the business performance and the business environment of SMEs. Therefore a distinction is made between information gathered on the Business Performance of SMEs (Part I) and information collected on the Business Environment of SMEs (Part II). The theme studies of this year's report (Part III) concern Administrative Burdens on SMEs and the Producer Services sector. Some of the information included in the last year's theme study on craft trades has been updated. In the last part (Part IV) conclusions are presented. This consists of the main results of the SIMM and an overview of the policy issues resulting from the information contained in the Report.

PART I

1. ECONOMIC GROWTH AND SECTORAL DEVELOPMENT

The size-class pattern of economic growth

Economic development in Europe-16 during the period 1988-1995 can be subdivided into a period of growth (1988-1990), a period of stagnation (1990-1993), and a recovery (1994-1995). In spite of differences in their overall growth rates, EU-12 and EFTA-4 show the same sectoral and size-class patterns of economic growth.

It appears that each stage of the business cycle has a different impact on SMEs and LSEs. The world wide economic stagnation hit the export oriented LSE-sector first, while SMEs were affected after a time lag. During the period of recovery the opposite process occurs. Because the recovery is strongly export led, LSEs have benefited first. From 1994 onwards, however, the increased industrial and consumer confidence has had a stimulating impact on economic growth. Domestic demand, however, is increasing only slightly because of moderate growth in real incomes.

The economic stagnation severely hit the labour market. The total number of private sector jobs in Europe was roughly similar in 1988 and 1995, but there has been an increase in labour productivity. In the period 1988-1990 annual employment growth in SMEs was over 2%, while employment in LSEs increased only marginally. Employment in SMEs decreased by 1% annually, and in LSEs by almost 2%. During the initial stages of the economic recovery, employment growth recovered in LSEs first, followed after a time by SMEs. For SMEs especially, the process of job creation is expected to be slow due to over-capacity.

During the period 1988-1990 the number of enterprises increased strongly. The most rapidly expanding sectors were the wholesale trades, transport and communications, and producer services. In most countries the growth in the number of enterprises slowed down during the recession. During the period of economic stagnation the unfavourable economic conditions had a negative impact on the creation of new firms and also led to an increased closure rate amongst enterprises.

In the 1988-1995 period labour productivity of SMEs has increased by 2% annually, but productivity growth has accelerated since 1990. During the recession and the recovery greater international competition has forced both SMEs and LSEs to increase their efficiency. Increased labour productivity, together with only modest growth of wages, has resulted in a decrease in real unit labour costs, and this improved profitability.

Sectoral characteristics

The sectors with a relatively large average enterprise size are extraction, manufacturing, and, to a lesser extent, transport and communications. In construction and most service sectors the average enterprise size in Europe-16 is below the overall average of 6 employees. Generally, a positive correlation between capital intensity of production and enterprise size seems to exist. This can be explained by the fact that higher capital intensity gives rise to increasing economies of scale and to barriers to entry.

A small average enterprise size amongst SMEs in an industry corresponds with a high relative labour productivity amongst the SMEs in that industry. For example, in most sectors in trade and services SMEs have the highest labour productivity, while, conversely, in extraction and manufacturing, LSEs generally have the higher labour productivity. Therefore, the distribution of SMEs and LSEs over the sectors of industry appear to be efficient from a macro-economic point of view.

Over the 1988-1995 period growth rates have been highest in the export oriented sectors: extraction, manufacturing, and transport and communications. This holds for both SMEs and LSEs. This emphasises the importance of international integration and specialisation for economic growth. Construction, the retail trades, and personal services, which are highly dependent on domestic markets, achieved the lowest growth rates. Within most sectors SMEs experienced higher growth rates in value added than did LSEs. Only in manufacturing were LSEs more successful on this measure.

It is striking that sectoral differences in employment growth only correspond to a limited extent with differences in value added growth. The tendency towards cost reduction led to a decrease in employment especially in the export oriented sectors of manufacturing, and transport and communications. In these sectors enterprises increased their value added, while they decreased their employment. Therefore, the sectors that experienced the highest value-added growth also achieved the highest growth in labour productivity.

At the sectoral level it appears that a moderate growth in unit labour costs - as a measure of competitiveness - coincides with a relatively high growth rate in value added. This holds especially for LSEs but also, to a lesser extent, for SMEs. It is hypothesised that SMEs, which are less flexible in adjusting their stock of labour to changing demand, partly maintained their competitiveness by reducing profit rates during the years considered to a greater extent than LSEs.

2. BUSINESS DYNAMICS AND ENTREPRENEURSHIP

New enterprises trends

European countries have shown important differences with regard to trends in new enterprises formation over the past five years. In general there has been a slight decline in the rate of new enterprise formation in Europe.

The largest share of new enterprises were established in the service sector.

On average, of all European start-ups, 87% survive their first year, 68% survive for at least three years, and 55% survive to the end of their fifth year. However, European countries show important differences, for example, the five year survival rate varies from 45% in Luxembourg, to 63% in Germany.

New enterprises, job generation and growth

New enterprises account for an important amount of gross job creation in most European countries, but large differences exist between countries. Furthermore, the expansion of existing enterprises is, in most countries, a more important source of job generation than start-ups.

It should be stressed that a large majority of entrepreneurs are not interested in expanding their business; only a minority have growth ambitions.

The starter's profile

Whatever the country, the typical European business starter is a man, aged 35, who has previously experienced SMEs through middle-management or as a skilled worker, his level of education is similar to the average in his country's population.

However, important differences exist between European countries, for example in the share of women and the unemployed amongst new entrepreneurs. The entrepreneur's profile also varies according to the type of activities of the enterprise started.

Motives and success factors to start and expand an enterprise

Pull motives such as self-fulfilment, the wish to be independent, and the exploitation of business opportunities seem to be the most important motives to starting a new enterprise, alongside (the risk of) unemployment, a push factor which has become increasingly important in recent years.

Although many European studies indicate that prior managerial experience, commercial knowledge, positive motivation, strong confidence, and education, are important success factors, it should be noted that the choice of business and good pre-start-up preparation seem to be at least equally important.

Obstacles and barriers to start and expand an enterprise

A lack of capital is by far the most severe obstacle to both starting and expanding an enterprise. This is followed by market related problems, inadequate business skills, and level of taxes and social contributions.

3. LABOUR

SMEs and job generation

Recently the claim that SMEs, and especially micro enterprises, create most jobs in industrialised economies has been questioned. Among others, the Organisation for Economic Co-operation and Development (OECD) has pointed to the fact that problems related to data-acquisition and data-analysis might have led to an over-estimation of job-creation by SMEs.

This chapter deals in detail with the methodological problems concerning this issue. It concludes that in some studies there may have been some over-estimation of job-creation by SMEs in the recent past, but that the statement that SMEs generally create more jobs than LSEs remains valid.

In the recent discussion on the job-creation by SMEs, a theory has been developed that a large part of the growing employment-share in SMEs is the result of deliberate strategies of LSEs seeking to reduce uncertainties through flexible production and through the out-sourcing of non-core-business activities. This chapter assesses this argument, and deals with issues of flexibility and job-quality in SMEs.

Flexibility in SMEs

Patterns of labour flexibility in SMEs have several dimensions, of which part-time work and temporary work are the most prominent. Part-time working is growing in importance in most European countries. In general, women are more likely than men to work part-time, and services are more likely to use part-time workers than manufacturing.

The enterprise size dimension to part-time working is clearly linked to the sectoral dimension. For example, while in Denmark small enterprises are typically associated with part-time working in all sectors and large enterprises with full-time working, in the Netherlands SMEs use more part-time working in some sectors, like personal services, but the reverse is true in other sectors, for example construction.

Temporary working involves a significant share of the European workforce (10% of females and 7% of males) and has been increasing in absolute and proportional terms over the period 1987-1991. In some countries (Spain, Denmark, and Portugal) the levels of temporary working are well above the European average.

There is some evidence that large enterprises are more likely to resort to temporary contracts, but when a small enterprise does use temporary contracts, a greater proportion of its staff tends to be covered by them.

Job quality in SMEs

SMEs generally employ younger and less educated workers than LSEs, segments of the workforce which are generally employed in poorer working conditions.

Other evidence regarding the quality of jobs in SMEs points in the same direction. The evidence shows that the incidence of enterprise level health and safety organisations increases steadily with enterprise size, but concerning work accident rates, sectoral influences are more important than enterprise size.

4. REGIONAL DISPARITIES

SMEs' share in industrial employment at regional level

Confirming previous Observatory Reports, this chapter shows that SMEs, and especially micro-firms, play a significant role in employment in the European regions. Moreover, it demonstrates that strong and significant regional disparities exist within countries in the role of SMEs in industrial employment. These disparities are largely explained by the sectoral specialisation of regions, being either regions with SME dominated manufacturing sectors ('dominated' in terms of employment), or being regions with LSEs dominated manufacturing sectors.

The highest intra-national differences are found in the Netherlands, Finland, France, Spain, Portugal, and Norway. Industrial employment in Objective 1 regions is especially SME dominated compared with other intra-national regions. The pattern is not so clear for the Objective 2 regions, and is even less clear for the Objective 5 regions. Finally, the 'border effect' described in the First Annual Report is confirmed, with SMEs' shares of industrial employment showing important differences either side of European borders.

Industrial employment change by size class at regional level

Most regions have experienced heavy losses in industrial employment during the 1988 - 1992 period. However, industrial employment decline has been more acute in LSEs than in SMEs, and micro-enterprises have performed especially well.

As far as the Objective regions are concerned, in most of these industrial SMEs have shown either an increase in their employment or a smaller decrease than LSEs. This pattern is especially true of micro enterprises.

Manufacturing employment decline has been greater in the large city regions than in the regions which specialise in traditional industries.

Self-employment and new enterprises at regional level

In those countries where data is available, evidence exists of large internal disparities in the regional rates of self-employment.

Although each country has its own geographical pattern, the evidence from France, Germany, Italy, Spain, and Norway, reveals that capital and large city regions have a lower rate of self-employment. The share of self-employed is generally higher in traditionally SME dominated regions. On the other hand, regions formerly dependent on heavy industries have a low rate of self-employment. A strong presence of a wage-earning culture, together with lower qualifications in the labour force, could explain this last pattern.

Data from France and Ireland also indicates that regional differences in the creation of new enterprises are closely related to existing differences in regions' economic and cultural environments.

5. EXPORT AND INTERNATIONAL ORIENTATION

Export by countries

In all sectors the share of enterprises that export increases with the number of employees. However, data from Portugal, France, Ireland, Denmark, and France indicates that the number of exporting small enterprises is increasing. Some sectors: manufacturing industry and the wholesale trades, tend to be more export-oriented than others, but due to internationalisation this seems to be changing. Data from the United Kingdom, the Netherlands, Spain, and Portugal shows that exporting by retailers and service enterprises is increasing.

Due to the internationalisation of production the number of small, particularly innovative, enterprises that export is rising, and these enterprises enter export markets with new products very soon after launching them in the domestic market.

Export intensity

The correlation between export intensity and enterprise size class for all sectors is not very strong. However, for manufacturing enterprises export intensity does increase with the size of the enterprise. SMEs in smaller countries usually have a higher export intensity than those in larger countries, but figures for the recent years indicate that differences are narrowing.

Export strategy

There is no single export strategy amongst SMEs, exporting behaviour is typically a mixture of learning-by-doing, strategic commitments, and random factors.

The quality of the product is the main determinant in the decision to export or not, but key factors for success in export markets are the management's capabilities and direct engagements with that market, in brief, active exporting. These characteristics are more often found in large enterprises than in small enterprises.

The export barriers for SMEs are very closely linked to the barriers for growth and development. The main internal barriers are a lack of capital, and insufficient management skills. The main external barriers are technical trade restrictions and bureaucratic procedures, marketing and distribution problems, and, in the more peripheral countries, high transportation costs and communication problems.

Public procurement

The importance of public procurement is increasing considerably, but international procurement has not increased significantly in the 1990s. In 1993 only 2% of public procurement contracts were won by foreign enterprises. Tendering abroad raises several problems for SMEs, these relate to cultural differences, language problems, an insufficient knowledge about the market, and a lack of resources for promotion activities.

European Economic Interest Grouping (EEIG)

EEIGs are an interesting new legal form for transnational business co-operation where the enterprises remain economically and legally independent. The number of EEIGs is increasing rapidly. The greatest number are located in Belgium, France, and the Netherlands. They are, however, mainly established among medium-sized enterprises active in services and manufacturing industry.

PART II

6. MACROECONOMIC ENVIRONMENT

In the early 1990s the world economy was hit by a recession. GDP growth in Europe-16 fell back from more than 3% in the late 1980s to 1% in 1992, and reached an absolute low of -0,5% in 1993. In 1994 a remarkably rapid recovery began, which is expected to continue in 1995. Booming world trade is the driving force behind the recovery. Compared with the USA, growth in the EU is lagging, but growth in the EU exceeds that in Japan. Most EU countries experienced the nadir of the recession in 1993, the only exceptions being the Anglo-Saxon countries and Denmark. The magnitude of the downturn varied considerably. The southern European countries were especially hard hit, as were Germany, France, and Belgium. Investments and private consumption were particularly depressed in the early 1990s, but in 1994 there was a clear up-turn, and in 1995 a strong increase of investments is expected, but only a modest recovery in consumption.

Although growth is accelerating within the EU, inflation has declined to 2.5% (in 1994). Differences in inflation between EU countries remain considerable, but are diminishing. Inflation is highest in southern European countries. Except for 1992, interest rates in the EU essentially followed the German rates. Short term interest rate declined in 1993-1994, but long term rates rose.

The labour market situation in the EU is still a cause for concern. In the 1991 to 1994 period employment in the EU declined sharply due to the recession. In 1995 a modest increase in employment is predicted with a continuing over-capacity of labour within firms. Wage increases in the EU have been small in recent years. Because productivity growth was high in 1994, unit labour costs have declined sharply, and through this, the price competitiveness of EU industries has improved. In comparison with the USA and Japan unit labour costs grew fastest in the EU over the period 1988 to 1993, but in 1994 the growth was lowest in the EU.

EU currencies have shown considerable volatility in recent years, partly due to political turmoil and budgetary problems. It is expected that currency markets will remain vulnerable in 1995.

Regarding government expenditures, the six highest spending governments of Europe-16 (as a proportion of GDP) are Sweden, Denmark, the Netherlands, Belgium, Italy, and Norway (all of these spend more than 55% of GDP). On average, Europe-16 government expenditures amount to 51% of GDP, compared with 38% in the USA and 31% in Japan. Government tax and social security receipts in Europe amount to 45% of GDP, compared with 34% in the USA and Japan. The large debts that many EU governments have built up over recent decades are a cause for concern. Only six countries presently comply with the EMU-criterion of 60%-debt. In Belgium, Greece, and Italy, government debts are over 100% of GDP. On average, net government borrowing in EU-12 amounts to 6%. In 1993 the largest budget deficits were in Sweden and Greece (both had deficits of 13% of GDP). Luxembourg is the only EU country with a positive government balance.

7. RECENT POLICY DEVELOPMENTS AFFECTING SMEs

Recent developments

The purpose of this chapter is to review recent policy developments that concern SMEs in the European Union. In particular, it highlights new directions of support from national governments.

Policies designed to strengthen SMEs include assistance with innovation, product development and risk taking investments, assistance with exporting, and better access to finance. To reduce SMEs' dependence on bank finance many countries have introduced schemes to encourage formal and informal investments in SMEs.

Administrative burdens are widely recognised as falling relatively heavily on SMEs. Government SME policies in Austria, Belgium, France, Italy, and the Netherlands pay special attention to this issue. Further information on this subject is provided in chapter 14.

Efforts have been made in connection with improving the human capital in firms (for example, in Denmark, Finland, Norway, Portugal, and the United Kingdom). These are mainly in the form of management and workforce training programmes.

The establishment of information and service infrastructures that complement the internal competencies of SMEs are a particularly significant development in the support available to SMEs. These are usual regional networks of information providers designed to be accessible and to provide transparent policy support to SMEs. They are a recognition that easy access to information is a key requirement of many SMEs.

Environmental policies

In the majority of countries there have been significant advances in environmental standards and policy, however, there are still major differences between the most environmental advanced countries, particularly the Scandinavian countries, Austria, and Germany, and the less advanced countries. Taxes and subsidies are the most commonly used environmental policy instruments.

8. LABOUR MARKET

The labour market: an overview

High and increasing unemployment in almost all European countries indicates a high supply of labour in quantitative terms. This could lead to the conclusion that SMEs' labour needs can be easily met, however, the labour market is experiencing increasing segmentation which disrupts this pattern of general over-supply.

Skill shortages and recruitment problems

A high supply of labour in quantitative terms does not mean that enterprises have access to a satisfactory supply of labour in qualitative terms. This chapter shows that in several sectors, and in several professions, SMEs in most of the European countries have experienced both quantitative and qualitative skill shortages.

At the same time SMEs do not generally report severe problems arising from these skill shortages. For example, they have not led to reduced production in the short run. On the other hand, these problems may hamper SMEs future competitiveness, employment growth and production in the long run.

The causes of these skill shortages may be external, for example the education system may not provide a sufficient pool of highly skilled, or appropriately skilled, labour. But skill shortages may also arise out of internal shortcomings, for instance, SMEs often pay insufficient attention to the management of their human resources, through, for example, the inadequate use of vocational training courses.

Whether high replacement rates are, or are not, a problem for SMEs to cover their labour requirements is an important current debate. Although these rates differ widely amongst European countries, there is no evidence of a correlation between a high replacement rate (unemployment benefit as a percentage of previous earnings) and the existence of recruitment problems in SMEs.

Labour market policies

Very large differences exist in the amount spent nationally on active labour market policies. Expenditures on active labour market policies as a percentage of GDP range from about 1% in Luxembourg to almost 7% in Finland.

Most of the initiatives in active labour market policies are not especially designed for SMEs, but some are of special interest to SMEs.

In all the countries, active labour market policies include training activities, but expenditures on this kind of policy are especially important in Germany and Sweden. Active policies also include wage subsidies for the employment of target groups of the unemployed, for example young people or the long-term unemployed. In Belgium, France, and Germany, these schemes are especially used by SMEs. All the countries have also implemented schemes which provide grants to unemployed people who start an enterprise.

Finally, the discussion turns to two interesting Danish and French initiatives which aim to strengthen professional competencies in SMEs.

9. CAPITAL AND FINANCE

Information gaps in the SMEs market

Banks complain that they do not get sufficient information on SMEs. General economic information is often sporadic, or inadequately detailed, but is too costly for financial institutions to collect and analyse information on this scale by themselves. SMEs are themselves rather reluctant to give detailed information to financial institutions, for confidentiality reasons, and because they are simply not able to provide high-quality information. Therefore banks are setting up their own databases and, in addition, are gathering information from specialist information services such as enterprise databases with information from annual reports of enterprises. Increasingly credit rating mechanisms are being established in the EU, but these are not particularly useful for SMEs since rating is considered as a good measure for bond issuing companies which are rare amongst SMEs. It is very important that there is a long-term relationship between the individual SMEs and their bank, so that it becomes easier for the bank to judge the financial strength and capital requirements of the SME.

The appropriateness of the credit solutions

The majority of external financing for SMEs is provided by banks. The banking system for the financing of SMEs has always been characterised by a short-term approach, with secured lending, and risk averse investments. Small enterprises usually also have to pay higher interest rates than their larger counterparts. Therefore almost all governments have implemented a broad spectrum of programmes offering SMEs support with external financing, for example, by a loan guarantee scheme, or by stimulating the establishment of mutual guarantee systems.

Equity financing

Small enterprises are traditionally very independent and are therefore very reluctant to share equity. The governments of many countries are trying to improve the availability of equity capital to SMEs, which can be done through the availability of informal as well as formal venture capital. Informal venture capital has been stimulated by, for example, avoiding double taxation. With formal venture capital, one of the major problems is that venture capital companies are primarily investing in larger enterprises, and avoid start-ups. Reasons for this are the high risk and time consuming nature of such investments, combined with the low liquidity of the new companies. Governments have tried to solve these problems; in Greece and Portugal, for example, governmental agencies make cofinancing instruments available to seed and venture capitalists.

To reduce some of the problems with external equity for SMEs some countries have established second-tier stock markets. However, these experiences have generally been unsuccessful, resulting in low levels of equity, and a limited interest from investors.

Management capabilities

SMEs are not provided with enough information on the available financial instruments, but sometimes also have underdeveloped managerial capabilities with which to handle financial matters themselves. However, this situation has improved through the development of training facilities.

10. INFRASTRUCTURES

SMEs and physical infrastructures

The establishment of a real trans-European network of infrastructures represents an important objective in the light of the achievement of the Internal Market. It should have a positive impact on Europe's SMEs not only because of the sub-contracting opportunities it implies, but also because of its possible impact on their competitiveness.

Regarding the initial endowment of infrastructures in roads, railways, and telephony, it should be recalled that European countries have different problems according to their level of economic development. Whilst the less advanced countries have a clear infrastructural deficit, both in quantitative and qualitative terms, the advanced countries face problems of saturation especially in their road networks. This said, convergence is increasing in these three fields.

Attention should be paid to the fact that infrastructures are a necessary but not sufficient condition for economic development, and more particularly, for the development of SMEs. The possible negative effects of new infrastructures should also be assessed.

SMEs and communication and information technologies

The information revolution and 'information highways' already exist and will develop further in the future changing the way of life, and the working environment, across Europe.

SMEs can already gain great advantages through the opportunities offered by the new communications technologies, even if LSEs appear to be making greater use of them at the present time. It should be noted that the costs of introducing and first using these services, and weaknesses in the internal capabilities of small enterprises constitute barriers to their use by SMEs.

Nevertheless, case studies in different European countries reveal the great potential for SMEs of the new and existing communications technologies. Southern countries could benefit from the experiences that the northern countries have gained through the introduction and application of new information products and services.

Together, distance learning, tele-working, electronic tendering, and telematic networks offer numerous opportunities to SMEs. These include access to various on-line information services, the exchange of information with main contractors, and the management of bank accounts.

11. TECHNOLOGY AND INNOVATION

Contribution of SMEs to the innovative output

This chapter shows that SMEs play a major role in innovation. There is strong evidence that this is true in both high-technology and traditional industries. In traditional industries, innovative SMEs rely mainly on inputs such as technical change embodied in equipment, and the adoption of technologies developed in other sectors. Therefore, it is shown that SMEs can be innovators even though they may not undertake formal R&D activities. This changes the established image of the innovative contribution of countries such as Italy or Spain, which have large numbers of SMEs in traditional industries, but which have low national R&D expenditures as a proportion of GDP.

SMEs, innovation and the business environment

As regards business environment, case studies in several European countries support conclusions about the positive impact on innovation of geographical concentration of SMEs that belong to the same sector of industry. These, so called industrial districts, play an especially important role in the traditional industries of Italy, Spain, and Austria, and in other countries, such as the United Kingdom, science parks allow high-technology SMEs to strengthen their relationships with the scientific infrastructures. Whilst traditional industrial districts may be long-established and the result of "natural" economic processes, the phenomenon of science park is more recent and dependent on a deliberate policy intervention.

National technology policies

Most European countries have implemented policies, both at national and regional levels, which aim to stimulate innovation and the technological capabilities of SMEs. The instruments used include tax incentives, subsidies for R&D and innovation, and support for technology transfers. France and Germany are two countries with very developed technology policies.

SMEs and European R&TD programmes

European R&TD programmes play an especially important role in the less-advanced countries, and are generally becoming more accessible to SMEs. However, it should be stressed that recent European R&TD programmes are still more relevant to high-technology SMEs and LSEs, rather than to SMEs in traditional industries.

12. EDUCATION AND ENTREPRENEURSHIP

Education in European countries

Compared with the northern countries, the southern countries of Europe still have a lower share of their populations with a high level of education, however, this difference will probably narrow in the future as almost all the countries now offer the same education opportunities for young people.

As regards the student participation rates, the differences between countries are now largely restricted to the percentage of students in tertiary education (from 4% in Portugal to 10% in Finland). It is also at the tertiary level that gender differences exist. In general women are more involved in non-university based tertiary education, and there are more men in university based education. Furthermore men are much more involved than women in science and engineering courses.

Level of education, behaviour and performance of entrepreneurs

In all the countries for which data is available, entrepreneurs and starters show a higher level of education than the average of the labour force, but most have had no specific education in entrepreneurship.

In particular, innovative and high-technology starters are generally better educated than the average business starter.

This chapter also shows that for some sectors the survival rate of enterprises is better when the level of the entrepreneur's education is higher. This could be due to the fact that these starters tend to be better prepared.

Furthermore, positive links exist between the level of the entrepreneur's education and the growth orientation of the enterprise, its tendency to network, and its likelihood to export.

The approach of entrepreneurship in the educational system

Education has the potential to cultivate an entrepreneurial spirit, and there are good reasons why it should. First, education recognises the socio-economic importance of SMEs. Second, it acknowledges that it can stimulate entrepreneurship by developing a number of entrepreneurial skills. Third, students and graduates show an increasing interest in entrepreneurship. Finally, co-operation with SMEs could improve the attention to entrepreneurship within the educational system.

There are however a number of barriers which must be overcome. First, education is too theoretical is not sufficiently adapted to business or SMEs. Second, education is not sufficiently multi-disciplinary in approach. Third, too little emphasis is put on the development of personal skills which are desired by businesses, and the managers of small enterprises in particular. Fourth, education in general devotes much more attention to large institutions and a wage-earner culture than SMEs or entrepreneurship. And finally, teaching staff are insufficiently familiar with entrepreneurship and SMEs.

13. LEGAL ENVIRONMENT

Legal forms

The legal forms of enterprises generally have the same broad characteristics in all European countries. Sole traders exist in most countries (except Luxembourg and Sweden) and are the legal form most frequently used by the self-employed, and amongst businesses in the retail trades and services. However, statistics on legal forms show important differences between European countries.

In particular, while sole traders are very dominant in Portugal, Spain, Greece, and Germany, limited liability companies account for a large share of businesses, including small businesses, in Sweden, Luxembourg, Norway, the United Kingdom, France, Finland, Belgium, and the Netherlands. Partnerships are very important in the United Kingdom, Italy, Finland, Austria, Greece, and to a lesser extent in Sweden, and the Netherlands, but they are not prominent in the other countries. For five countries (France, the Netherlands, Spain, Austria and Sweden) there is data on legal forms by size class. In all of these countries except for Sweden, the majority of micro-enterprises are sole traders. The share of sole traders decreases as the enterprise size class increases. Most enterprises with more than 10 employees are limited liability companies or public limited companies.

Legal form by size and sector apart, there are two areas in which important differences exist between European countries: the rate of tax on profits, and capital requirements for companies. These factors help to explain the different legal forms favoured in the different Member States. For example, it is clear that a differential between the income tax rate and the rate of corporation tax which clearly favours the latter will encourage the businesses to have limited liability status. Other important factors such as the social security system may also explain the choice for a limited liability status.

Norms

Although the implementation rates of European norms and standards are high in most countries, SMEs remain sceptical and misinformed about the harmonisation process and the advantages it produces. It should, however, be pointed out that this process is probably most favourable to LSEs in the large advanced countries.

Quality assurance

An important share of European SMEs remain reluctant to gain quality assurance certification. SMEs are more often "pushed" into getting ISO certification than approach this in a voluntary manner. Furthermore, barriers such as the costs involved, the time required, loss of flexibility, and the many administrative burdens, raise problems for certification in SMEs. Although the cost of certification increases with enterprises size, the cost per employee is greater amongst SMEs than for large enterprises.

PART III

14. ADMINISTRATIVE BURDENS

Administrative burdens are defined as 'compulsory administrative procedures resulting from legislation that enterprises are obliged to carry out'.

In the chapter two main legislative areas are distinguished which create administrative burdens on enterprises, these are legislation relating to all enterprises (burdens for 'being an enterprise') and employment related legislation (burden for 'having employees').

The study finds that administrative burdens that arise for 'being an enterprise' cause between 60 and 70% of all administrative burdens. The areas of corporation tax, tax on dividends, revenue taxes, the annual accounts, VAT and excise levies cause the greatest share of these administrative burdens.

Administrative procedures that result from having employees cause between 30 and 40% of the total administrative burden. In particular the levying of wage tax and payment of social premiums cause most of these burdens.

Although thorough research on administrative burdens is scarce within the Member States of the EU, it has been possible to estimate the total cost to private non-primary enterprises that arise through compulsory administrative procedures. The total amount of administrative burdens on enterprises in Europe is estimated at between 3 and 4% of GDP per annum, which is between 180 and 230 billion ECU a year.

The total costs arising from compulsory administrative procedures are higher in large scale enterprises than in small and medium sized enterprises. However, the costs per employee are higher in SMEs.

At the European level as well as in individual Member States initiatives are being taken to reduce the administrative burdens on enterprises.

At European level, the most important strategies, policies, and measures to reduce administrative burdens are actions regarding the improvement of information and advice, the replacement and simplification of existing laws, and the attention to possible administrative burdens connected to new legislation.

At national level, different strategies, policies, and measures are being used to reduce administrative burdens in different countries. For example, in Belgium and Greece the focus is on the simplification of forms and reporting requirements. In Finland and Norway the focus is on administrative procedures and the institutions which process this information. In Portugal, Sweden, and the United Kingdom, existing laws are being replaced by new laws which reduce the compulsory administrative procedures required of enterprises. And, in the Netherlands, and the United Kingdom, attention is paid to the possible administrative burdens caused by new legislation.

15. PRODUCER SERVICES

Producer services are defined as service activities whose outputs are, in the main, purchased by enterprises. These services are intermediate or auxiliary to the production processes in other industries. They include business and professional services, financial services, insurance services, and real estate services.

SMEs are involved in a highly competitive environment; the use of producer services is a crucial factor in their competitiveness by: promoting access to technological information, the development of product and process innovations, the growth of exports, and for improving market access. However, the demand for external services by SMEs is concentrated in the most mainstream services such as accounting. Amongst SMEs the demand for other producer services such as marketing, and education and training, still seems to be relatively low. An important reason for this is that managers and entrepreneurs in SMEs are often unable to identify problem areas which could benefit from the use of external services, and are unaware of the extent of the services available. Another reason may be the fact that many services have been developed to meet the requirements of large firms, and are not well designed for use by smaller enterprises.

Small firms are characterised by a high degree of internal service provision, with services often being provided by the entrepreneur himself, or informally through his personal contacts. The demand of external producer services is higher amongst medium sized enterprises, which are more capable of interacting with external providers and can more easily afford these services. Large firms can afford to tailor internal services to their specific needs, but they also develop synergies between providing routine capabilities in-house and seeking specialist external services. The degree of combined internal and external provision is therefore highest amongst large enterprises.

Producer services account for about 11% of Europe's total private non-primary employment. Within producer services business services usually have the highest share of employment. The supply of these services is dominated by SMEs in every country. However, banking and insurance are dominated by large firms.

Between 1988 and 1994 producer services have shown the highest average annual growth rate of any sector in terms of employment, a slightly below average growth rate in terms of value added, and the lowest performance in terms of productivity. Regarding employment, micro firms in producer services showed the highest average growth rate, followed by small enterprises.

In various countries there is an extraordinary degree of concentration of producer services within the most developed regions, and the central areas with the main cities. This is partly due to the availability of supporting infrastructures, opportunities for face to face contacts, the availability of qualified personnel, and to the prestige of being located in the central areas. However, the areas that are gaining the greatest increase in producer services are often those just outside the major agglomerations, where congestion and rents are lower, but which remain within easy reach of the client base.

There does not seem to be an explicit public policy toward the development of these service activities in any country, but several programmes have stimulated both the supply and demand of these services. Public authorities are also designing new policy schemes which, through the development of technology and service provision, aim to improve the quality of the local environment in which SMEs operate.

16. THE CRAFT TRADES

Characteristics

Craft enterprises are characterised by a high labour intensity in production, and being small scale but with a relatively high proportion of highly skilled workers. They are mainly independent in status, with combined ownership and management, and there are usually close links between the enterprise and the family.

Importance

At the European and national levels the importance of the craft sector is becoming increasingly recognised as a factor in economic stability, as the foundation of vocational skills, and as a source of new entrepreneurship. However, the amount of attention paid to the craft sector differs between the Member States. This is one of the reasons for the diversity in available statistical data. Even in countries in which great attention is paid to crafts, and in which crafts are legally defined, statistical data on crafts may be scarce as the definition is often profession-oriented, while genuine economic statistics are sector-oriented.

Towards a common concept

To make European-wide statistical monitoring possible, steps are being taken to develop comparable statistics for the Member States. In the Second Annual Report of the European Observatory for SMEs a first attempt was made to develop a common delineation of Craft Dominated Sectors which would allow sensible cross country comparisons. Indeed, this non-comparability of national craft statistics became a prominent issue during the preparation for the Berlin Crafts Conference. The European Commission organised a pre-conference on craft statistics in June 1994 in Göttingen and a preparatory conference on craft definitions and statistics in September 1994 in Rome. Finally, at the Berlin-conference in September 1994 it was concluded that the development of comparable statistics on the craft trades should be pursued in the near future.

Craft trades and the Berlin Conference

Conclusions from the twelve pre-conferences, which preceded the Berlin Conference, resulted in the 'Outline of the Twelve Pre-Conferences', on which the European Commission drew the working paper: 'Craft Industries and Small Businesses'. Subjects of major interest to the craft trades and small businesses were discussed, problems were listed, and recommendations made.

Towards an adequate policy

Since the first Conference on Crafts in Avignon the European Commission has proposed the Integrated Programme in favour of SMEs and the Craft Sector with new approaches targeted at mutual consultations and the exchange of experiences between the Member States, and collective efforts between them to improve the business environment for enterprises. However, the means at the disposal of crafts and small enterprises, in terms of information, financing, or training remain insufficient to allow them to fully benefit from existing actions and programmes. The Second Annual Report of the European Observatory for SMEs set out the problems and made recommendations. The Berlin Conference did the same later on.

The main points of the Second Annual Report and the Berlin Conference were similar, recognising the general problems that confront small and craft enterprises. Both called for:

- a common European identity of crafts and small enterprises, and the need to enhance the knowledge of the role and the economic importance of the craft sector through detailed studies and sectoral analysis;
- a sensible training policy, attuned to business practice with post-apprenticeship training and the international exchange of experiences and trainees;
- harmonising regulations, taxes, and administrative and social obligations;
- easier accessibility to finance, with similar conditions in all Member States;
- the stimulation of trade associations for greater co-operation at the national and international levels.

PART IV

17. SME INTERNAL MARKET MONITOR

In the 1988-94 period employment growth in SMEs, although favourable in comparison with LSEs, was disappointing given that value added in SMEs grew substantially more rapidly than employment. Indeed, value added growth in SMEs has been productivity led, giving rise to the observation that, although there certainly has not been a jobless growth in SMEs, growth in SMEs has been job-extensive.

The analysis of the SME Internal Market Monitor (SIMM) pointed to the fact that this job-extensive growth can - partially - be explained by two factors, being the unsuitability of mainstream labour market policies, forcing entrepreneurs to 'choose' a labour-extensive growth-path given current recruitment problems and the fact that SMEs more and more are playing on global and exposed markets rather than on domestic and sheltered markets.

SIMM points to the fact that, in general, the business environment in which SMEs have to operate is converging in the EU-12. Concerning government policies, fiscal and monetary policies are converging; labour market policies in the Union are diverging. Regarding general market conditions in the EU-12, the strength and prosperity of the Member States have converged over the 1988-94 period, as have the conditions in the capital and labour markets, and domestic efforts related to technology and innovation.

The dynamics of SMEs have also been converging, as has profitability, but the performance of SMEs (in terms of value added, employment, and exports), has diverged over the 1988-94 period. This is mainly due to the deviant behaviour of SMEs in Italy and the United Kingdom.

In general the business environment, business dynamics, and SME-performance in the EFTA-4 countries has become increasingly similar to the EU-12 over the 1988-94 period. The distance between the EU-12 and the EFTA-4 countries nevertheless remains substantial.

In SIMM some analyses have been carried out to explain SME-performance in terms of the business environment, thereby extending the practical utility of SIMM to policy-makers.

The analysis suggests that government policies, especially fiscal and monetary policies, have a definite role in stimulating SME-performance, current labour market policies are not well suited to the needs of SMEs, and government R&D policies seem to be almost entirely geared to the large scale enterprise sector. These may even crowd out small scale modes of production.

The industrial relations indicators did not influence SME-performance.

Finally, SIMM provides some preliminary conclusions on the development of the quality of the business environment, from the viewpoint of SMEs, and on the convergence of the EU-12. An assessment of the business environment concluded that this has improved in the 1988-94 period, at least for SME-performance, and there is also evidence that the convergence of the business environment in the Member States of the European Union has had a positive effect on SME-performance.

18. POLICY ISSUES

In the previous reports much attention was devoted to policy recommendations aimed at stimulating the growth of SMEs and craft trades, and to the creation of jobs. In this report the policy issues refer to the basic relationships between SME performance, the functioning of markets, and the business environment of the more unified Europe.

These policy issues refer principally to the European level of policy, however, they may be useful for national and regional policy approaches as well.

Competition in markets seems to differ widely by sector and by country, as can be seen from entry, exit, and survival rates. These differences in competition, or the functioning of markets, both affect, and are affected by, the economic position of SMEs.

The process of cross border trade deregulation has been followed by a strong tendency to deregulate markets more thoroughly, both at the national level, and at the European level.

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