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

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

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Introduction

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

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

The general objectives of this sixth report are:

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

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

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

- European and national statistics;
- The ENSR Enterprise Survey 1999, a telephone survey among 8 000 enterprises in the 19 countries covered;
- European enterprise databases;
- Literature, qualitative data, legislation and policy documents;
- ENSR-expert and external expert information.

Part I — The performance of SMEs

Enterprise structure and key indicators at the European level in 1998

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

An average European enterprise provides employment for 6 persons. This figure differs with respect to size: an SME provides, on aver-
Average turnover per enterprise amounts to EUR 500 000 in SMEs, and to EUR 215 million in LSEs. Also labour productivity, defined as value added per occupied person, increases with enterprise size: in micro-enterprises, an occupied person creates on average EUR 30 000 value added, while in large enterprises, labour productivity is up at EUR 90 000.

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

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Total</th>
<th>LSE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises (1 000)</td>
<td>EU</td>
<td>18 040</td>
<td>1 130</td>
<td>160</td>
<td>19 330</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>Non-EU</td>
<td>425</td>
<td>45</td>
<td>10</td>
<td>480</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>18 465</td>
<td>1 175</td>
<td>170</td>
<td>19 810</td>
<td>40</td>
</tr>
<tr>
<td>Employment (1 000)</td>
<td>EU</td>
<td>38 360</td>
<td>21 320</td>
<td>14 870</td>
<td>74 550</td>
<td>38 680</td>
</tr>
<tr>
<td></td>
<td>Non-EU</td>
<td>970</td>
<td>820</td>
<td>770</td>
<td>2 550</td>
<td>1 190</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>39 330</td>
<td>22 140</td>
<td>15 640</td>
<td>77 100</td>
<td>39 860</td>
</tr>
<tr>
<td>Average enterprise size:</td>
<td>EU</td>
<td>20</td>
<td>90</td>
<td>4</td>
<td>1 010</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Non-EU</td>
<td>20</td>
<td>90</td>
<td>5</td>
<td>780</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>20</td>
<td>90</td>
<td>4</td>
<td>1 000</td>
<td>6</td>
</tr>
<tr>
<td>· Turnover per enterprise (million EUR)</td>
<td>EU</td>
<td>0.2</td>
<td>3</td>
<td>23</td>
<td>0.5</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>Non-EU</td>
<td>0.3</td>
<td>3</td>
<td>16</td>
<td>0.8</td>
<td>135</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.2</td>
<td>3</td>
<td>23</td>
<td>0.5</td>
<td>215</td>
</tr>
<tr>
<td>Share of exports in turnover (%)</td>
<td>EU</td>
<td>6</td>
<td>13</td>
<td>16</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>Non-EU</td>
<td>12</td>
<td>14</td>
<td>16</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>7</td>
<td>13</td>
<td>16</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Value added per occupied person (1 000 EUR)</td>
<td>EU</td>
<td>30</td>
<td>50</td>
<td>95</td>
<td>45</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>Non-EU</td>
<td>55</td>
<td>50</td>
<td>60</td>
<td>55</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>30</td>
<td>50</td>
<td>90</td>
<td>45</td>
<td>90</td>
</tr>
<tr>
<td>Share of labour costs in value added (%)</td>
<td>EU</td>
<td>40</td>
<td>53</td>
<td>43</td>
<td>45</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>Non-EU</td>
<td>36</td>
<td>60</td>
<td>52</td>
<td>48</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>40</td>
<td>53</td>
<td>43</td>
<td>45</td>
<td>39</td>
</tr>
</tbody>
</table>

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

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


**Trends regarding key indicators, 1988–2000**

Figure 1 shows the development of employment, in non-primary private enterprise in Europe-19 over the 1988–2000 period. On the one hand, the total number of jobs declined during the 1990s, but on the other hand, the development of employment has been most favourable in micro-enterprises. Also employment recovery started in micro-enterprises from 1995 onwards while employment growth in small, medium-sized and large enterprises only significantly increased from 1997.
The number of enterprises in Europe-19 has increased significantly during the last decade. For instance, the latest data available, referring to 1995, show that almost 2 million new enterprises arose, while over 1 1/2 million enterprises ceased to exist. So, entry and exit amounted to 11% and 9% of the total stock of enterprises, respectively. Employment associated with entry was equal to over 2 1/2 million. As exiting enterprises are slightly larger than new enterprises, the employment associated with exits amounts to 2 1/2 million persons, even though the number of exiting enterprises was lower than the number of new enterprises.

Table 2 shows how labour productivity growth in SMEs has been fairly stable over time, at slightly over 2% annually. In LSEs, however, labour productivity growth during the 1990s is significantly higher than in 1988–90.

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

Developments of the craft trades

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

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

- France, Italy and the Netherlands follow the sector/size approach (craft is defined on the basis of size and sector criteria). In France, the size of the craft trades has decreased in the first part of the 1990s, but from 1995 onwards, the sector seems to have recovered.
In Italy and the Netherlands, the number of craft enterprises tended to increase, but on the other hand, employment gradually declined.

- In Spain, the *artist approach* (craft enterprises are exclusively involved in artistic activities) is followed. The number of enterprises is seen to be quite stable. However, after an increase in employment in the beginning of the 1990s, job losses have occurred since 1995.

- Belgium, Finland, Ireland, Portugal, Switzerland and the United Kingdom follow *other approaches*. Data for Ireland point to a gradual employment increase since 1993.

### Developments of the social economy

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

#### Part II — The business environment and behaviour of SMEs

### The functioning of markets for products and services

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

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

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

**Liberalisation of opening hours for retail shops**

The liberalisation of opening hours for retail shops appears to accelerate the diminishing market share of SMEs, by decreasing profitability (costs rise more than turnover). Large enterprises are more able to take advantage of extended opening times since these enterprises have a greater managing capacity such as organising job rotation shifts and pools of part-time workers. Small shops simply cannot pay an extra employee, and/or small speciality goods shops cannot hire inexperienced cheap part-timers, since a certain level of experience is needed to serve the customers correctly.

**Opening-up the market for public procurement**

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

One sixth of the enterprises that are aware of public tenders tried to participate in European tenders during the past three years (see Figure 2). Of all enterprise sizes considered, the medium-sized enterprises seem to be more aware of tender procedures and also tried to participate most. About half of the SMEs that tried to participate in one or more European tenders in the past three years did receive an order following their participation in such tender procedures. All in all, between 2 and 3 % of all SMEs stated that they received orders during the past three years following their participation in European tender procedures. The results of the ENSR Enterprise Survey 1999 do not allow for an

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

Source: ENSR Enterprise Survey 1999.
The European Observatory for SMEs

Figure 3 Percentage of enterprises (‘’) that take specific actions to overcome difficulties in filling vacancies, by enterprise size

[Bar chart showing percentages of enterprises taking specific actions to overcome difficulties in filling vacancies]

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

Source: ENSR Enterprise Survey 1999.

accurate calculation of the absolute number of tenders actually won by SMEs. However, the available data clearly suggest that a considerable part of all European tenders are won by SMEs.

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

Labour market issues

Skill shortages

The third report of the European Observatory for SMEs (1995) revealed a general reduction of the extent of both the quantitative and the qualitative lack of labour in the period 1991–94, primarily because of low business activity. Since then, the economic trends have improved and an increase of the problem of skill shortages has been recorded, especially among SMEs. Lack of skilled labour is now felt as a major constraint on business performance by almost 10 % of SMEs. This problem is considered as more severe the larger the number of employees in the enterprise is, ranging from 4 % for enterprises without employees to 23 % of medium-sized enterprises.

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

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

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

Mobility of the labour force

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

Taxation policies to solve recruitment problems

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

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

Access to finance

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

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

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

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

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

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

A comparative analysis by group of enterprise

In the development of financial support measures for SMEs, the results of the report of the Business Environment Simplification Taskforce (BEST), should be taken into account. As stated in the BEST report, SMEs are not homogeneous, therefore different kinds of support measures should be developed for different categories of enterprises. In this Observatory report four categories of enterprises have been analysed: early stage enterprises, small mature enterprises, highly innovative enterprises and expanding enterprises.

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

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

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

Three main reasons can be suggested to explain why the financial sector can be reluctant to finance highly innovative enterprises through their traditional channels: the uncertainty of expected returns, the benefits cannot be fully retained in the enterprise and the indivisibility of the investment. The main sources of finance for this group of enterprises are apart from bank credits, venture capital and business angels.

The most common sources of finance for expanding enterprises are bank loans. High growth enterprises have, like their innovative counterparts, a privileged access to other channels, for example venture capital funds or business angels.

The collateral policy used by banks when they extend credit lines to the different groups of enterprises also shows some degree of differentiation. The frequency with which banks ask for

<table>
<thead>
<tr>
<th>Table 3 Access to finance, bank credit and collateral, by target groups, Europe-19 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises with access to finance as major constraints</td>
</tr>
<tr>
<td>Early stage</td>
</tr>
<tr>
<td>Enterprises with a bank credit</td>
</tr>
<tr>
<td>(rate of bankarisation)</td>
</tr>
<tr>
<td>Enterprises with bank credit guaranteed by collateral:</td>
</tr>
<tr>
<td>• Owner’s or relatives’ property as collateral</td>
</tr>
<tr>
<td>• Fixed assets of enterprise as collateral</td>
</tr>
<tr>
<td>Source: ENSR Enterprise Survey 1999.</td>
</tr>
</tbody>
</table>
collateral, especially property, is significantly higher for highly innovative and expanding enterprises than for the two other groups.

**Electronic commerce and SMEs**

**Opportunities and barriers for SMEs**

The use of Internet technology for supporting cooperation and managing information among enterprises has recently become more frequent for SMEs, opening up markets so far only accessible to the larger enterprises. This is because e-commerce, based on the Internet, is gradually changing the way business is conducted throughout the entire process: in many cases all trade transactions, marketing, ordering, payment, delivery, and customer support can nowadays be carried out digitally.

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

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

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

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

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

Source: ENSR Enterprise Survey 1999.
Cooperation over the Internet

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

Sectors involved

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

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

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

Access to Community programmes

Awareness and participation

In the last five years, one tenth of the SMEs in the 19 countries covered by this report have participated in a support programme in the field of financial assistance, training support, consulting

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

Source: ENSR Enterprise Survey 1999.
or information offered by regional, national or European institutions (see Figure 5). Almost three quarters never considered an application to a Community programme since they were not even aware of the existence of such schemes. Another fifth of the SMEs, although aware of a programme, refused or had been refused participation.

There is strong evidence that both the rate of participation as well as the rate of awareness (or, put differently, the probability that a particular enterprise is aware of or participates in a support scheme whose essential requirements fit the enterprise) significantly and positively depends on the size of the enterprise. Larger enterprises appear to be better informed and can more easily deal with hindrances, but, remarkably, the relative importance of other reasons preventing SMEs from participation, i.e. the difference between the participation rate and the awareness rate, remains more or less constant over size-classes.

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

Obstacles of SMEs which have never participated in support programmes

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

Obstacles of SMEs that have experience with support programmes

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

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

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

Associations and foundations in the social economy

An increasing economic weight and a growing share in European employment

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

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

Government policy

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

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

The main national policy instruments encouraging associations and foundations are related to: special legal forms and regulations, a favourable tax system taking into account the non-profit character of these organisations, financial support in the form of grants and subsidies and incentives in favour of fundraising, support to stimulate voluntary work and support to stimulate job generation. Also, authorities often provide indirect support to associations and foundations by putting public infrastructure such as premises or sports infrastructures at their disposal.

**Volunteer work**

Associations and foundations depend a lot on volunteers. The share of the population involved in voluntary work differs a lot, ranging from 1 out of 10 in Austria to almost 1 out of 2 in the United Kingdom. In some countries, efforts are made to promote and encourage voluntary work. Voluntary work can be assisted by the granting of paid days off to employees (as in France) or by giving a tax exemption for reimbursed expenses to volunteers to carry out their mission (as in Germany, in the sport sector only, and in the Netherlands). Provisions have been made that allow the unemployed to do voluntary work providing that it does not prevent them from looking for a job (e.g. in France and Germany). However, a clear statute for volunteers is still lacking in most countries.

**Financing**

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

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

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

Smaller associations and foundations face more problems with collecting the financial means for their activities than the larger ones: lack of information, the public authorities annually based financial support, bureaucracy and incoherence...
Part III — Enterprise policies affecting SMEs

New developments in SME policy

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

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

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

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

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

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

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

Part IV — In-depth thematic studies

Continuing vocational training and SMEs

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

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

Training of employees

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

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

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

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

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

Training for managers

SME managers and owners participate in training only when they face really serious problems,
and it must be possible for them to translate the information obtained and the knowledge gained immediately into daily working practice. They very often prefer other means than formal training to acquire knowledge and competencies, such as resorting to external advice, networking, exchange of experiences with other managers in, for example, entrepreneurs’ clubs.

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

ICT and training

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

New services

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

Main trends

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

Two trends have a strong impact on the new service sector. The emergence of ICT has greatly changed the characteristics of services and their dependence on location and time. Opportunities for innovations in new and renewed services are developing, often moving
The European Observatory for SMEs

Table 5  New service developments in Europe

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

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

from services where the knowledge rests with the provider to ones where, perhaps reduced, knowledge rests with the consumer, and from labour-intensive to almost labour-free services.

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

Demand for new services by SMEs

One of five SMEs in the countries covered by this report did buy new services over the past few years, whereas as much of 80% expect consumption to grow in the coming three years. This implies that a majority of enterprises expect to start using new services for the first time. Usage ranges from more than 20% in manufacturing, wholesale trade and business services to only 11% in retailing and 7% in repair. In most sectors well over 80% of all SMEs expect consumption to grow, only in manufacturing and other services are figures relatively low, around 70%.

Barriers for start-ups

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

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

Government support to new services

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

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

Part V — Monitoring

SMEs in the European single market

Perception of the single market by SMEs

Since the previous report of the European Observatory for SMEs, significant progress towards improving the functioning of the single market and making it a reality for citizens and business has been achieved by the single market action plan.

Chapter 11 of the report examines the perception of the single market by SME entrepreneurs. Considering both advantages and disadvantages of the single market, one third of SMEs see, on balance, more advantages compared with just one tenth that see more disadvantages.

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

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

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

The introduction of the euro

On this issue, the analyses revealed that one third of the enterprises without employees and three quarters of the medium-sized enterprises have already considered the consequences of the euro. These percentages are expected to increase steadily up to 2001. The share of SMEs that are or plan to be fully euro-compatible, increase from a

![Figure 7](image-url)

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

Source: ENSR Enterprise Survey 1999.
low initial value in 1999 to well over 90 % in 2002 in euro countries and to about 50 % by the end of 2002 in non-euro countries. Exporting enterprises are getting ready for the euro well in advance of non-exporting ones.

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

Less than one fifth of the SMEs expect a negative impact of the euro, as shown in Figure 8. The share of enterprises expecting positive effects increases from just over 20 % for enterprises without employees to over 45 % for medium-sized enterprises. Enterprises which did make a detailed analysis of the effects of the euro on their business come to a more positive conclusion than the enterprises which did.

International business contacts

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

Competition

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

A comparative analysis by rate of turnover growth

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

A relation exists also between the enterprise’s perception of the single market programme and the growth rate of its turnover. Fast growing enterprises do have a more positive opinion of the internal market.

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

Source: ENSR Enterprise Survey 1999.
The European Observatory for SMEs
Sixth Report

Available in English, French and German

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Sixth Report, Executive Summary