

Inter-enterprise relations in selected economic activities

Statistics in focus

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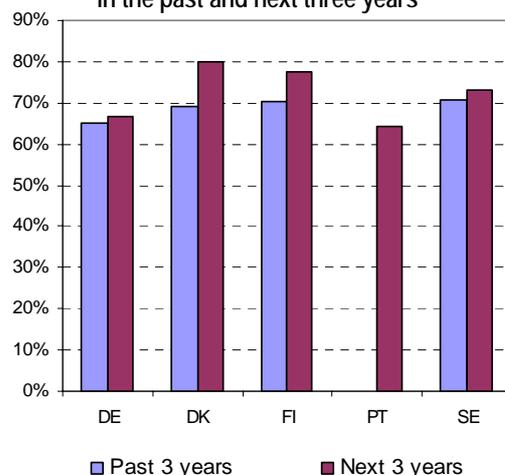
Highlights

- Enterprises view the impact of inter-enterprise relations* on their competitiveness very favourably: around two thirds of them expect their competitiveness to increase over the next three years thanks to these relations.
- The larger the enterprise, the more likely it is to have long-term relations.
- Long-term relations are more likely in fuel processing and certain professional services, and less likely in hotels and restaurants and the distributive trades.
- 'Increased flexibility' is the reason most often favoured for engaging in relations with other enterprises.
- Outsourcing to or for others, followed by short-term relations are the most popular types of inter-enterprise relation.
- 'Availability of suitable business partners' together with the 'need or willingness to remain independent' are among the main barriers to forming relations.

Relations boost enterprises' competitiveness

Globalisation and the advent of a knowledge-driven economy are encouraging enterprises to seek new ways of enhancing their competitiveness. Chief among these are long-term relations with other enterprises – such as outsourcing or networking – both within their core activity or supportive functions such as sales and marketing or ICT.

Graph 1: Perceived positive impact of inter-enterprise relations on competitiveness in the past and next three years*



Source: Eurostat (SBS)

*Share of enterprises that perceive a positive impact of inter-enterprise relations in their core activity on the competitiveness of their business, of the total number of enterprises able to assess this impact.

The importance of inter-enterprise relations is clearly evident when looking at how enterprises perceive the impact of these relations in their core activity on the competitiveness of their enterprise.

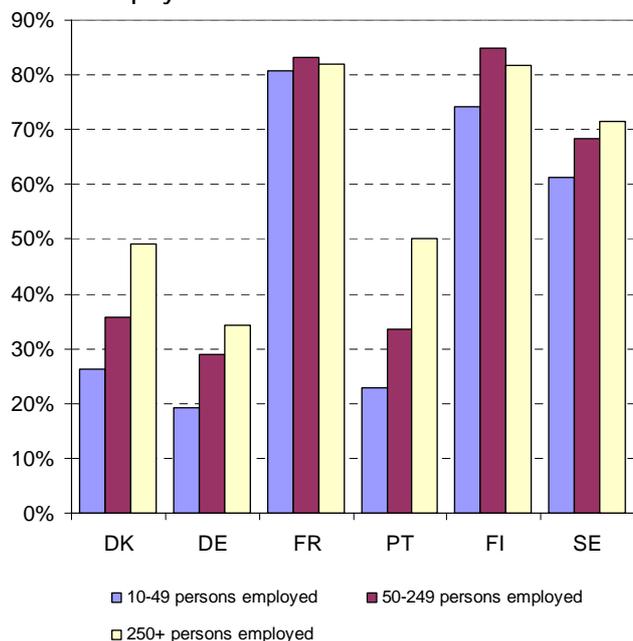
In the five Member States that took part in the survey, between 60 % and 70 % of enterprises able to assess this impact answer favourably, when asked to judge the impact on the competitiveness of their business over the last three years (Graph 1).

Moreover, this share increases, when enterprises were asked what impact they expected over the three years ahead.

*Inter-enterprise relations are relations between enterprises, excluding legal ownership and relations arising from the normal purchase or sale of goods and services for immediate consumption. They cover outsourcing for others, outsourcing for others, franchising, networking, licensing in, licensing out, joint ventures, as well as non-permanent co-operation, but exclude relations between mother or holding companies and their subsidiaries. This publication presents the first results of an ad hoc survey on these relations, which was carried out in 2003.

Propensity of enterprises to have long-term relations with other enterprises

Graph 2: Propensity of enterprises to engage in at least one type of long-term relation in their core activity, by employment size class



Source: Eurostat (SBS)

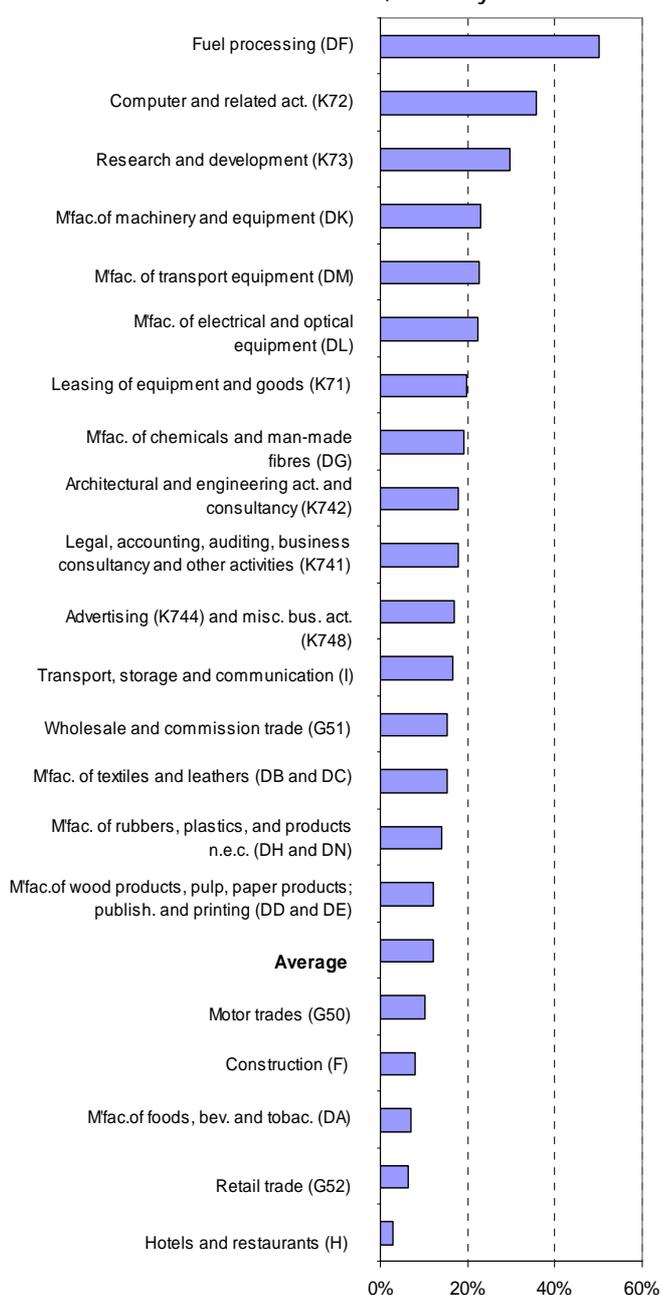
Engaging in long-term relations with other enterprises would seem to be more important or perhaps more accessible to larger enterprises (Graph 2). The proportion of enterprises having at least one type of long-term relation tends to increase with enterprise size, with the smallest enterprise size class (between 10 and 49 persons) always the one to display the lowest propensity. Denmark and Portugal present the most striking examples of this pattern with the propensity of enterprises engaging in these relations being around half as large in size class 10-49 as for those in size class 250+.

Apart from size class, the differences in importance of these relations for enterprises possibly stem from a number of factors including longer existence on the marketplace, a greater propensity to outsource certain non-core activities and the multiplication of relations following strategic alliances or mergers.

The propensity of enterprises to engage in long-term relations varies between economic activities. As illustrated by the example of Germany in Graph 3, whereas an average of 12 % of enterprises have at least one type of long-term relation, this percentage rises to as much as 50 % in fuel processing (NACE DF), and drops to as little as just over 3 % in hotels and restaurants (H).

The greater importance of long-term relations in fuel processing probably reflects the more permanent nature of the activity. In particular, in what is a sector of great importance for the economy, it more than likely reflects the strategic partnerships necessary

Graph 3: Propensity of enterprises to engage in at least one type of long-term relation in their core activity, selected economic sectors, Germany



Source: Eurostat (SBS)

to secure energy supplies, and in this connection also the sharing of infrastructure between enterprises (which would thus necessitate long-term relations). Moreover, fuel processing is also one of the manufacturing activities in which large enterprises (employing 250 persons or more) are most important in terms of value added and employment, and which accounted for around five sixths of the sectoral totals in 2003.

By contrast, apart from a relatively small number of large hotel and restaurant chains or franchises, hotels

and restaurants tend most often to be small family businesses working for themselves. In effect, SMEs (enterprises employing between 1 and 249 persons) accounted for around four fifths of value added and employment in the sector in 2003. Long-term relations with other enterprises in their core activity would therefore make little sense, except perhaps for instances such as overflow arrangements with other hotels or the recommendation of restaurants to guests for example.

A closer look between the various economic activities reveals some thought-provoking patterns. For instance, enterprises in certain knowledge-intensive

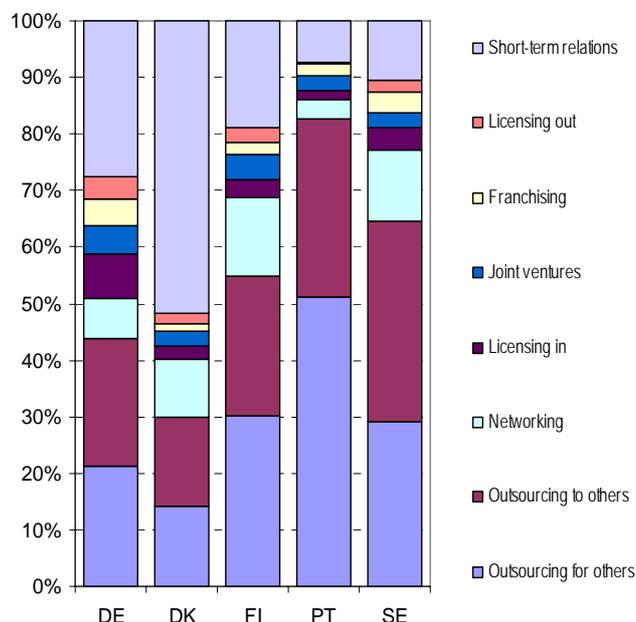
activities (notably computer activities and R&D) display a relatively high propensity to engage in relations. By contrast, enterprises in all three wholesale and retail trade activities (G50 to G52) display a far lower propensity to engage in such relations, perhaps for reasons similar to the case of hotels and restaurants.

These patterns – including the high propensity for fuel processing and the low propensity for hotels and restaurants – were generally repeated to varying degrees among the different countries surveyed, albeit with some exceptions.

Types of inter-enterprise relation

Enterprises engage in different types of long-term relation, according to criteria such as suitability of relation or availability of partners for the project at hand. Of the seven types of long-term relation surveyed (Graph 4), outsourcing (both to and for others), is the most prevalent type in the five Member States participating in the survey. Among these countries, outsourcing is most popular in Portugal, and notably outsourcing for others. Networking is the third most frequent type of relation, which seems to be most important in the Scandinavian countries. Other types of relation are generally of minor importance, apart from joint ventures in France (data not shown) and licensing in Germany.

Graph 4: Propensity of enterprises to engage in specific inter-enterprise relation types*, in their core activity



No data available for France.

Source: Eurostat (SBS)

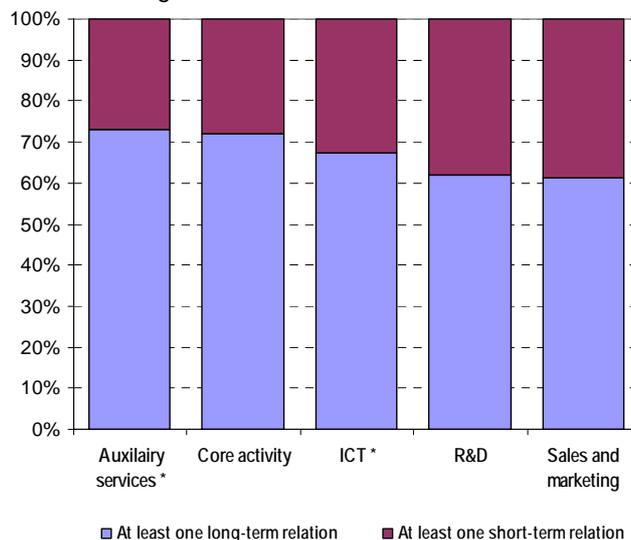
*Note that this does not reflect the actual number of relations.

Graph 4 also shows the popularity of short-term relations in each country, which are clearly the top relation type for Danish enterprises, far ahead of outsourcing. To a lesser degree, short-term relations

are also more important than outsourcing for German enterprises.

The importance of long-term relations varies according to core activity or supportive function (Graph 5). Of those enterprises with long- and short term relations, 72 % of them have at least one type of long-term relation in their core activity. However, when looking at the various supportive functions, this share ranges from 73 % in auxiliary services to as little as 61 % in sales and marketing.

Graph 5: Propensity of enterprises to engage in either long-term or short-term relations, by enterprise activity, average of available countries



* excluding France.

Source: Eurostat (SBS)

That the core activity is the very livelihood of an enterprise could explain why long-term relations are relatively popular: to risk the heart of one's business in relations with other enterprises requires trust and confidence that are more likely to be built up with time.

By contrast, when it comes to supportive functions, the generally lesser importance of long-term relations with other firms most probably reflects the fact that these enterprise functions serve tasks or projects that are of

a more temporary nature or perhaps involve less strategic risk. One can think for example of outsourcing office cleaning versus hiring an audit firm to verify the company accounts. The networks of actors involved in these functions are also more prone to fluctuate, possibly because of competitive bids or the specificity of expertise required at a particular moment.

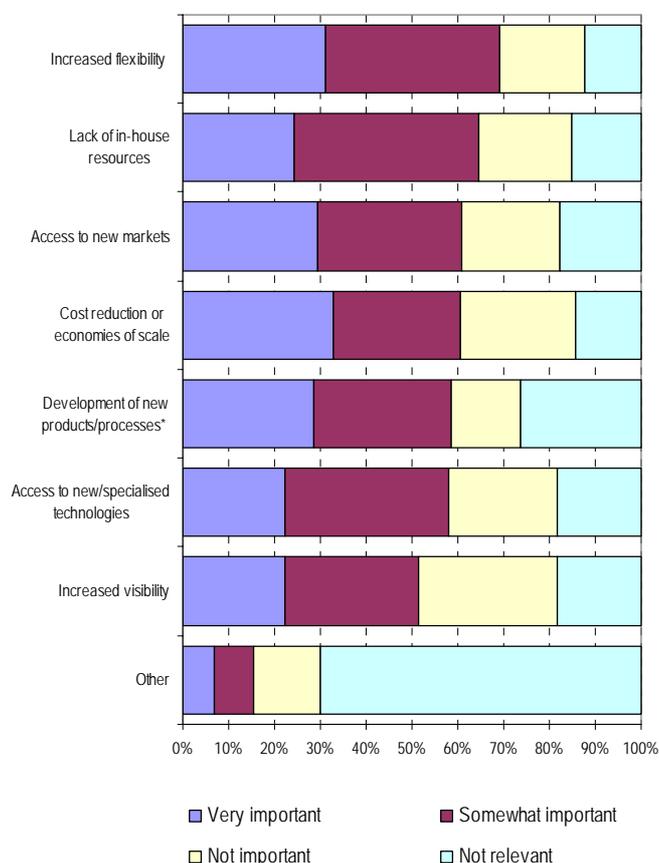
An analysis of relation types by core activity or supportive function between countries also reveals some interesting features. Although short-term relations are generally far more important in sales and marketing, R&D and ICT, this is especially the case in Denmark. Networking is more important in sales and marketing and ICT, and most strikingly in Sweden. By contrast, in Portugal the importance of outsourcing for others is greater in every supportive function, and notably in auxiliary services.

Reasons for engaging in relations with other enterprises

Relations with other enterprises are motivated by various reasons, with the common aim of boosting competitiveness. These include increased flexibility, resources or expertise and cost reduction or economies of scale. Some reasons seem however to be more important than others.

'Increased flexibility' is considered as either very or somewhat important by an average of 70 % of enterprises (Graph 6). 'Flexibility' can be understood as the capacity to respond rapidly to changing markets within an increasingly competitive environment, for instance in terms of product diversification, supply chain management, vertical integration, or the most cost-effective location of plants and distribution networks.

Graph 6: Main reasons for enterprises to engage in inter-enterprise relations in their core activity, average of available countries



* excluding France.

Source: Eurostat (SBS)

'Lack of in-house resources' is the second-ranking motivation (65 %). These resources, often beyond the core business of the enterprise, might include market research, logistics, specialised recruitment, as well as a host of other activities.

Interestingly, 'increased visibility' is by contrast most often viewed as unimportant. Although increased visibility is naturally what is sought through the supportive function of sales and marketing, enterprises also gain visibility in their core activity through the commercial relations they have through the portfolio of clients or partners they can advertise.

As shown in Table 1, some reasons are deemed far more important for some Member States. This is the case for example in Germany and Finland, where 'increased visibility' is the third most often cited reason, or in Sweden where 'access to new/specialised technologies' is also the third main reason.

Table 1: Reasons most often cited for engaging in inter-enterprise relations

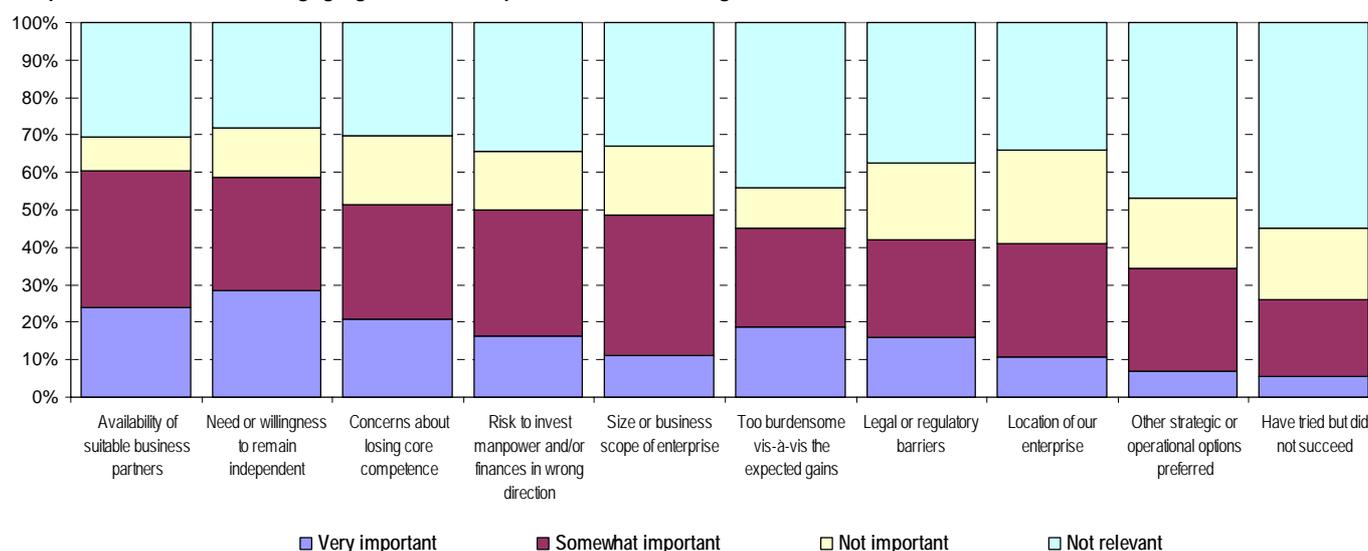
Germany	1	Increased flexibility (78%)
	2	Cost reduction or economies of scale/Lack of in-house resources (both 69%)
	3	Increased visibility (68%)
Denmark	1	Cost reduction or economies of scale (81%)
	2	Increased flexibility (79%)
	3	Development of new products/processes (71%)
Finland	1	Cost reduction or economies of scale (87%)
	2	Lack of in-house resources (86%)
	3	Increased visibility (84%)
France*	1	Access to new markets (57%)
	2	Lack of in-house resources (45%)
	3	Increased flexibility (41%)
Portugal	1	Lack of in-house resources (74%)
	2	Increased flexibility (64%)
	3	Cost reduction or economies of scale (57%)
Sweden	1	Increased flexibility (76%)
	2	Cost reduction or economies of scale (73%)
	3	Access to new/specialised technologies (68%)

*based on different methodology.

Source: Eurostat (SBS)

Barriers to engaging in relations with other enterprises

Graph 7: Main barriers to engaging in inter-enterprise relations, average of available countries*



*DE, DK, FI, PT and SE.

Source: Eurostat (SBS)

Enterprises often cannot engage in relations for a number of reasons including inability to find the right partner, concerns about watering down their core business or regulatory matters for example.

Among the main barriers viewed by enterprises as either 'very important' or 'somewhat important' are 'availability of suitable business partners', followed by the 'need or willingness to remain independent': around 60 % of enterprises perceive these as obstacles (Graph 7).

The least frequently cited barrier – perceived as a problem by only 35 % of enterprises – is failed attempts at engaging in inter-enterprise relations, i.e. 'have tried but did not succeed'.

Evidence perhaps of enterprises' confidence in engaging in relations in other countries is the fact that the barrier 'location of our enterprise' is most often considered as 'not important'. This most probably also reflects their confidence in forming relations with enterprises in other EU Member States (and the benefits brought by the internal market, such as unhampered trade, the euro, legal protection, etc.). One can also think of the advantages offered by the Internet and the erosion of language barriers.

Looking at the individual Member States, other barriers are seen as being more important than 'availability of suitable business partners' or 'need or willingness to remain independent' (Table 2). For Portuguese enterprises for example, 'size or business scope of enterprise' and also 'location of our enterprise' are most often selected as the main

barriers. For Swedish enterprises, too, it is 'size or business scope of enterprise'.

Table 2: Three top barriers to engaging in inter-enterprise relations

Germany	1	Availability of suitable business partners (65%)
	2	Need or willingness to remain independent (63%)
	3	Concerns about losing core competence (53%)
Denmark	1	Risk of investing manpower and/or finances in wrong direction (50%)
	2	Need or willingness to remain independent (49%)
	3	Concerns about losing core competence (48%)
Finland	1	Availability of suitable business partners (67%)
	2	Need or willingness to remain independent (65%)
	3	Risk of investing manpower and/or finances in wrong direction /Concerns about losing core competence (both 64%)
France*	1	Need or willingness to remain independent (59%)
	2	Size or business scope of enterprise (27%)
Portugal	1	Size or business scope of enterprise/Location of our enterprise (both 74%)
	2	Availability of suitable business partners (47%)
	3	Too burdensome vis-à-vis the expected gains (39%)
Sweden	1	Size or business scope of enterprise (47%)
	2	Have tried but did not succeed/Availability of suitable business partners (both 39%)
	3	Concerns about losing core competence (34%)

*France: based on available data.

Source: Eurostat (SBS)

Perceived impact of inter-enterprise relations on competitiveness

As mentioned at the start of this publication, relations with other enterprises would appear to boost competitiveness, at least based on the self-assessment of enterprises. Moreover, looking into the future, enterprises tend to be even more optimistic (see cover page, Graph 1).

Looking at different business activities at NACE Section level, there are some notable differences in enterprises' perceptions of the impact on competitiveness of inter-enterprise relations in their core activity, depending on country. In Germany, for example, when analysing trends between the various business sectors surveyed (NACE D, F, G, H, I and K), construction enterprises (F) are the least positive about the impact of relations on their competitiveness both looking back and forward three years. This compares with a generally greater enthusiasm with regard to manufacturing (D) and notably services (G, H, I and K).

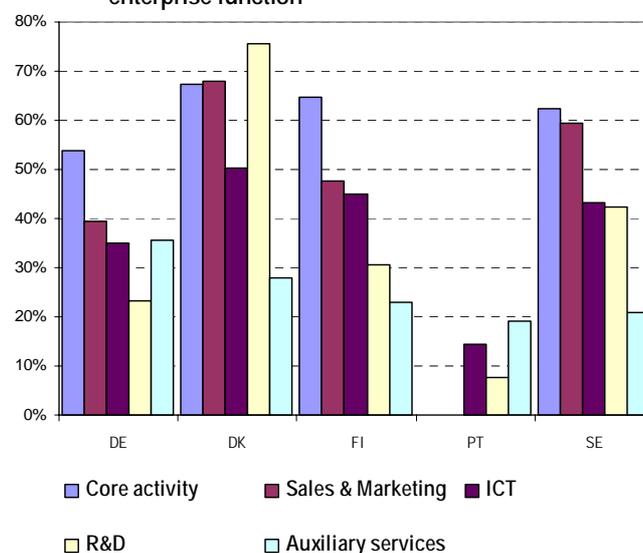
To cite another example, in Portugal enterprises in both construction (F) and the distributive trades (G) looking three years ahead are the most optimistic, with respectively 77 % and 75 % of enterprises expecting relations to impact favourably on their competitiveness, while only 50 % of manufacturing enterprises are of this opinion (D).

The perceived impact of relations on enterprises' competitiveness seems to depend on whether the relations are linked with the core activity or one of the supportive functions. As shown in Graph 8, the impact of relations on competitiveness over the past three years is viewed as being most important for generally the 'core activity' and 'sales and marketing'. Interestingly however, in Denmark it is through relations in the R&D function that most enterprises see a positive impact on their competitiveness.

Finally, when asked about the expected impact on their competitiveness over the *next* three years, enterprises view relations as being most important again for their 'core activity' (Graph 9). However, whereas 'sales and marketing' generally ranks second place in perceptions of past impact, enterprises are less positive when looking into the future. Instead, it is actually the R&D function where enterprises place their second highest expectations. This is the case not only for Denmark, but also for Finland and Sweden; countries which generally display an innovation-friendly climate.

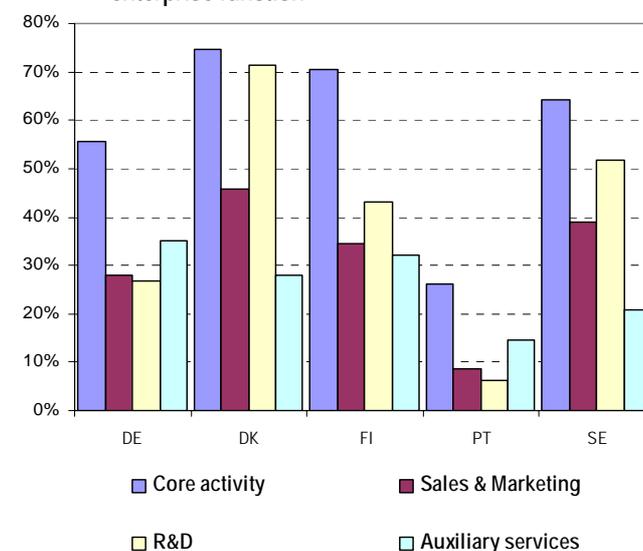
Interestingly, enterprises in both Denmark and Portugal are slightly less optimistic about the impact on R&D when looking ahead than they are when looking back.

Graph 8: Perceived impact of inter-enterprise relations on competitiveness in the past three years, by enterprise function



Source: Eurostat (SBS)

Graph 9: Expected impact of inter-enterprise relations on competitiveness in the next three years, by enterprise function*



* excluding ICT.

Source: Eurostat (SBS)

To conclude, these first results of Eurostat's ad hoc survey on inter-enterprise relations go some way towards defining the extent, nature and trends of inter-enterprise relations. Several patterns emerge in which the propensity for an enterprise to engage in long- and short-term relations would seem to depend on enterprise size, business activity, and whether the relations are maintained with the core activity or supportive functions. Analysis of motivations for, and barriers to, engaging in these relations, and their perceived impact on competitiveness helps to complete this picture.

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

DATA SOURCES

The source of all figures presented is Eurostat (unless specifically stated otherwise). Most data sources are continually updated and revised where necessary. This publication reflects the state of data as of October 2006.

Structural Business Statistics (SBS) is the main data source for this publication, and notably the first results of the inter-enterprise relations survey.

This survey was carried out at the end of 2003 by the National Statistical Institutes of 6 EU Member States (Denmark, Finland, France, Germany, Portugal and Sweden). This survey is a one-off exercise but may be re-conducted in the future. Sample sizes varied but were up to as many as 10 000 enterprises in the larger countries.

This and other SBS data sets are available under theme 'Industry, trade and services' on the Eurostat website <http://epp.eurostat.ec.europa.eu/> (select 'Data' / 'Industry, trade and services' / 'Horizontal view' / 'Structural Business Statistics'). Selected publications, data and background information are available in the section dedicated to European Business, located directly under the theme 'Industry, trade and services' on the Eurostat website.

AVERAGE

Unless otherwise stated, the 'average' consists of 6 Member States, whose data are the most consistently available for dissemination. These are DE, DK, FI, FR, PT and SE.

SYMBOLS

“.” not available or confidential.

OBSERVATION UNIT

The observation unit is the enterprise. An enterprise carries out one or more activities at one or more locations. Enterprises are classified in sectors (by NACE) according to their main activity. The enterprise should not be confused with the local unit, which is an enterprise or part thereof situated in one geographically identified place.

SECTORS

Statistics are presented by sectors of activity according to the NACE Rev. 1.1 system of classification. The target population of the survey is defined as an enterprise whose main activity was in one of 21 distinct economic sectors covering manufacturing (NACE D), construction (F) or services (G-K, but excluding J). Enterprises in mining (C) and energy supply (E) were therefore excluded from the scope of the survey.

STRUCTURAL BUSINESS STATISTICS VARIABLES

The two variables used in this publication are:

Number of persons employed

The total number of persons who work in the observation unit, as well as persons who work outside the unit who belong to it and are paid by it. It includes working proprietors, unpaid family workers, part-time workers, seasonal workers etc.

Value added at factor cost

The gross income from operating activities after adjusting for operating subsidies and indirect taxes (including value added tax).

QUESTIONNAIRE: MAIN ELEMENTS

This publication draws on data processed from the following questions asked in the survey. Please note that not all questions are reproduced here.

1) Are you part of an enterprise group?

This question was intended to restrict the scope to relations with other enterprises; relations with enterprises within the same group were therefore excluded.

2) Types of inter-enterprise relation: Which types of relations do you have in the following areas of your activities?

This covers seven types of relation (outsourcing for others, outsourcing for others, franchising, networking, licensing in, licensing out, joint venture), as well as non-permanent co-operation of another nature. This was asked for the enterprise's core activity and supportive functions (sales and marketing, ICT, R&D and auxiliary services).

4) Reasons for engaging in inter-enterprise relations

This question evaluates the importance of 11 given reasons (development of new products or processes, lack of in-house resources, increased visibility, increased flexibility, cost reduction or economies of scale, access to new markets, access to new or specialised skills/technologies) as well as 'other'. This was asked for the enterprise's core activity and supportive functions (sales and marketing, ICT, R&D and auxiliary services). The given reasons are evaluated by the enterprise on a scale ('very important', 'somewhat important', 'not important', 'not relevant, don't know').

6) Importance of inter-enterprise relations for enterprises' competitiveness.

Questions on the estimated impact to competitiveness of the enterprise during the past and next 3 years were asked for the core activity and each of the supportive functions. The scale provides six options: 'considerably' and 'somewhat' for both increases and decreases, 'not changed' and 'not relevant, don't know'.

8) Perceived barriers preventing or obstructing inter-enterprise relations.

These barriers were: relations feasible only within the enterprise group; location of our enterprise; size or business scope of our enterprise; availability of suitable partners; legal or regulatory barriers; concerns about losing core competence or independence; risk to invest manpower and/or finances in wrong direction; have tried but did not succeed; need or willingness to remain independent; other strategic or operational options preferred; too burdensome vis-à-vis the expected gains; other. The scale provides six options: 'considerably' and 'somewhat' for both increases and decreases, 'not changed' and 'not relevant, don't know'.

Further information:

Data: [EUROSTAT Website/Home page/Industry, trade and services/Data](#)

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