

The State of Small Business in the Netherlands 1997/1998

P.H.P. Eshuis



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Address:	Italiëlaan 33
Mailing address:	P.O. Box 7001 2701 AA Zoetermeer
Telephone:	+ 31 79 341 36 34
Fax:	+ 31 79 341 50 24
Website:	www.eim.nl

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Foreword

This is the ninth issue of 'The State of Small Business in the Netherlands'. The report outlines Dutch SMEs in an international perspective. The international aspect of this report relates to the countries belonging to the European Economic Area (EEA) and Switzerland.

The report is based mainly on the Fifth Annual Report of 'The European Observatory for SMEs'¹, a wide-ranging report considering the state and developments of small and medium-sized enterprises in the EEA and Switzerland as a whole and per country. Supplementary information and more recent data have been added.

The report starts with the main characteristics of SMEs, such as number of enterprises, employment, turnover, value added and average enterprise size. Chapter two describes transnational co-operation between SMEs, this is followed by a presentation on the use of external advice by SMEs (Chapter three). Chapter four pays special attention to environmental aspects of SMEs, both from the perspective of risks and opportunities.

In this report a comparison will be made, whenever possible, between the Netherlands and the other 18 countries of the European Economic Area, completed by Swiss data. The data that have been used were amongst others gathered in the framework of the ENSR Enterprise Survey 1997, which was held for the fifth European Observatory for SMEs. To enable a more elaborate comparative analysis, 300 additional Dutch enterprises have been surveyed, using the same questionnaire. This survey is called the NL Enterprise Survey 1997. As neither the sector hotels & catering nor travel agencies were included in this additional survey, enterprises in these sectors have been removed from the data. For the purpose of this research only data have been used from enterprises with up to 250 persons employed (N= 1079), divided over the following enterprise size classes: 'micro' (1-9 employees), 'small' (10-49), and 'medium-sized' (50-250)².

1 The annual reports of the European Observatory for SMEs, commissioned by DG XXIII (currently the Directorate-General Enterprise) are produced by the independent European Network for SME Research (ENSR) and co-ordinated by EIM Small Business Research and Consultancy. The reports, containing extensive information on SMEs (each about 400 pages and about 225 tables and figures) can be ordered from EIM. The First Annual Report is available in English, the Second, Third, Fourth and Fifth Annual Report are available in English, French and German. The Sixth Annual Report was commissioned by the Enterprise Directorate-General of the European Commission, and awarded to KPMG, who prepared the report in co-operation with EIM and ENSR. The Sixth Report will be published by the European Commission in 2000.

2 This classification is officially recommended as the 'European' definition.

1 The performance of Dutch SMEs in international perspective

1.1 Introduction

This chapter starts with an overview of the main characteristics of small and medium-sized enterprises (SMEs) in the European Economic Area¹ (EEA) and Switzerland (Europe-19)² and the Netherlands (1.2). These characteristics relate to the number of enterprises, employment, turnover, value added and average enterprise size. The structure by country and the developments of enterprises during the period of 1988 to 1998 are provided in sections 1.3 and 1.4, respectively.

1.2 Main characteristics of Europe-19 and the Netherlands

As Table 1.1 shows, almost 19.5 million enterprises are active within Europe-19, of which only 40,000 are so-called large-scale enterprises. In other words, the enterprise landscape is dominated by small and medium-sized enterprises³. In terms of the share of employment, SMEs account for 65%. Over 18 million enterprises employ fewer than 10 employees (micro); half of them have no employees at all, providing employment for the entrepreneur only. Micro firms are responsible for half of the employment provided by SMEs. The average size of the European enterprise is six persons. For the Netherlands this number equals to 11. Although there are on average only two persons at work in micro enterprises, almost a hundred persons are employed in those of medium size and more than a thousand in large firms. Although there were no substantial growth differences in the number of small, medium-sized and large enterprises between 1990 and 1997, the number of micro enterprises increased relatively fast. This was the combined effect of an increase in the number of starting enterprises, a relatively small number of micro

1 The European Economic Area consists of the 15 EU Member States together with Norway, Iceland and Liechtenstein.

2 Where the term 'Europe-19' is used in this report, it means: the 18 Member States of the European Economic Area with Switzerland.

3 At Europe-19 level SMEs are defined as enterprises in the non-primary, private sector which employ 0-249 employees, and in particular:

- micro enterprises	:	0-9 employees
- small enterprises	:	10-49 employees
- medium-sized enterprises	:	50-249 employees.

Large enterprises employ 250 or more employees.

enterprises growing to small and medium-sized, as well as some small enterprises declining to micro size¹. Estimations for 1998 indicate that the number of micro enterprises increased by 12%, followed by small (10%), medium-sized (9%) and large enterprises (10%).

In the Netherlands almost all enterprises are SMEs. As can be derived from Table 1.1, Dutch SMEs account for more than half of total employment in the private sector, which is five percentage points below the European-19 average. An obvious reason for this is that the Dutch enterprise structure is characterized by relatively larger enterprises. The average Dutch enterprise size is almost twice that of the European one, this holds for enterprises in all size classes. Dutch SMEs employ on average more persons than their European counterparts do. On the other hand, the average size of the Dutch large firm is below the European one.

On average, a European enterprise effects a turnover of Euro 1 million. The amount varies considerably with enterprise size. In the Netherlands the average turnover per enterprise is twice as high as that of the Europe-19 average. Turnover per enterprise for small Dutch enterprises is slightly above the Europe-19 average (Table 1.1). This is undoubtedly related to the average (very) small Dutch enterprise being larger than its Europe-19 counterpart.

Labour productivity tends to increase with size class. The Dutch labour productivity for all size classes is below the Europe-19 average². This is the result of the fact that especially Dutch SMEs are subjected to an unfavourable sector structure, i.e. there are many enterprises in sectors with a relatively low labour productivity, like the industrial production sector. The difference is the greatest in medium-sized enterprises and the least in micro firms. Differences in labour productivity between the size classes are not as big in the Netherlands as in Europe-19.

Table 1.1 shows that the share of labour costs in value added in the Netherlands is higher than that in Europe-19, which is a logical consequence of the relatively higher employment level within Dutch SMEs. In general, the share of labour costs in value added is the high-

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

2 Labour productivity is measured as value added per occupied person. This is a better measure of labour productivity than turnover per occupied person, because turnover includes the purchased value of merchandise and the volume of intermediate consumption, and figures might be distorted by indirect taxes and subsidies. As productivity is measured in persons rather than labour years, figures have not been corrected for changes in the average working-week duration throughout Europe.

est for small and medium-sized enterprises, while the share for large firms is only slightly higher in the Netherlands. The fact that the share of labour costs in micro enterprises is well below the other size classes is the consequence of not including the entrepreneurs' income in labour costs.

Table 1.1 Main indicators of non-primary private enterprises, the Netherlands and Europe-19, 1997

		SMEs					LSEs*	Total
		Micro	Small	Medium-sized	Total			
Number of enterprises (1,000)	Netherlands	440	40	10	485	2	490	
	Europe-19	18,100	1,145	170	19,415	40	19,455	
Employment (1,000)	Netherlands	1,410	1,035	825	3,270	2,140	5,410	
	Europe-19	37,540	21,300	15,235	74,075	38,815	112,890	
Average enterprise size	Netherlands	3	25	108	7	953	11	
	Europe-19	2	19	90	4	1,014	6	
Turnover per enterprise (Euro mln.)	Netherlands	0.3	4	17	1.0	135	2.0	
	Europe-19	0.2	3	17	0	184	1.0	
Labour productivity (Euro 1,000)	Netherlands	28	38	46	36	53	43	
	Europe-19	30	41	52	38	59	45	
Share of labour costs in value added (%)	Netherlands	50	71	69	63	68	66	
	Europe-19	37	63	60	52	52	52	
Profitability (%)	Netherlands	27	26	30	26	32	28	
	Europe-19	28	34	40	30	48	37	

* LSEs: Large-scale enterprises.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg, 1997.

1.3 Structure by country

In the previous section it was shown that the characteristics of SMEs differ by size class. Within Europe-15 there are also differences between countries. Table 1.2 shows that the average enterprise size varies enormously between countries. Typically, enterprises are smaller in Southern Europe, but this is also the case in Belgium, Finland and the United Kingdom. As already evident, the Dutch average enterprise is rather large, employing 11 persons.

For total non-primary private enterprises, exports comprise 16% of total turnover. Although considerable differences remain between countries, the propensity to export is twice as large for LSEs as for SMEs.

Countries from the Benelux and Scandinavia as well as Austria show a relatively high export orientation. This can be explained by the fact that the relative size of their domestic markets is smaller than that of enterprises in other European countries.

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

Together with manufacturing, the propensity to export is high in the following industries: transport, wholesale trade and extraction. In the latter two industries, the export share is higher in SMEs than in LSEs. The Dutch wholesale-trade sector is known to be strongly developed, and predominantly export-oriented (trading companies). In other industries, exports have a minor share in total turnover.

Table 1.2 Size-class structure of the enterprise sector by country, 1997

	Enterprises (1,000)	Average enterprise size		Share of exports of total turnover (%)		Profitability by size class (%)*	
		SMEs	Total	SMEs	LSEs	SMEs	LSEs
Austria	220	7	11	19	24	49	50
Belgium	810	3	5	22	36	39	44
Denmark	230	5	7	20	23	18	34
Finland	210	3	5	25	37	18	47
France	2,070	5	7	8	22	21	41
Germany	3,620	5	8	9	20	11	33
Greece	600	2	3	n/a	n/a	16	49
Ireland	80	5	10	25	30	67	67
Italy	3,410	3	4	n/a	n/a	35	48
Luxembourg	10	9	12	40	30	45	40
Netherlands	490	7	11	18	27	25	32
Portugal	710	3	4	7	15	7	57
Spain	2,380	4	5	8	15	18	44
Sweden	300	4	7	34	44	17	32
United Kingdom	3,960	3	5	9	18	66	70
Europe-15	19,110	4	6	11	21	30	48

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

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg, 1997.

Profitability (i.e. the difference between value added and labour costs, including imputed wage of self-employed, as percentage of value added) of SMEs is significantly lower than that of large enter-

prises. Production by large-scale enterprises is more capital-intensive than that by SMEs, for which production is relatively more labour-intensive. Moreover, large-scale enterprises benefit from economies of scale which put them in a privileged position compared with SMEs, which operate less efficiently. LSEs also represent regularly more market power than SMEs can exercise. From Table 1.2, it follows that this holds for most individual countries as well, Luxembourg and Ireland being the exception. However, there are significant differences between individual countries. Thus, in Austria, Belgium, the Netherlands and the United Kingdom, profitability in SMEs is only slightly lower than in LSEs. In Denmark, Sweden and Italy, SMEs' profitability is approximately 10 percentage points below that in all non-primary private enterprise, while this unfavourable difference for SMEs is almost twice as much for Finnish, French, German, Portuguese and Spanish SMEs.

1.4 Development of enterprises in Europe-19 and the Netherlands, 1988-1998

The development of enterprises must be set against the macro-economic framework in which they perform. In particular an open economy, such as the Dutch economy, is highly influenced by the international business cycle. SMEs depend largely on sales of consumer goods and services for the domestic market. That is why their growth is influenced by private consumption and, therefore, real disposable income.

In Europe-19 GDP grew on average 2% annually from 1988-1998. After a period of economic recession (1990-1993), the recovery that started in 1994 has continued, although interrupted by a period of weak economic development in Europe in 1995 and 1996. The recovery was predominantly export-led. An average annual growth rate of almost 2% was recorded for private consumption, while investment and public consumption were the slowest-growing demand categories. Thus, domestic demand – which is relatively important for SMEs – has grown at a much slower rate than exports.

The Dutch economy experienced a strong recovery in 1994, and after a short period of economic downturn (late 1995 and 1996), this pace has been taken up again since 1997. The growing size of the German economy, the major trading partner of the Netherlands, has boosted the development of the Dutch economy. Exports have increased significantly, and the national market improved, mainly due to increasing investments. Also private consumption has increased consider-

ably as a result of improved purchasing power, as well as a strong employment effect that has been the result of economic growth.

As a consequence of efforts to reduce the EMU criteria, differences between the European Member States in the areas of inflation, interest and exchange rates as well as public finance have already shown a tendency to converge. Inflation in Europe gradually declined to a rate around 2% in 1997. Inflation decreased in the Netherlands from 2.4% in 1994 to 1.1% in 1995, after which it increased again. This increase was mainly caused by higher prices for imported goods, which amounted to 2.75%. A revaluation of the Dutch currency eased the inflation rate to 2.2% in 1997. Since then inflation has shown a tendency to decline.

Real value added growth

On average, value added to constant prices in non-primary private enterprises grew around two percent annually between 1988 and 1998 in Europe-19, slightly exceeded by Dutch enterprises (Table 1.3). Differences between the size classes were insignificant, both in Europe-19 as well as in the Netherlands. Dutch enterprises in all size classes realised a growth in real value added above that of Europe-19 during all three periods.

The development of value added at constant prices in SMEs in the period 1988-1998 did not substantially differ from that of LSEs, although micro enterprises lagged behind as regards value added growth. However, SMEs showed substantially different developments among countries (Table 1.5). Whereas eight countries remained behind the annual average growth rate, i.e. Iceland, Finland, Switzerland, Sweden, France, Belgium, Italy and the United Kingdom, the remaining countries realised a growth rate above the average. The Dutch growth rate was surpassed by Germany, Denmark, Luxembourg, Portugal and Ireland; the latter achieved an outstanding performance. LSEs are more inclined to export, because increasing internationalisation benefits these enterprises in particular. This also explains the growth differential between SMEs and LSEs. However, as our data indicate, this growth differential is much smaller than one would have expected; a substantial difference can be noticed between micro and large enterprises only. A potential explanation is that SMEs, although being predominantly dependent on domestic market growth, are indirectly affected by exports. Enterprises not only deliver goods and services to final consumers, but also as intermediate goods and services to other enterprises. This implies that SMEs constitute an important element of international competitiveness, due to their share of intermediate exports. Another

reason is that the nature of economic growth largely determines which enterprise size class will benefit the most from it. In countries with relatively strong export growth, the size class pattern of value added growth tends to be favourable for large enterprises, as they are more export-oriented than SMEs. However, SMEs benefit relatively more in an economy whose growth is largely determined by domestic demand.

Table 1.3 Development of value added at constant prices and employment in non-primary private enterprise by size class, Europe-19 and the Netherlands, 1988-1998

	1988-1990		1990-1993		1993-1998		1988-1998	
	Europe-19	NL	Europe-19	NL	Europe-19	NL	Europe-19	NL
<i>Real value added</i>	Average annual percent change							
<i>SMEs:</i>								
Micro	2.5	3.5	0.4	2.4	2.2	4.0	1.7	2.0
Small	2.9	3.5	0.9	2.8	2.3	5.1	2.0	2.2
Medium-sized	2.9	3.2	1.1	2.6	2.5	4.6	2.1	2.1
Total	2.7	3.3	0.7	2.6	2.3	4.6	1.9	2.1
LSEs	2.8	3.4	1.1	0.0	2.7	0.0	2.3	2.3
All enterprises	2.7	3.3	0.9	2.6	2.5	4.6	2.1	2.2
<i>Employment</i>								
<i>SMEs:</i>								
Micro	0.6	0.9	-0.8	-0.1	0.3	0.8	0.0	1.1
Small	0.5	1.0	-1.5	0.0	0.1	1.4	-0.3	1.0
Medium-sized	0.4	0.7	-2.0	-0.5	0.0	1.0	-0.5	0.6
Total	0.5	0.9	-1.3	-0.2	0.2	1.1	-0.2	0.9
LSEs	0.4	0.8	-2.1	0.0	0.2	0.0	-0.5	0.5
All enterprises	0.5	0.8	-1.6	-0.2	0.2	1.1	-0.3	0.8

Source: Estimated by EIM Small Business Research and Consultancy; based on data from Eurostat and European Economy, Supplement A, No. 12, Brussels, December 1995, and OECD: Economic Outlook, No. 58, Paris, December 1995.

A closer look at real turnover growth of SMEs reveals that they followed that of LSEs closely (Table 1.4). However, this difference does not seem related to export turnover, as performance was equal between the size classes. With regard to the total industry, the growth percentage of Dutch SMEs and LSEs lagged slightly behind that of Europe-19. As mentioned, the difference between SMEs and LSEs as to turnover growth and value added growth being so small, is attributable to the fact that LSEs are more export-oriented, while SMEs focus strongly on domestic markets. Exports, in general, grow faster than domestic sales, as a result of increasing international specialisation. As the period 1988-1998 was characterised by a period of growth, recession and recovery, the overall growth differential between SMEs and LSEs was rather small.

However, especially for the Netherlands, SMEs outperformed LSEs in every sales category. For example, domestic sales of Dutch SMEs grew at an annual rate of 0.9% between 1988 and 1998, while the corresponding growth rate for LSEs was 0.5%. Remarkable is the level at which Dutch SMEs have outperformed LSEs in export turnover over the years (5.3% versus 4.2%). This shows that SMEs have benefited relatively more from export growth than LSEs did, which is traditionally the domain in which LSEs perform better. It can be concluded that large enterprises have been especially hit hard by periods of weak economic growth in the neighbouring countries.

Table 1.4 Real turnover in non-primary private enterprise by demand category, Europe-19 and the Netherlands, 1988-1998

	SMEs		LSEs		Total	
	Europe-19	NL	Europe-19	NL	Europe-19	NL
	Average annual percent change					
Real turnover	2.1	2.0	2.4	1.9	2.2	2.0
• Domestic sales	1.1	0.9	0.7	0.5	1.0	0.8
- Consumption goods	1.3	0.0	0.7	-1.5	1.1	-0.4
- Investment goods	2.3	2.2	2.4	1.8	2.3	2.0
- Intermediate goods	1.7	1.4	1.6	1.1	1.7	1.3
• Exports	5.6	5.3	5.6	4.2	5.6	4.7

Source: Estimated by EIM Small Business Research and Consultancy; based on data from Eurostat and European Economy, Supplement A, No. 12, Brussels, December 1995, and OECD: Economic Outlook, No. 58, Paris, December 1995.

Employment growth

The rate of employment growth over the 1988-1998 period showed a distinct pattern, characterised by a slight decrease in small enterprises, and a larger decline in medium-sized and large enterprises. In particular, during the 1990-1993 period, employment decreased considerably in medium-sized and large enterprises. Research findings show that in the period of recession large enterprises laid off relatively more employees than SMEs did, while SMEs facing growth reduction cannot easily shed labour. A process of firm entry and exit, during which new enterprises that are better able to cope with new market circumstances, replace others that stagnate, must instead absorb growth reduction. Smaller enterprises take longer to adapt to the business cycle.

In the periods 1988-1990 and 1993-1998, only small differences between size classes occurred with respect to employment growth. European-wide a general decline in unemployment is noticeable.

Although at European level employment growth in micro enterprises remained stable over time, in the Netherlands employment growth was the highest in this sector class (1.1%). The increase in employment was the highest in the service and trade sector. Employment in the various industrial sectors shows a distinct pattern (Table 1.6)¹. A considerable increase in employment took place in the metal processing sector, whereas employment in the food sector remained relatively stable, and showed a downward trend in the basic metals sector. Compared with the European-19, Dutch SMEs created more employment than most other countries, being surpassed only by Greece, Luxembourg, Norway and Ireland.

The growth of employment in SMEs remained behind value added growth in the period 1988-1998, however it has been more favourable than in large-scale enterprises.

Profitability

Regarding profitability, the difference between SMEs and LSEs was negligible. At Europe-19 level, profitability improved for all enterprise size classes by about 0.4% per annum. However, at country level, the picture is rather mixed. In Denmark, Finland, Ireland, Italy, Luxembourg, Switzerland, Spain and the Netherlands profitability improved more in LSEs than in SMEs. On the other hand, profitability in both SMEs and LSEs decreased in Greece. In Austria and Portugal profitability increased more in SMEs than in LSEs.

¹ EIM, *Kleinschalig Ondernemen 1997* (Small-Scale Enterprising 1997), Zoetermeer, 1997.

Table 1.5 Real value added, employment and profitability by country, Europe-19, 1988-1998

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

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

** Including Liechtenstein.

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe. Fifth Report. Brussels/Luxembourg, 1997.

Comparing Tables 1.4 and 1.5, the average annual change of turnover growth in Dutch SMEs and LSEs is below the Europe-19 average, while that of real value added is at and above the Europe-19 average for LSEs and SMEs, respectively. This may be the result of sector structure, as the relative importance of the industrial sector is small compared to that of the service sector¹. In those countries with a large service sector the difference between turnover and real value added will be greater than in those countries with a large industrial sector. For the service sector the real value added will be about 80% of turnover, while in industry the difference will be only about 30%. From the production perspective – leaving the trade sector aside – the service sector has contributed greatly to the economic growth that has taken place in the Netherlands. This future picture will probably

1 The relative importance of the industrial sector is irrespective of its factual growth effect, which is larger than that of the service sector (Table 1.6).

remain the same, while the relative importance of the industrial production sector tends to decline¹, and the importance of the service sector in the total economy grows.

Table 1.6 Real value added, employment and profitability by industry in SMEs, 1988-1998 (average annual percent change)

	Real value added		Employment		Profitability	
	EU	NL	EU	NL	EU	NL
	Average annual percent change					
Extraction	2.7	2.8	1.6	3.2	0.0	0.1
Manufacturing	2.4	2.7	-1.4	-0.7	0.7	0.7
Construction	1.5	-0.2	0.1	0.1	0.6	1.3
Wholesale trade	2.3	3.5	0.4	2.0	0.3	0.7
Retail distribution	1.5	1.7	-0.2	1.2	0.2	1.0
Transport and communication	2.3	0.9	0.9	3.2	-0.2	-1.4
Producer services	2.0	2.5	0.9	1.9	-0.1	0.5
Personal services	1.5	1.4	-0.2	0.4	0.4	0.5
Total	1.9	2.1	-0.2	0.9	0.3	0.6

Source: Estimated by EIM Small Business Research and Consultancy; adapted from Eurostat/DG XXIII: Enterprises in Europe, Fifth Report, Brussels/Luxembourg, 1997.

For total non-primary private enterprises it was found that real value added growth was the highest in LSEs, and that this figure was slightly higher for the Dutch industry as a whole. Table 1.6 shows that the relative growth difference in value added between the Netherlands and Europe-19 was the highest in the wholesale sector. The reverse is true for the construction and transport sector. Here, value added developed moderately (transport/ communication) or even negatively (construction).

Furthermore, when reviewing the annual average change in employment it was found that, on average, more employment was created within almost all Dutch industrial sectors, with wholesale, retail, transport/ communication taking the lead.

1 ING Bank, *Mijjoennota MKB 1998* (Economic Forecasts for the SME sector 1998), Amsterdam, 1998.

2 Transnational co-operation between SMEs

2.1 Introduction

A growing number of medium-sized enterprises acknowledge they are not operating solely on the Dutch market, but increasingly on the European market. The formal economic integration of the European market in 1992 has already had some far-reaching consequences for the process of internationalisation, and will increasingly contribute to this process in the future. The introduction of the common 'Euro' currency (its physical introduction will transpire in 2002) will enhance the stability and transparency within the Internal Market. As prices can be compared throughout the Euro area, currency fluctuations will, to a large extent, belong to the past.

As the orientation towards exports has traditionally been strong in the Netherlands, the continuing development of the Internal Market will stimulate Dutch enterprises even further. The export volume increased in 1997 by 5.5 percentage points and even increased by 7.25 percentage points in 1998¹. Already a quarter of the enterprises with 10-50 employees and almost half of the enterprises employing 50-250 employees are exporting. In addition to export, internationalisation is taking place through a variety of co-operation agreements between enterprises. For example, enterprises can profit from enterprise environments in the other European countries by outsourcing some of their production activities or through franchise agreements with foreign partners. Moreover, enterprises can profit on the ever-increasing transparency of markets by foreign direct investments (FDI) in other European countries. This chapter pays attention to co-operation between SMEs, in particular to transnational co-operation.

2.2 Degrees of transnational co-operation

According to the ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997², 41% of the SMEs surveyed collaborate with foreign partners. On average half of the SMEs in the non-EU countries (Norway, Iceland, Liechtenstein and Switzerland) indicated being involved in transnational co-operation, as compared to 43% in the Northern EU countries (Denmark, Finland, Sweden and the United

1 Source: EIM, *Ondernemen in 1998* (Enterprising in 1998), (enterprises <100 employees), Zoetermeer, 1998.

2 Figures do only relate to enterprises employing up to 250 persons, and as such, deviate from those in the 5th edition of the European Observatory for SMEs, which dataset also contained large-scale enterprises (>250 employees).

Kingdom), 37% in the Southern periphery EU countries (Greece, Portugal and Spain) and Ireland, and 23% in the Central EU countries (Austria, Belgium, France, Germany, Italy, Luxembourg and the Netherlands). The relatively small home markets can explain the high number for the non-EU country group. Enterprises in these countries are already relatively large in relation to their home markets. On the other hand, in countries with relatively large domestic markets, such as Germany and France, the average number of SMEs involved in transnational co-operation is low. A relatively larger share of SMEs in these countries have not felt it necessary to become internationalised because their home markets are relatively large.

The data reveal that Dutch SMEs are to a far lesser extent involved in foreign partnerships when compared to the European average. Data collected for the Interstratos project¹ confirm that the level of co-operation for the Netherlands is comparatively low. As the European Single Market envisioned the stimulation of international business contacts, almost 30% of the enterprises in the Netherlands had increased international business contacts in the last five years, which is significantly lower than their European counterparts (42%)².

The survey data also show a clear effect of country size on transnational co-operation. For this purpose the EEA Member States, and Switzerland, have been classified according to country size categories, which are based solely on a mix of territorial size and level of GDP. According to this classification, Iceland and Liechtenstein, for example, belong to the group of very small countries, whereas France and Germany are grouped under the largest countries. In this classification, the Netherlands finds itself in the leading edge of the group of small countries. Table 2.1 displays these differences between country size classes.

Table 2.1 Transnational co-operation by country size groups

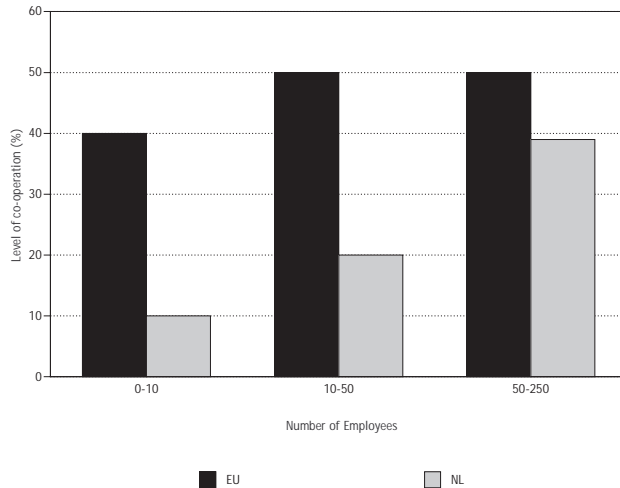
Country size group	Level of transnational co-operation (%)
Very small countries	47
Small countries	42
Large countries	17
Largest countries	35
Europe-19 average	41

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

- 1 Interstratos (Internationalisation of strategic orientations of small and medium European enterprises) is a joint longitudinal research project in which researchers from eight European countries co-operate in studying the international behaviour of small and medium-sized firms. EIM was one of the co-operating partners.
- 2 Significance level <0.01.

Moreover, when analysed at the level of enterprise size class, our data could confirm another trend, which shows that the level of transnational co-operation tends to increase with enterprise size. In other words, the larger the enterprise the greater the likelihood that an enterprise is involved with transnational co-operation (Chart 2.1).

Chart 2.1 Co-operation by enterprise size class in the EU and the Netherlands



Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

However, from these figures one cannot judge the way in which enterprises do co-operate and to what extent this collaboration takes place. In other words, in order to say something about the 'quality' of the transnational business relationship, its strength should be highlighted, for example by looking more into the different forms and types of transnational co-operation.

2.3 Forms and types of transnational co-operation

Transnational co-operation covers a wide scope of activities that can vary greatly in terms of their nature and the areas to which they relate. A business relationship may find its base in a formal legal structure or might be highly informal, i.e. verbally agreed upon. There are various forms of co-operation:

1. Domestic co-operation with domestic partners
2. Domestic co-operation with foreign partners
3. Foreign co-operation with domestic partners
4. Foreign co-operation with foreign partners.

Research findings have reaffirmed the conclusion that the most practised form of co-operation by SMEs is domestic co-operation with domestic partners, followed by foreign co-operation with foreign partners. Domestic co-operation with foreign partners is practised at almost the same level.

Examples of transnational business relationships include cases where¹:

- The enterprise buys, sells, exports, etc. jointly with other enterprises.
- The enterprise has a permanent relationship with a leasing company to lease production resources, etc.
- The enterprise has an agreement with a permanent supplier, client or service enterprise that all purchases/sales/services be conducted through that specific enterprise.
- The enterprise has an agreement to produce goods or semi-manufactured products for a permanent client, or the enterprise contracts-out such production to another enterprise.

A variety of co-operation forms exist among SMEs. Generally, three major forms can be isolated: commercial, financial, technical and other types of collaboration. Normally, internationalisation starts in the commercial area and evolves into other, more sophisticated types of co-operation. The average European enterprise favours supply and contracting-out relationships above other forms of (trans)national collaboration. Collaboration in the financial field, joint ventures and equity participation are far-reaching, and can be said to be more mature forms of collaboration.

¹ Examples taken from: EIM, *Competitiveness, autonomy and business relationships, an international comparative study in eight European countries*, Zoetermeer, 1992.

Table 2.2 Types of co-operation agreements (column percentages; more than one answer possible)*

Type of co-operation agreement	Europe	NL
<i>Commercial</i>		
Supply/contracting-out	34	22
Dealership	29	2
Marketing/distribution	20	2
Joint purchasing	18	28
<i>Financial</i>		
Joint venture	10	17
Equity participation	1	7
<i>Technical</i>		
Joint R&D	7	11
Others		
Licensing	10	11
Association	9	9

* Figures in the table do not represent solely transnationally operating enterprises, and have to be interpreted as column percentages. As more than one answer could be given columns might add up to more than 100%.

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

As far as the fields of co-operation are concerned, it can be stated that commercial co-operation prevails over financial (capital participation) and technical co-operation (R&D). This result indicates that SMEs prefer commercial (trans)national co-operation and that those who are advocating that SMEs enter into joint ventures with foreign partners need to realise that only a minority of SMEs concludes this form of co-operation. However, a closer look at the data reveals that these conclusions are not indicative for the average Dutch SME. The major forms of co-operation of Dutch enterprises that have established partnerships with foreign partners lie in the fields of joint purchasing, supply and contracting-out arrangements (22%), joint ventures (17%), R&D and licensing (11%). One could conclude that the modes of co-operation used by Dutch enterprises belong to a further stage of internationalisation, as these forms are usually a follow-up on collaboration in the commercial field. Related to the findings in section 2.2, where Dutch entrepreneurs were found to co-operate with foreign partners at the lower end compared with the average European partners, it might be concluded that those who do co-operate do so more intensively, by using more sophisticated forms of co-operation.

Commercial co-operation

In the field of commercial co-operation Dutch enterprises establish far fewer supply and contracting-out relationships with other firms when compared with the average European SME.

For the purpose of this study, in order to estimate the degree of transnational co-operation between enterprises, the degree of outsourcing between enterprises has been taken as an indicative measure. Outsourcing, as outlined in Table 2.3, has been operationalised as the percentage of gross turnover of outsourced activities by and through (inter)national enterprises. A general overview of the data indicates that 53% of the European SMEs outsource some of their activities, whereas only 32% of Dutch enterprises act likewise.

Table 2.3 Degree of co-operation between (inter)national enterprises

Outsourcing as percentage of turnover	Europe	NL
<i>Outsourcing to domestic enterprises</i>		
0-25% of gross turnover	53	78
25-50% of gross turnover	5	5
>50% of gross turnover	41	17
<i>Outsourcing to foreign enterprises</i>		
0-25% of gross turnover	85	90
25-50% of gross turnover	3	1
>50% of gross turnover	12	9
<i>Outsourcing through domestic enterprises</i>		
0-25% of gross turnover	73	84
25-50% of gross turnover	5	4
>50% of gross turnover	23	12
<i>Outsourcing through foreign enterprises</i>		
0-25% of gross turnover	78	91
25-50% of gross turnover	5	1
>50% of gross turnover	17	9

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

As the figures indicate, most outsourcing activities do not exceed 25% of turnover. Even when analysed at the 10%-turnover level these figures remain about the same, which underwrites the often-heard conclusion that SMEs cherish their independent status. The data also show that this relationship is even stronger for the Dutch enterprises. In all categories Dutch enterprises outperform the European counterpart average when outsourcing is kept below 25% of gross turnover, whereas they are comparatively less inclined to outsource a larger share of their turnover (> 50%). Furthermore, data confirm the finding by the Interstratos research project that domestic

co-operation with foreign partners is practised at the same level as foreign co-operation with foreign partners.

Moreover, Dutch enterprises indicated working (significantly) less through dealership, marketing and distribution arrangements. Again, this underwrites the previously drawn conclusion that Dutch internationally operating enterprises are less inclined to make use of third party-owned distribution channels, as they are more frequently involved in transnational joint ventures, and therefore have their own selling organisations and distribution channels.

Non-commercial co-operation

Another picture appears when the non-commercial forms of co-operation are compared. Although co-operation through equity participation is not very popular among the respondents, one can conclude that Dutch enterprises more often engage in this kind of relationships (7% as compared to the 1% European average, Table 2.2).

In the area of research and development, 11% of Dutch SMEs indicated working with foreign partners to undertake joint activities in the field of R&D, whereas the European average is 7%.

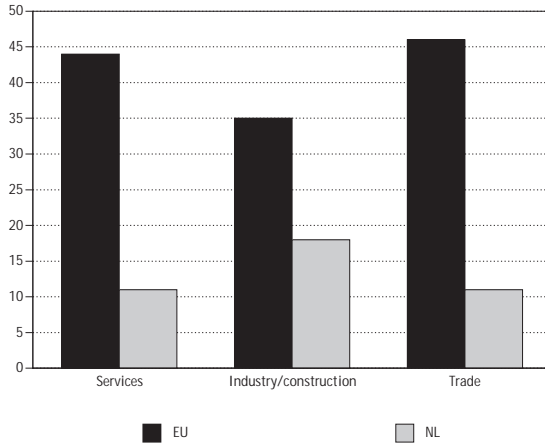
Other studies confirm the finding that R&D co-operation is a relatively frequently used form of transnational co-operation for Dutch SMEs. In a study on transnational co-operation among SMEs the Kearney-report observes that R&D co-operation is the most common type of co-operation in the Netherlands and that financial co-operation such as participation or joint venture was also mentioned as an interesting form of co-operation in the future¹.

2.4 Transnational co-operation within economic sectors: services, industry and trade

In section 2.2 it was noted that Dutch SMEs are to a lesser extent involved in transnational co-operation when compared with the average European small and medium-sized enterprise. This section looks further into the question of how this conclusion relates to the level of transnational co-operation within the different economic sectors and their respective sub-sectors. Chart 2.2 displays the level of transnational co-operation by economic sector: services, industry and trade.

¹ Kearney, *The market for trans-national co-operation among small and medium-sized enterprises*, Brussels, 1992.

Chart 2.2 Transnational co-operation per sector (% of enterprises)

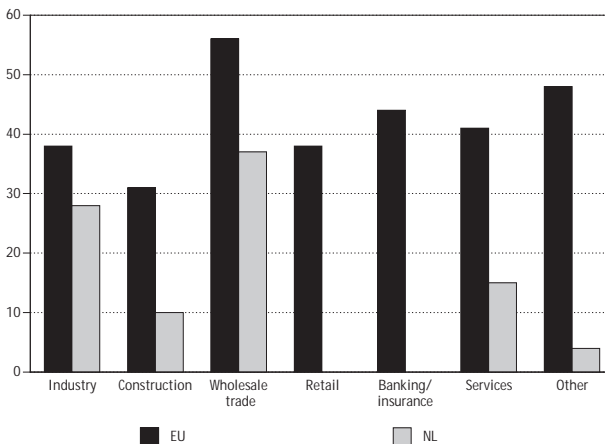


Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

The chart shows that a comparatively lower percentage of Dutch enterprises collaborate with international partners than European enterprises do. Moreover, the data indicate that some significant differences exist between the European and Dutch economic sectors. The level of transnational co-operation within the European trade and service sector is four times as high as that within the respective Dutch sectors. Likewise, transnational co-operation within the European industrial sector is double that of the Dutch industrial sector.

A more in-depth insight in transnational collaboration within the different economic subsectors results in Chart 2.3¹.

Chart 2.3 Transnational co-operation by sector



1 No data could be singled out for the Dutch retail, banking and insurance sector.

For obvious reasons the chart shows that wholesale trade is the strongest internationalised sector. Remarkably, the propensity of Dutch entrepreneurs in the service and construction sector to collaborate with international partners seriously lags behind that of their European counterparts. The sectoral trends in international orientation of Dutch economic sectors are briefly touched upon in the following sections.

2.4.1 Collaboration in the industrial and construction sector

The Interstratos study shed some light on the areas of co-operation per industrial sector, predominantly within the textile, shoe and clothing industry, electro-technical industry, food, furniture, as well as the metal and machinery industry. Table 2.4 shows not only the areas of collaboration but also to what degree this takes place with domestic and foreign partners. It appears that sales and extension of the product range are the most likely areas, both with regard to domestic and foreign co-operation.

Table 2.4 (Trans)national co-operation between enterprises by field and partner, the Netherlands (%)

	At home with		Abroad with	
	Domestic partner	Foreign partner	Domestic partner	Foreign partner
Extension of product range	46	45	26	40
Research and development	45	30	19	27
Raising funds	13	5	6	6
Sales	48	44	23	47
Market research	22	25	15	28
After-sales service	19	19	14	25
Advertising/promotion	29	21	10	28
Purchase/supply	28	28	11	19
Transport/warehousing	22	13	13	11
Manufacture	51	26	16	22
Administration	11	3	4	6
Electronic data processing	15	8	8	7

Source: Becht, R., *INTERSTRATOS, Results in the Netherlands 1995*, EIM Small Business Research and Consultancy, June 1997, Zoetermeer.

2.4.2 Collaboration in the trade sector

The wholesale trade sector flourished during recent years (5% volume increase in 1997, 4.75% increase for 1998). However, transnational co-operation within the Dutch sector seriously lags behind when compared to the European average. The sector has been con-

fronted with severe economic stagnation and increasing competition from abroad. Ever since, being threatened to be pushed out of their markets, because of scale increases in the retail sector, wholesale traders have felt urged to increase economies of scale through strategic alliances and joint ventures.

2.4.3 Collaboration in the service sector

The SME service sector grew at a fast rate during 1997 (5.5% on average). Although services are an important sector in the Dutch economy, entrepreneurs lag behind their European counterparts whenever collaboration comes into the picture. This has been explained by the fact that relatively small sized firms dominate the sector, more than 90% of these enterprises employ fewer than 50 people. Although research by EIM showed that co-operation has increased from 21-26% in the period around the creation of the EU Internal Market, this could be contributed mainly to enterprises employing more than 50 people¹. Collaboration by small firms remained stable or even declined, strengthening the conclusion that the level of co-operation seems to increase with enterprise size. It was also shown that collaboration is the highest in the branches of engineering, economic advice, computer service and insurance. Except for the last mentioned branch, collaboration with foreign partners took place on a relatively larger scale in these branches, which is contradictory to the general pattern in the service sector where co-operation with national partners was preferred over international partners.

2.5 Foreign direct investment by SMEs

2.5.1 Introduction

A general increase in optimism among SMEs is reflected in their short-term plans. As was indicated by the 1998 Grant Thornton International, Business Strategies Ltd., Enterprise Survey, the proportion of SMEs intending to develop new markets over the coming years has increased significantly to just over two-thirds².

After four relatively static years with around one fifth of enterprises planning to enter in joint ventures, a notable increase was shown in 1998: 28% of enterprises are planning to enter into joint ventures or strategic alliances, suggesting that enterprises were starting to take fuller advantage of the opportunities of cross-border joint ventures.

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

2 Grant Thornton International, Business Strategies Ltd., *European SME Business, prospects and issues for SMEs*, Spring 1998, number 6.

The survey also indicated that even the proportion of SMEs planning to do some takeovers increased significantly for the first time in six years that the survey has been held: 14% of enterprises considered undertaking acquisition activities in 1998, compared to 9% in the 1997 survey. Compared with the European average, the performance of Dutch enterprises is considerably above average.

According to research literature there are two major features of transnationalisation of SMEs: first, their foreign direct investments (FDI) are small but large in terms of the number of affiliates; secondly, their FDIs are concentrated in developed countries¹.

2.5.2 Value versus number of FDIs

On the one hand if FDI is measured in value terms, large transnational enterprises account for the bulk. If FDI, on the other hand, is measured in terms of number of foreign investments or the number of firms involved in FDI, the share taken by SMEs increases significantly.

On average, small and medium-sized transnational corporations based in developed countries have far fewer foreign affiliates than large transnational corporations do.

2.5.3 Geographical aspects of foreign direct investments

Another feature of developed-country SMEs is that they are more likely to invest in other developed countries than large transnational corporations are.

Regarding the geographical dispersion of affiliates it has been found that small and medium-sized corporations have concentrated their investments in developed countries. Most foreign affiliates of firms are located in such countries, the majority of which are to be found within neighbouring countries².

Furthermore, Western Europe is not only the largest host region for small and medium-sized transnational corporations. Fujita reports that Western Europe has increasingly attracted FDIs from both inside and outside the region, which is partly explained by the evident prospects of a unified European market.

1 Masataka Fujita, *Small and Medium-sized Trans-national Corporations: trends and patterns of Foreign Direct Investment*, 1990.

2 Kearney, *The market for trans-national co-operation among small and medium-sized enterprises*, Brussels, 1992.

Research also indicates that SMEs are less likely than large transnational corporations to invest in developing countries (18% of the affiliates are located there, as opposed to 27% for large firms), perhaps because of the greater difficulties of setting up affiliates in these countries. Table 2.5 provides insight in the number of transnational corporations and geographical distribution of foreign affiliates of small and medium-sized transnational corporations, by country of origin and industry of parent firms.

Table 2.5 Number of transnational corporations and geographical distribution of foreign affiliates of small and medium-sized transnational enterprises, by country of origin and industry of parent firms, 1986-1987

Small and medium-sized transnational enterprises Distribution by group of countries (%)				
Country	Total number of transnational enterprises surveyed	Number of foreign affiliates per company	Developed countries	Developing countries
<i>United States</i>	171	2	82	16
<i>Japan</i>	120	3	46	523
<i>Europe</i>	365	3	92	7
<i>France</i>	23	2	92	7
<i>Germany</i>	59	4	91	8
<i>Italy</i>	24	2	91	8
<i>Netherlands</i>	23	2	86	13
<i>Sweden</i>	28	4	99	1
<i>Switzerland</i>	24	4	91	8
<i>United Kingdom</i>	78	3	903	9
<i>All countries</i>	735	3	81	18
By industry of parent firm				
<i>Primary sector</i>	25	3	86	14
<i>Manufacturing</i>	514	3	85	14
<i>Textile and clothing</i>	45	2	81	16
<i>Chemicals</i>	56	3	82	17
<i>Metals</i>	57	3	87	12
<i>Mechanical equipment</i>	105	3	88	11
<i>Electrical equipment</i>	64	2	78	21
<i>Services</i>	195	4	73	26
<i>Distribution trade</i>	87	3	75	24
<i>All industries</i>	734	3	81	18

Source: Fujita (1990). Based on the database of small and medium-sized transnational enterprises of the UNCTAD Programme on transnational enterprises. Includes all identified foreign entities regardless of form of organisation (that is, subsidiaries, branches, representative offices, etc.) owned by firms in 18 developed countries. Enterprises in the financial service sector are not included.

2.5.4 Co-operation by sector

In terms of sectoral distribution the data show that about 70% of international co-operating SMEs are in manufacturing. The rest are mostly in services, including trade. A closer look at the number of transnational enterprises reveals that SMEs concentrated specifically on distribution trade and capital goods production (mechanical equipment).

The data indicate that, together with France and Italy, the average number of affiliates by Dutch SMEs is low (on average one affiliate less than the European average), but the percentage of affiliates in developing countries is far above the European average and almost equal to that of the United States.

Although the ENSR Enterprise Survey 1997 did not investigate the number of affiliates outside Europe it did ask for the turnover achieved in outer European markets. However, as the data do not allow for judgement on the type of co-operation that underlies these findings (sales through an intermediate organisation or through own branch offices, etc.), our survey sample data show relatively higher turnover rates by Dutch SMEs in those markets compared to the average European firm (Table 2.6).

Table 2.6 Turnover achieved in extra-European markets (%) (N= 65)

Turnover rates in Euro	EU	NL
<50,000	85	27
50,000-500,000	13	10
500,000-1,000,000	2	36
>1,000,000	0	36

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

This conclusion is confirmed by more recent research findings on co-operation in the Interstratos project on the internationalisation of small and medium-sized enterprises. SMEs invest more in developed countries than in developing countries, and developed countries host proportionally more FDIs in the manufacturing sector. The relative dominance of enterprises in the service sector in developing countries (26%) can be explained by the fact that these types of enterprises spread more easily. Another reason why these countries are chosen as a base is for reasons of convenience (e.g. Dutch transport enterprises that operate under the Panamanian flag).

Finally, referring to section 2.2, there seems to be a monotonous positive relationship between firm size and the share of majority-owned participation. Data from the ENSR Enterprise Survey 1997 does not contain this specific information, as enterprises have only been asked for their co-operation form. However, some indicative – proxy – data were selected in Table 2.7. Although not enough observations are available to sustain this finding, a positive relationship between size class and ‘joint venture’ could be discerned. Moreover, Dutch enterprises seem to be engaged in this type of co-operation form more often than the European-19 average are.

Table 2.7 Financial co-operation by size class (in column %; N= 263)

	Enterprise size class					
	1-9 employees		10-49 employees		50-250 employees	
	EU	NL	EU	NL	EU	NL
Shareholding	n.a.	5	7	17	n.a.	n.a.
Joint venture	10	18	10	n.a.	20	50
Association	9	11	7	n.a.	n.a.	n.a.

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

2.6 Reasons to co-operate or not to co-operate

2.6.1 Introduction

Through the process of globalisation and opening of markets, enterprises are being offered increasing opportunities but, at the same time, are more vulnerable to increasing competition in their home market. LSEs, and to a lesser extent SMEs, are compelled to enhance the competitiveness of their products in order to survive. In this changing environment, internationalisation becomes a source of realising new opportunities, i.e. by finding new profit opportunities in new markets through the creation of new value added.

When trying to take advantage of these opportunities, entrepreneurs might be confronted by threats which hamper them from accepting these challenges. Getting abroad may cause insurmountable obstacles for SMEs. One could think of the high information costs, transportation costs, new legal and cultural frameworks, market insecurities because of economic instability and different payment ethics, tar-

iffs and other trade barriers. Traditionally, exchange-rate risks have been a major factor deterring entrepreneurs from internationalisation. With the introduction of a common European currency this stumbling block will belong to the past.

From a subjective point of view at least, SMEs seem to be in a relatively unfavourable position in the process of internationalisation compared to larger enterprises. The access to foreign niche markets and the utilisation of SME-specific advantages might compensate for the above-mentioned difficulties. Nevertheless, SMEs are confronted with size class-specific disadvantages as well (Table 2.8).

Table 2.8 Strengths and weaknesses of the internationalisation of SMEs

Strengths	Weaknesses
<ul style="list-style-type: none"> • Offer high quality standards and individualised product and service, while enjoying a flexible cost structure • Flexibility through concentration of decision making and flexible information structure • Spontaneous ability to adapt to changing market environments and customer needs • Ability to avoid overpowering ideology and bureaucracy through personalised communication 	<ul style="list-style-type: none"> • Difficulty recruiting qualified employees because of limited possibilities for advancement • Centralisation of decision-making authority insufficient for an international enterprise • Competitive disadvantages due to weak negotiating position, limited market influence and lack of knowledge of target markets • Shortage of financing opportunities and increased risk potential with small equity basis • Mostly involved with day-to-day activities, hardly finding time for strategic management and focus on international marketing

Source: Pleitner, H., and J. Brunner, 'Forms and extent of success factors: the case of Switzerland', in: *The internationalisation of SMEs*, London, 1998.

2.6.2 Motivation for internationalisation

Various forms of motivation can be given for entering into a business relationship. On the one hand, the above-mentioned developments in the environment have created interesting opportunities for enterprises. The opportunities that are offered by these developments can be exploited better by working together with others. On the other hand, the above-mentioned developments could also represent a threat to the continued existence of the enterprise. Enterprises will have to meet changed requirements and needs. According to literature, the main motives to become involved in international activities are:

- Access to new and larger markets, distribution channels, and production capacity;
- Scale effects and critical mass;
- Access to capital;
- Access to – new – know-how, technology and skills;
- Growth beyond domestic niche markets in order to realise efficient capacity usage (reduced costs);
- Broader supply of products;
- The high cost and price structure in the domestic markets;
- Reduction of market competition;
- Reduction of dependency.

Of lesser importance are factors such as:

- Low appreciation of entrepreneurs in the home market;
- Proximity to suppliers;
- Raw-material availability;
- Strengthening the enterprise's position in dealings with third parties.

Generally, research showed that external factors like the openness of the economy, technological development, gross national product and reinforcing the company's position in dealings with third parties play a less important role in whether enterprises get involved in international co-operation, than do internal factors of the organisations themselves¹. Policy implications are that the improvement of transnational co-operation between SMEs does not primarily rest on developments in the respective Member States, but more on developing internal factors within SMEs themselves.

SMEs may work together to strengthen their competitive position by means of sharing marketing knowledge among partners. Humphrey and Schmitz² argue that it is the combination of competition and co-operation which drives the search for improvement. This hypothesis was confirmed by the results of the ENSR Enterprise Survey 1997. The Survey indicates that SMEs working together with a foreign partner have coped better with foreign competition over the past 5 years (42% compared with 31% of those not having a transnational co-operation agreement, respectively 43% and 16% for Dutch entrepreneurs). In addition, SMEs working together with a foreign partner see more competition as the biggest threat within the European Single Market. On European-wide scale, a slight difference exists between both groups of enterprises that co-operate with a foreign partner and

¹ Kearney, 1992.

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

those that do not (37% versus 35%, respectively). For Dutch entrepreneurs these figures are 31% and 23%, respectively.

When asked for the perceived business opportunities that result from the European Single Market, SMEs that are involved in transnational co-operation make more mention of the benefits of operating within a larger selling market (20% compared with 14% of those not working together with a foreign partner, Table 2.9). SMEs that are co-operating with a foreign partner are also more aware of other opportunities throughout the European Single Market (21% compared with 14% of those not working together with a foreign partner). Moreover, the data show that a larger share of Dutch entrepreneurs working with a foreign partner react positively to perceived opportunities compared to the European average, and that those who are not co-operating with a foreign partner react more strongly against the idea of perceived opportunities.

Table 2.9 Transnational co-operation and opportunities offered by the European Single Market as perceived by entrepreneurs (column %; more than one answer possible)

Opportunities	Working together with a foreign partner (%)			
	Yes		No	
	Europe	NL	Europe	NL
Larger selling market	20	36	14	8
Simplified collaboration with international enterprises	32	12	13	2
Lower production costs	9	n.a.	5	n.a.
Other opportunities	21	24	14	4
No opportunities	34	38	56	80

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

Not surprisingly, SMEs having a transnational co-operation agreement on the whole regard the European Single Market as an opportunity (57% compared with 39% of those not co-operating with a foreign partner, 46% and 22%, respectively, for Dutch entrepreneurs). The latter perceive the European Single Market more as a threat (21% compared with 16% of those co-operating) or are indifferent towards it (neither an opportunity nor a threat 35% versus 26% of those co-operating, 66% and 49%, respectively, for Dutch entrepreneurs).

2.6.3 Possible advantages and disadvantages of co-operation

As indicated, a variety of co-operation forms exists among SMEs that work together with a – foreign – partner. Table 2.10 presents an overview of possible advantages and disadvantages connected to the following forms of co-operation; sales representation, commercial, technological and participation/joint venture.

Table 2.10 Possible advantages and disadvantages of (inter)national co-operation

Type of co-operation	Advantages	Disadvantages
Sales representation	<ul style="list-style-type: none"> • Foreign market presence without investments • Flexibility: easy to quit • No fixed costs, few financial risks 	<ul style="list-style-type: none"> • Lack of control • Difficult co-ordination of sales and production • Competition between same products • Payment problems
Commercial	<ul style="list-style-type: none"> • Increased product range • Service to international clients • Optimisation of sales network • Marketing synergies • Well-perceived by clients 	<ul style="list-style-type: none"> • 'Sell our products, not our concepts'
Technological	<ul style="list-style-type: none"> • Technical after-sales support • Access to technologies, possibly at low costs • Increased quality of products • Developments of new products 	<ul style="list-style-type: none"> • Difficult use of own brand name in subcontracting • Technological dependence
Participation/ Joint venture	<ul style="list-style-type: none"> • Diversification of global risk • Offer homogeneous and well-controlled services 	<ul style="list-style-type: none"> • Investment and co-ordination cost • Lack of independence and flexibility

Source: Kearney, 1992.

Advantages and disadvantages associated with the company entering into business relationships are logically interconnected. The opportunistic behaviour of business partners can negatively affect the competitive position, for example by the abuse of technology, know-how and skills, as partners will become aware of each other's activities. Furthermore, the decision-making power of enterprises can be limited by obligations imposed by the business relationship. Thirdly, co-operation needs co-ordination, which brings about increased costs in terms of time and money.

Under the auspices of EIM, research was undertaken in two industrial sectors (manufacturing of metals and transport) to determine in what way SMEs in various European countries perceive that different

forms and areas of business relationships contribute – in a positive or negative sense – to their autonomy and to the competitive position of their company¹.

The assumption made was that entrepreneurs are reluctant to enter into relationships as these might limit their autonomy. However, it proved that, in the majority of cases, even when there was a feeling of decrease in autonomy, this was not perceived to be negative. In some cases, autonomy even increased as a result of co-operation.

In fact, the company's overall opinion of the relationship is determined by two countervailing powers, in that the company's judgement of the improvement in competitiveness is partly offset by the influence of the partner on decision making, and the assessment of the importance in changes in autonomy. In general, it was concluded that the influence on the choice of strategy and decision making is accepted, provided that the business relationship leads to an improvement in the competitive position of the company.

Furthermore, the results showed an improvement in the competitive position of enterprises entering in business relations. Entrepreneurs who had entered into business relations performed better both in terms of employment and turnover development than their fellow-entrepreneurs who had not. However, the causality of this relationship is not clear, because these are also entrepreneurs showing a more dynamic management profile, using more sources of information, etc. It is probably the market orientation of the entrepreneur which resulted in this improved performance as well as his decision to enter into a business relationship.

¹ EIM, *Competitiveness, autonomy and business relationships, an international comparative study in eight European countries*, Zoetermeer, 1992.

3 The use of external advice by SMEs in the different phases of the life cycle

3.1 Introduction

Stimulating the use of external advice by SMEs has a high priority amongst policy makers. The objective of this chapter is to provide information about the need and utilisation of external advice by SMEs in different phases of their life cycle as well as to identify the reasons for the use or lack of use of this type of advice. In this chapter, external advice includes information, advice and consulting services obtained by an enterprise from external sources (from either private, semi-public or public organisations).

The chapter is organised as follows. Section 3.2 analyses some of the factors that determine the need for external advice by SMEs. Chapter 3.3 analyses some of the factors that affect the use of external advice by SMEs, such as factors related to the enterprise, and factors related to the life cycle phase within which an enterprise is operating. Meanwhile, Section 3.4 examines the barriers that affect the use of external advice by SMEs and the benefits that could be derived from it.

3.2 SMEs and need for external advice

Before providing more insight into the actual use of external advice by entrepreneurs it is necessary to clarify which issues are perceived to be important by the entrepreneurs themselves. Various research activities have been undertaken that describe the needs for knowledge and information within SMEs. Although results differ, a typical pattern can be derived from research by Maathuis among 780 members of an entrepreneurs' association in 1990 (Table 3.1)¹. The results indicate that quality and organisational improvements are considered relatively important, whereas management assistance scores relatively low. The result is typical, because the entrepreneurs' main problem appears to be the need for management assistance.

1 Maathuis, G.S.D., *Adviesprocessen en advieskwaliteit* (Advice processes and quality of advice), Delft, 1995.

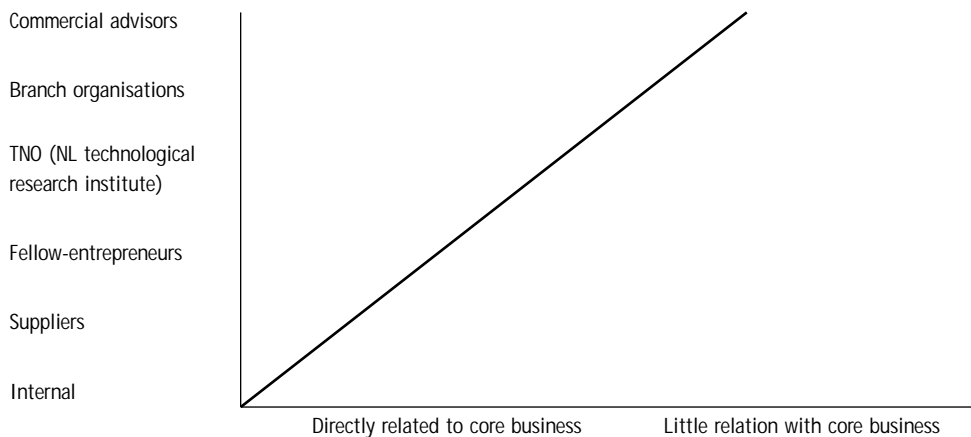
Table 3.1 Information needs in the Netherlands by area (%) (N= 780)

Areas of information need	Result
Product quality	38
Organisational improvements	32
Business economics	27
Administrative automation	24
Planning and strategy	22
Marketing	21
Information planning	11
Management assistance	11
Flexible production	9

Source: Maathuis, G.S.D., *Adviesprocessen en advieskwaliteit* (Advice processes and quality of advice), Delft, 1995.

The areas indicated in Table 3.1 do not necessarily reflect the areas for which external expertise is demanded. The definition of the enterprises' problems and, therefore, the discussion about hiring an external consultant is mostly considered as a personal failure by entrepreneurs and often avoided. It is clear that the smaller the enterprise, the more influential the entrepreneur and his/her personality profile and abilities are on the development and success of the enterprise. These factors have an effect on the use of external advice. SME entrepreneurs are not easily inclined to hire external advisors for problems which they consider to belong to the core activities of their firm. These are more easily discussed internally or with fellow-entrepreneurs. The relation between a problem and the advisory party chosen to solve this is illustrated in Figure 3.1.

Figure 3.1 Relation between problem and advisory source



Source: Maathuis, G.S.D., *Adviesprocessen en advieskwaliteit* (Advice processes and quality of advice), Delft, 1995.

The search for an advisor is rather often only a reaction to acute problems arising in the enterprise. Therefore, generally not enough time is taken to make an initial internal diagnosis of the problem(s) and to prepare the consultants.

Another finding confirmed by the ENSR Enterprise Survey 1997 was that the educational level of entrepreneurs seems to represent another entrepreneur-related factor explaining the use of external advice. Highly educated entrepreneurs are more likely to take external advice as regards the development of their enterprises. The survey sample data show that this effect was more pronounced for Dutch entrepreneurs in comparison with the European average. Only 16% of the enterprises run by university graduates indicated not making use of any external advice, as against 38% amongst entrepreneurs with only a basic education.

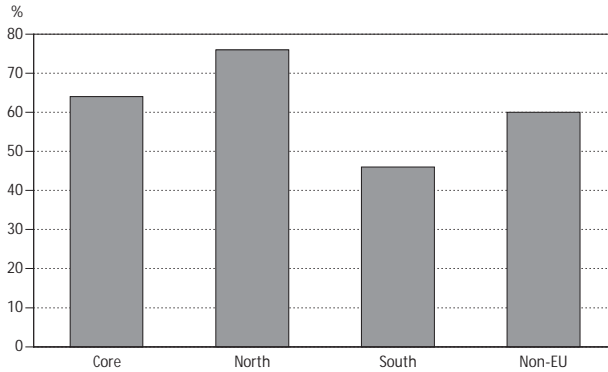
3.3 Use of external advice by SMEs

3.3.1 Introduction

The dynamic of competition demands a lot of expertise from SMEs, and this demand cannot be met by their 'normal' competencies. Because of lack of specialists and internal staff, SME entrepreneurs depend on co-operation with external specialists.

A clear hierarchical order appears whenever the use of external advice is measured by country clusters (Chart 3.1). Empirical evidence from the ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 suggests that external advice is used mostly by the Northern-country group (Scandinavian countries and England), followed by the so-called Core-group (Germany, France, Italy, Benelux and Austria), and the Southern group of countries (Spain, Portugal, Greece) and Ireland. The non-EU member countries in the survey (Norway, Iceland, Switzerland and Liechtenstein) directly follow the European core group.

Chart 3.1 External advice by country clusters, Europe-19



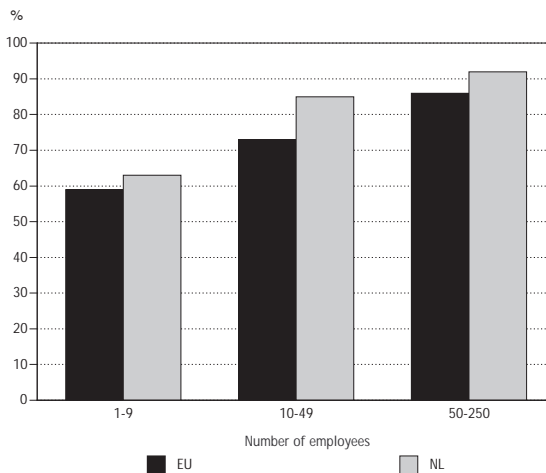
Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

In the Netherlands, which belongs to the core group of European countries, a high percentage (69%) of the entrepreneurs indicated making use of external advisors, as against the country clusters' average of 64% and the European average of 60%.

3.3.2 Enterprise-related factors

The use of external advice enables entrepreneurs to concentrate on the core activities of their company. The use of external advice as well as the variety and complexity of advice grow as enterprise size increases. This hypothesis is supported by the results from the ENSR Enterprise Survey 1997 (Chart 3.2).

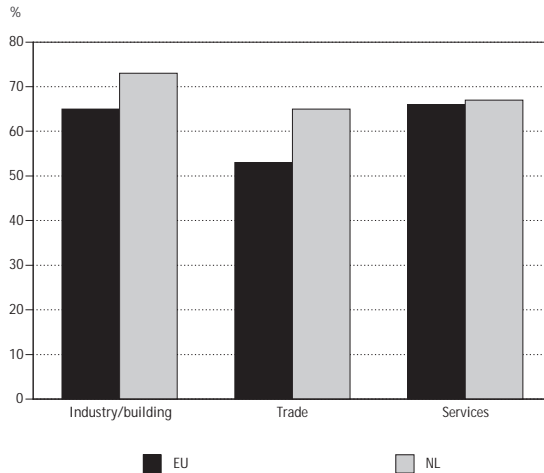
Chart 3.2 Use of external advice by size class



Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

The use of external advice also seems to be dependent on other factors such as the economic sector to which the enterprise belongs. The general picture shows that enterprises in the service sector, on average, make more use of external advisory services (Chart 3.3). These results from the ENSR Enterprise Survey 1997 comply with findings in some ad hoc studies¹. Remarkable are the findings for the Netherlands. Here it seems that enterprises in the building/construction and trade sector rely significantly more on consultancy services than the European-19 average do.

Chart 3.3 External services by sector

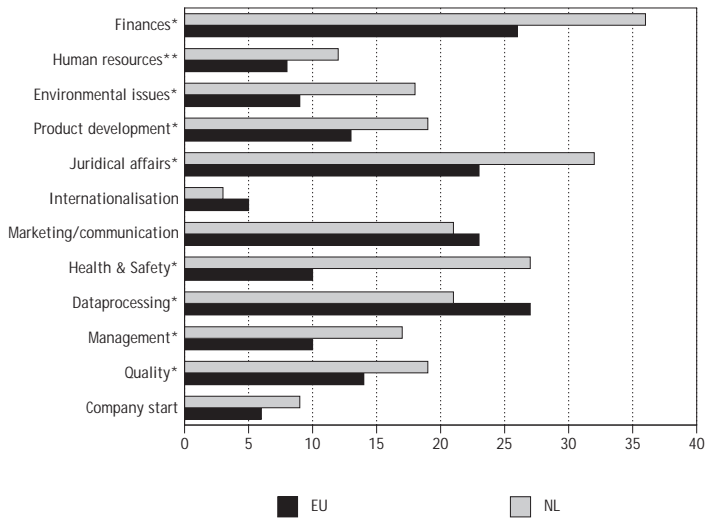


Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

The fields in which advice is sought reflect the needs for external advice. The results from the ENSR Enterprise Survey 1997 suggest that the most widely used external advice relates to data processing, finance, legal affairs, and marketing & communication. As Chart 3.4 shows, the Dutch enterprises that have been surveyed deviate from this picture in that they make more use of external advice in almost every area indicated. In hierarchical order finance, legal affairs, health & safety, data processing, and marketing & communication are the most commonly mentioned fields in which external advice is sought.

¹ Donckels, J., P. Bouwen, L. van Assche, and M. Letouche, *Ondersteunende Dienstverlening aan KMO's* (Supporting venvoring of services to SMEs), Brussels, 1994.

Chart 3.4 External advice by area



* Significance level <0.05.

** Significance level <0.01.

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

The reasons that underlie these needs for advice are the consequences of the constraints that SMEs face in the fields of legislation and taxation. According to the Grant Thornton International 1996 Survey¹, enterprises are most concerned about the effects of taxation. Social and employment taxes as well as corporation and profit taxes are the most widely cited legislation that constrains business activity (75% and 51%, respectively). These concerns give rise to the fact that extensive use is being made of external advice in the fields of finance and legal affairs.

Enterprises, however, seem to be less concerned about product regulations and environmental and health & safety regulations. In contrast, Netherlands-based enterprises seem to be worried about these taxes, which is indicative for the significantly higher level of external advice to be taken in these fields.

A closer look by economic sector follows from the data in Table 3.2. Advice related to quality measures, data processing, product development and environmental issues is most often used by the manu-

1 Grant Thornton International, Business Strategies Ltd., *European SME Business, prospects and issues for SMEs*, London, 1996 (op. cit.). It should be kept in mind that the population of the Grant Thornton International, Business Strategies Ltd., European Business Survey does not solely represent SMEs.

facturing sector. On the contrary, enterprises in the service sector require more legal advice. Dutch enterprises, especially those active in the manufacturing and trade sector, deviate from this picture as they are generally heavily dependent on external advice regarding environmental issues, health and safety measures and management issues.

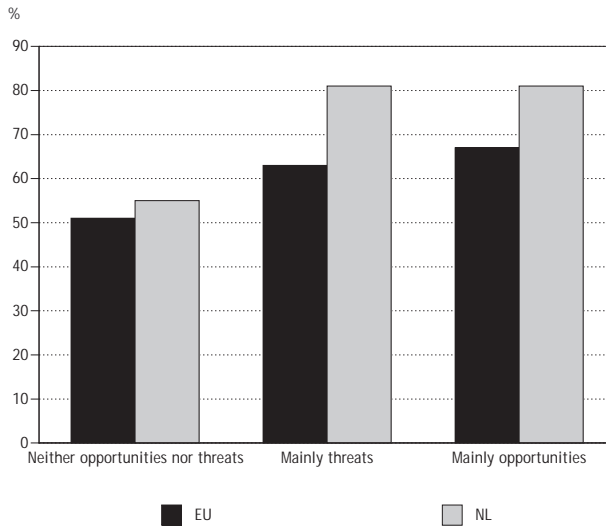
Table 3.2 Percentage of enterprises in each sector using external advice in each field

Field of advice	Manufacturing & construction		Trade		Services	
	EU	NL	EU	NL	EU	NL
Starting a new company	8	11	3	5	7	12
Quality	16	22	13	21	11	11
Management	7	12	8	21	14	14
Data processing	34	20	20	18	26	27
Health & safety	12	37	6	26	11	15
Marketing & communication	23	13	24	26	21	20
Internationalisation	6	1	3	3	5	5
Legal affairs	18	34	20	33	31	30
Product development	18	21	8	19	14	15
Environmental issues	16	30	4	16	6	8
Personnel management	9	15	8	13	9	7
Finance	30	34	21	39	24	35
Use of any service	65	73	53	65	66	67

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

The degree of internationalisation seems to have a positive effect on the demand for external advice. The ENSR Enterprise Survey 1997 shows that exporting SMEs, and SMEs that increased international contacts during the past few years, use external advice more intensively than locally oriented enterprises do. Enterprises that indicated being challenged by the Internal Market, either from the perspective of opportunity or threat, make more use of external advice than those enterprises that do not feel challenged (Chart 3.5).

Chart 3.5 Enterprises that use external advice, according to their general opinion on the effects derived from the Internal Market



Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

3.3.3 Life cycle-related factors

The use of external advice appears to depend not only on the enterprise and entrepreneurial characteristics, but also on the phase of the life cycle of the enterprise. Whereas some advice services are required in all the phases of the enterprise life cycle (i.e. financial services¹), other advice services are related to special or exceptional situations (see Figure 3.2). Three main groups of external advice service can be distinguished according to the enterprise's life cycle.

External basic advice or low-value external advice includes traditional and common advice used by SMEs in all phases of their life cycle (a solid line in Figure 3.2). Examples of this kind of advice relate to bookkeeping, data processing or legal matters. A special type of basic advice relates to the start-up of an enterprise, e.g. connected with the development of the business idea or with administrative burdens.

External advice connected to growth and change involves advice services used as the enterprise grows and/or changes its operations (a dotted line in Figure 3.2). The nature of this type of advice is often strategic, and examples include advice on management, environment or internationalisation.

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

External advice connected to crisis is needed in various kinds of problem situations faced by an enterprise (clouds in Figure 3.2). Broadly stated, three groups of factors leading to financial crisis are identified: management, financial and external factors. External advice could be of help when an enterprise is facing such situations.

Figure 3.2 Typology of external advice for SMEs

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

Bearing in mind this typology, it is possible to identify concrete types of external advice required in each phase of the life cycle. Thus, external advice in the start-up phase is used to assist in developing and screening a business idea and strategy or to help to overcome major difficulties such as requirements related to administrative burdens¹. Advice sought during the first years of operation generally includes bookkeeping, marketing and accounting².

Meanwhile, external advice in the enterprise's growth phase is often needed not only to help to focus the enterprise and to implement those changes required by growth but also to assist in follow-up processes³.

- 1 Deloitte & Touche Consulting Group, *Brakerundersøkelse av veiledningstjenesten under det norske nærings- og energidepartement* (Survey of users of advisory services commissioned by the Ministry of Trade and Energy in Norway), 1996, Oslo, and Harter, *Unternehmereinstellungen zur Betriebsberatung* (Entrepreneurs' attitudes towards consulting), Wien, 1988.
- 2 Aronsson – Ellgren – Forsberg, *Efter de första ljuva åren... – En uppföljningsstudie av nystartade företag* (A follow-up study of new enterprises), Stiftelser Forum for Småföretagsforskning, Sweden, 1995.
- 3 Nordisk Industrifond, *How to qualify Nordic SME-consultants*, Oslo, 1997.

In this stage, growth-oriented enterprises become more active and organised users of external advice since they are more precise about their goals and make better use of available facilities¹. Finally, mature enterprises (that is, enterprises that have stable activities and do not aim either to grow or to reduce their activities) use different types of external advice², mostly related to legal affairs and management (i.e. transmission problems).

3.3.4 Sources of advice

During recent years the market for external advice, especially in the fields of organisation and marketing advice, has been growing rapidly. In general, by country there is perhaps less variation in the sources of advice than different institutional structures might lead one to expect. According to the Grant Thornton International Survey, banks and chambers of commerce are the most popular sources, and about half of the respondents who took advice approached these. Dutch entrepreneurs also seem to rely heavily on the opinions of their fellow-entrepreneurs.

The most popular source of help used is the accountant, followed by tax consultants and solicitors. Least used were governmental agencies. Like in Ireland, Portugal and Switzerland, it seems that in the Netherlands a first call for external advice involves public authorities rather than private consultants (Table 3.3).

Table 3.3 Use of business advice (%)

Country	Accountant	Bank	Fellow-entrepreneur	Chamber of commerce	Government	Management consultant	Solicitor	Tax consultant	Trade organisation
Austria	60	33	27	32	4	23	47	78	8
Belgium	82	58	24	16	6	15	50	53	6
Denmark	93	48	33	2	2	9	60	11	33
Finland	76	19	66	22	2	22	53	25	16
France	91	55	21	21	4	12	38	43	3
Germany	50	37	37	21	5	19	45	69	12
Greece	61	27	42	11	2	24	80	58	1
Ireland	88	37	44	5	17	17	46	30	30
Italy	81	24	13	8	2	39	37	44	11
Luxembourg	69	37	9	35	9	7	55	49	5
Netherlands	92	40	30	13	10	17	43	48	14
Portugal	45	29	55	12	13	39	61	90	23
Spain	39	21	18	20	3	39	61	90	23
Sweden	86	42	60	4	6	13	38	17	49
EU average	67	34	32	15	6	20	47	47	15

Source: Grant Thornton International, Business Strategies Ltd., *European SME Business, prospects and issues for SMEs*, London, 1995.

- 1 Donckels – Bouwen – Van Assche – Letouche, *Ondersteunende Dienstverlening aan KMO's* (Supporting vending of services to SMEs), Brussels, 1994, and Kinsella – Clarke – Storey, *Fast-Growth Small Firms*, Irish Management Institute, Dublin, 1994.
- 2 Lampe, *Unternehmensberatung für Klein- und Mittelbetriebe* (Consulting SMEs), Wien, 1991.

Variation between countries in the use of different sources of business advice is explained by a combination of differing regulatory and cultural environments, and the different structure of professional and advisory services. For example, in Denmark, France, Ireland, the United Kingdom and the Netherlands the primacy of the accountant is unchallenged, and about 90% of the enterprises make use of this source. By contrast, in Germany and Spain it seems that the tax consultant is preferred rather than the accountant.

Bank advice is rather popular in Belgium and France, as it is in the Netherlands, but much less popular in Spain and Finland.

Other than accountants, solicitors and tax consultants are the most widely spread source of advice.

3.4 Barriers of access to external advice

As the need for knowledge within SMEs – which is absent too often – is vast, processes of change often stagnate. Market discrepancies between demand for and supply of consultancy services that SME entrepreneurs face can be described as result of:

1. Barriers related to the availability of information

- **Intransparency of the consulting market**
SMEs' knowledge of the consulting market is very limited. When looking for a consultant, entrepreneurs therefore mostly put their confidence in recommendations from their own business network. But the intransparency is also noticeable on the supply side. The uncertainty about the needs of SMEs causes significant differences in the main focus on supply and demand of consulting themes. As suppliers orient themselves on offers of their competitors, this leads to the danger that mainly 'fashionable themes' will be offered for which there is only limited demand on the side of SMEs¹.
- **Increasing competition and deficits in co-operation**
Because of the increasing importance of non-organised forms of further training and of the increasing number of integrated training and consulting programmes, the border between (organised) training and (specialist) consulting is beginning to disintegrate. The result is increasing competition between consultants and trainers.

¹ Kailer, N., *Co-operation between SME and consultants: analysis of deficits and starting-points for improvements*, Bochum, Germany, 1998.

2. Barriers related to the contents of external advice

- Poor suitability and usability of external advice

Most SMEs prefer focused and problem-oriented external advice¹. In this sense, it is often argued that external advice is not related to the specific needs of SMEs, since external advice is very often regarded as too general or designed for larger enterprises.

- Vaguely formulated goals and objectives

Another main cause of clients' discontent is the lack of or too vaguely formulated goals. The more vaguely the consulting goals are defined, the greater is the risk that they will not be clarified in more detail during the course of the consulting process. This may lead to expectations from the customer that cannot be met by the consultant. On the other hand there is a risk that the formulation of goals will be left totally to the consultant.

- Different understanding of the role of consultants

During the entire consulting project a difference in understanding of the role of the consultant can turn out to be a major problem, such that in the view of SMEs consultants mainly act in a technically oriented manner, whereas consultants more often think of themselves as process consultants². Maathuis also takes notice of this and stresses the need to consider the relation between the employer and the consultant as an aspect of the enterprises' strategy. As SME management is often unable to differentiate between the different roles of the consultant and their connection with consulting strategies, advice could be improved by considering it as a process that is fed by the interaction between the entrepreneur and the consultant.

Furthermore, a considerable part of the advice process takes place in the form of an exclusive co-operation between SME owners and consultants. Whenever employees are integrated in the process it is mostly during the implementation phase.

3. Barriers related to the resources of the enterprise

- The entrepreneur lacks the time to call in expertise from outside.
- Costs of external advice

High costs are one of the most important barriers to the use of external advice. Whenever external advice is used consul-

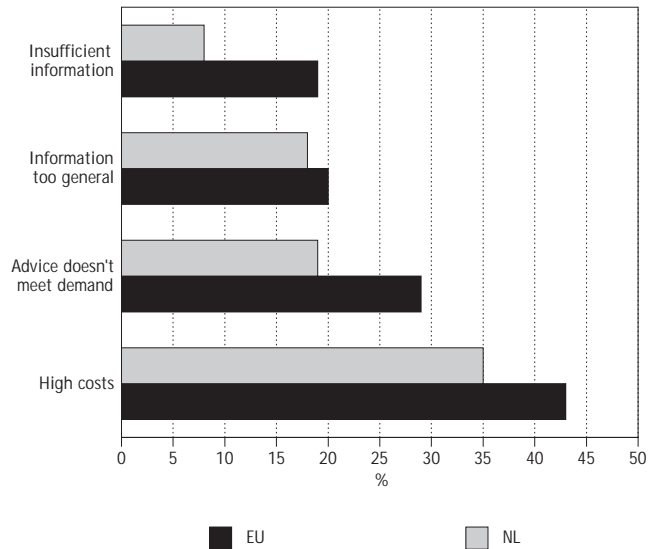
1 Ziegerer, P., *Firmengründungen durch Frauen und Männer im Zeitablauf* (Start-ups by women and men over time). PhD Study, University of St. Gallen, Bamberg, 1993.

2 N. Kailer, *ibid.*

tants are often excluded from the implementation phase in the major part of enterprises, often because of financial or psychological reasons. Conditions like time schedules or financial restrictions in subsidised consulting programmes may also influence this decision. In this respect the lack of support during the implementation phase is a serious weakness for SMEs.

- The average education level is low, which hampers communication with the external advisor.

Chart 3.6 Barriers to external advice



Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

The ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 provide some insight into the real significance of such barriers. From Chart 3.6 it can be derived that the main barriers affecting the use of external advice by SMEs are resource-related (high costs of external advice, 43% of respondents), content-related (advice is not geared towards needs, 28% of respondents; nature of advice too general, 20% of respondents) and information-related (insufficient information on external advice, 18% of respondents). Interestingly also, the surveys show that the information-related barriers are more frequently quoted by micro and small enterprises and by tertiary enterprises, whereas manufacturing enterprises seem to be more affected by content-related barriers (related to the contents of the advice, e.g. information not related to the enterprise's needs).

4 SMEs and the environment

4.1 Introduction

Traditionally attention on environmental policy has been focused on larger enterprises operating in sectors with high environmental impact. However, the environmental impacts of SMEs can no longer be ignored. Regardless of sector of activity, SMEs are increasingly being urged to integrate environmental constraints into their policies. Stricter environmental regulations already stimulate SMEs to become more aware of the global environmental impact of their activities. Consequently, this may imply a complete re-think of product life cycles and economic activities in environmental terms.

These environmental constraints present both risks and opportunities. For example, the tightening of environmental standards may have a negative impact on employment figures in the economic sectors directly affected. The costs that will be needed to adapt to new environmental norms and standards might become a heavy burden, threatening the competitiveness of enterprises. On the other hand, investments might be outweighed by cost reductions in the form of savings of energy, water or other natural resources. Besides, an increasing demand for clean technologies and products and for services linked to environmental management constitutes an opportunity for SMEs to contribute positively to the transition towards a sustainable economy.

In recent years the topic has moved up on the (inter)national political agenda. At the 'Informal meeting of EU environment ministers' in Amsterdam in April 1997, it was clearly stated that SMEs are an important engine for economic growth and employment throughout the European Union. And, as SMEs are also a significant contributor to environmental pollution, it was concluded that environmental requirements should be related to the nature and magnitude of environmental pollution and not to the size of the enterprise.

Key environmental problems and the implications of the environmental challenges for SMEs will be reviewed in section 4.2. This section will also study the activities undertaken by SMEs to comply with environmental constraints and the main barriers they face. Section 4.3 will highlight the role played by SMEs in the development of eco-businesses. The final section is dedicated to the relationships between environmental protection policies and employment.

4.2 SMEs and environmental constraints

4.2.1 Environmental profile of SMEs

When comparing the contribution of small and medium-sized enterprises to the overall environmental impact of industry, two items should be distinguished. Firstly, (Dutch) research indicates that the relative contribution of SMEs to environmental problems, compared to large enterprises, was lower than measured by the relative share of its contribution to the Gross National Product¹. Secondly, although the impact of individual SMEs may be small, the cumulative effect due to the total number may have a significant effect in terms of environmental pollution. On a European-wide scale, SMEs are accountable for more than 99.8% of all enterprises, 65% of total employment, and 65% of total turnover².

A considerable number of SMEs are active in sectors that contribute substantially to industrial pollution such as manufacturing, construction and transport. The most environmentally significant SME-dominated manufacturing sub-sectors include:

- Manufacturing of metal articles;
- Textiles, leather and clothing;
- Plastics and artificial materials, timber, woodworking and furniture, printing;
- Electronics;
- Food, beverages and tobacco.

Should a top-ten listing be compiled of the most environmentally 'unfriendly' (sub-)sectors in which Dutch SMEs are active, i.e. not only the manufacturing sector, it would include the following³:

- Road transport;
- Building and construction;
- Water haulage;
- Food, beverages and tobacco;
- Basic chemicals;
- Building materials;
- Oil industry.

1 See, for example, EIM, *Het milieuprofiel van het MKB* (Environmental profile of SMEs), Zoetermeer, 1998.

2 EIM, *The European Observatory for SMEs*, Fifth Annual Report, Zoetermeer, 1997.

3 EIM, *Het milieuprofiel van het MKB* (Environmental profile of SMEs) (op. cit.).

Environmental effect is defined as the measurable burden on the use of raw materials, water, clean air, noise production, etc. A European-wide overview of the environmental impact caused by the various sub-sectors in the manufacturing industry is presented in Table 4.1.

Table 4.1 Environmental effects per sub-sector on a European-wide scale*

Sector/environmental effect	Raw materials	Energy use	Water use	Use of chemicals	Air pollution	Waste water	Waste	Noise/odour	Soil contamination	Products
Manufacturing metal articles	++	++	+++	+++	++	+++	+++	+++	+	+
Textiles, leather and clothing	++	+	+++	+++	+	++	++	+	++	+
Plastics and artificial materials	++	++	+	+++	+		++	+	++	+++
Timber, woodworking and furniture	++	+		++	+		+	++		
Printing	+		+	+++	++	+	++	+	++	
Electronics	+++	++		+	+	+	++		++	+++
Food, beverages and tobacco	+	+++	+++	++	+	+++	+++	++	++	+

* +++= high impact, ++= medium impact, += low impact.

Source: KPMG Consulting, *The environmental challenge and Small and Medium-sized Enterprises in Europe*, 1997.

From Table 4.1 the conclusions can be drawn that the environmental effects of smaller manufacturing SMEs are especially important in the areas of water use, the use and storage of chemicals, emissions to water, and solid waste.

A closer look at the dynamics of Dutch industrial sectors over the period 1992-1995 reveals that the negative impact on the environment showed a downward trend. Of all the environmental effects mentioned in Table 4.1, Dutch SMEs contributed relatively more to the waste-water problem than large-scale enterprises (LSEs) as measured by the relative share of their contribution to the Gross National Product. In all other areas mentioned, LSEs placed a heavier burden on the environment than SMEs¹.

Before going more deeply into the actual environmental protection within SMEs it is useful to clarify what is perceived to be important by entrepreneurs concerning the protection of the environment.

4.2.2 Environmental awareness

In order to undertake actions to preserve the environment, entrepreneurs should be aware of environmental issues. The same is to be said with respect to the need for compliance with environmental regulations. Entrepreneurs are often unaware of the benefits that can arise from improved environmental performance that could lead to a

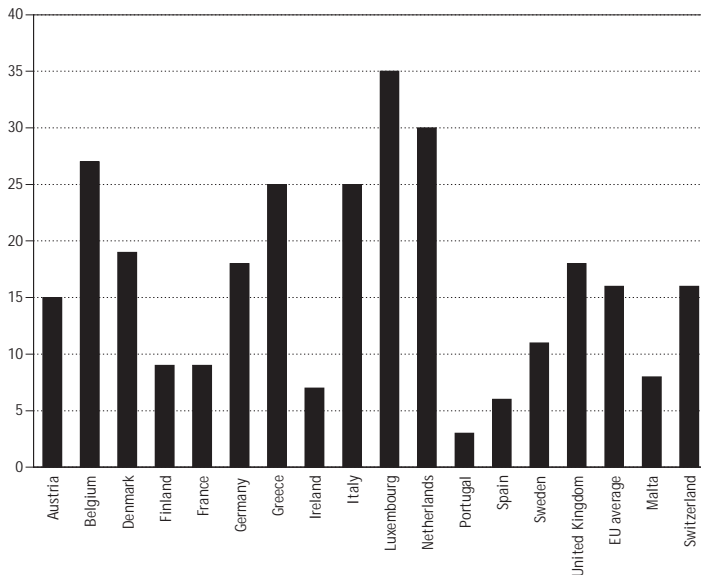
1 EIM, *Het milieuprofiel van het MKB* (Environmental profile of SMEs), Zoetermeer, 1998.

strengthened competitive position. SMEs can play a major role in realising a sustainable economy through more intense co-operation with suppliers, clients and other producers. SMEs can play an important role as innovator, adopter of new technologies, as supplier, importer, wholesaler, and intermediary to the consumer. Generally, SMEs are hesitant to invest, although cost savings are perceived to be a motivating factor.

The results of the ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997, for example, reveal that a significant share of enterprises in Italy, Greece, Portugal and Spain are still not aware of, or do not feel concerned about, environmental regulations.

These conclusions are partly confirmed by research findings of the Grant Thornton International European Business Survey, which asked entrepreneurs to identify whether they felt constrained by environmental regulations¹.

Chart 4.1 Environmental regulations considered as restraints (%)



Source: Grant Thornton International, Business Strategies Ltd., 1996.

Environmental laws are felt by 16% of the enterprises to be a constraint. Almost twice as many Dutch entrepreneurs believe these regulations to be a constraint. Enterprises in Belgium, Luxembourg,

1 It should be kept in mind that the population of the Grant Thornton International, Business Strategies Ltd., European Business Survey does not solely represent SMEs.

Greece and Italy also believe that environmental regulations constrain their business. In contrast, concern is the lowest in Portugal where only 3% of the enterprises share such a view. It should be kept in mind, however, that regulations would only be seen as a constraint when enterprises are aware of such regulations. Environmental concern largely depends on the actual regulations that are in force. Concern is also very low in Spain, Malta, Ireland, France and Finland, where fewer than 10% could underwrite this proposition.

Table 4.2 Percentage of enterprises in each sector using external advice in the field of environmental issues

Field of advice	Manufacturing & construction		Trade		Services	
	EU	NL	EU	NL	EU	NL
Environmental issues	16	30	4	16	6	8

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

Table 4.2 shows that the number of Dutch entrepreneurs who consult external advisors in the area of environmental issues turned out to be significantly higher than the European average. This is partly explained by the availability of environmental advice, which is well-developed in the Netherlands. Another reason is that Dutch enterprises seem to be more aware, serious and/or worried about these regulations, which is indicative for the higher amount of external advice that is being used in this field. A general lack of knowledge does not seem to be an important explanatory factor for the substantial use of external advice. The table also shows that this is especially true for entrepreneurs in the trade and manufacturing sector, this might result from the fact that environmental regulations have a particularly severe impact on these sectors.

4.2.3 Barriers for SMEs to undertake environmental activities

Even when aware and/or exposed to strong environmental pressure, many SMEs still face barriers and difficulties in undertaking environmental remedies. At European level there is a clear policy framework for environment and SMEs. From a policy-making point of view it is particularly important to keep track of the main incentives and barriers which influence the involvement of SMEs in the environmental field.

Environmental issues generally have low priority in SMEs. It is

acknowledged that many of these enterprises have special problems (not only in this specific field) as they often do not have the resources (finance, knowledge, staff, time) to address issues that are perceived to lie outside daily business operations. Furthermore, for the majority of SMEs it is estimated that environmental expenditure do not exceed 5% of total operating costs. As a result of the low amount of attention for this issue, the majority of entrepreneurs lack the necessary knowledge of 'green' investment opportunities, and subsidies that aim to change the environmental attitude of the entrepreneur. Besides, many SME managers still believe that environmental investments have a negative effect on profitability and do not see the long-term economic benefits. Moreover, return on investments is considered as a major obstacle by SMEs. Generally it takes three years for investments to become profitable, which is normally too long for an SME entrepreneur. Therefore, the attitude of entrepreneurs can be described as reactive rather than active. Because of their failure to see the environment as a cost advantage, SMEs are hesitant to respond to the culture and climate of 'good practice' (Table 4.3).

Apart from the lack of resources that is a generally felt constraint, entrepreneurs frequently mention the lack of access to information, and training on environmental matters as obstacles. Information is perceived to be too difficult, not practical, and too costly. Hence, SMEs experience difficulties in keeping knowledge and production up to date with technological developments.

Table 4.3 The culture and climate of the 'good practice' SME (A) versus the culture and climate of the 'average' SME (B)

Awareness level (A)	Awareness type	Attitude	Capacity to act	Action level	Compliance type
High	Market Social	Positive	High	Pro-active	Prudent Self-regulation
Awareness level (B)	Awareness type	Attitude	Capacity to act	Action level	Compliance type
High	Market	Perceived positive	Low	Re-active	Prudent Compliance

Source: Petts, J., and A. Herd 'Environmental compliance within SMEs', in: *Business Strategy and the Environment*, vol. 8, no. 1, 1999.

4.2.4 Incentives for SMEs to undertake environmental activities

Awareness and information about environmental issues are far from sufficient to generate actions in the environmental field. Most entrepreneurs who make such decisions are indeed pressured to do so, and indicate they would prefer a 'command and control' approach to reg-

ulation. Interestingly though, research by the EuroStrategy Consultants found that most SMEs tend to prefer such an approach¹. It is of interest, therefore, to establish what the main channels of environmental pressure are, and to identify the main environmental stakeholders.

The activities of SMEs in the field of environmental protection can result either from compliance to regulations that are enforced upon the sector, or from self-enforced voluntary agreements. As such, activities can be measured in at least two different ways:

- By activities and investments undertaken in order to decrease their burden on the environment (compliance)
- By the implementation of environmental-management systems (certification or otherwise).

National regulations

Various studies have shown that public authorities and – predominantly – national regulations played a major part in this field in Europe, especially with respect to SMEs². Enterprises are compelled to act within a general set of rules that are imposed upon them by a centrally administrating authority, ensuring a level playing field. In spite of this, specific national environmental policy for SMEs is scarce³. The lack of specific environmental policy for SMEs does not mean that there are no instruments to improve the environmental performance of SMEs.

Voluntary agreements

Voluntary agreements are negotiated, written agreements in which the national government and an industrial sector, a group of enterprises, or individual company, define environmental-policy objectives. The use of voluntary agreements has already proved to be a successful approach in many Member States of the European Union. Experience, amongst others in the Netherlands, shows the positive results achieved with such agreements, their advantage being:

- Avoidance of further legislation
- Opportunity to involve economic actors in an active and motivated role
- Provide the economic actors with options to choose between instruments
- Quick elaboration and implementation compared to legislation.

1 BCC, *Small firms survey 20: Energy Efficiency*, ENDS Report 263, 1996.

2 KPMG Consulting, *The environmental challenge and Small and Medium-sized Enterprises in Europe*, Amsterdam, 1997.

3 For example in the 'Nationaal Milieubeleids Plan 1996' (Dutch Environmental Policy Plan 1996) the difficulty of reaching SMEs and the importance of specific SME policy are outlined, although no details of actions are provided.

Environmental permits

All European Member States require permits for enterprises that cause serious environmental damage. In a number of countries these permits are linked to the environmental impacts of the company. In the Netherlands there are general rules instead of permits for categories of installations that are largely homogeneous. In other countries a system of self-registration is used in which the enterprises themselves are responsible for applying for a permit if the environmental burden exceeds certain limits. All these general regulations have been imposed to reduce the administrative and financial burden, this is especially beneficial to SMEs. As a reference for the Netherlands, the administrative burdens over 1993 in relation to compliance with environmental regulations were calculated to vary around 14% of the total administrative burden on SMEs¹! To put things in perspective, the total administrative burden amounted to 36% of total administrative operating costs in that period.

Market pressures

Environmental demands by large enterprises on their suppliers have become an important factor. An interesting fact noticed in Finland, France, Greece, Italy and Spain is the influence that foreign-owned enterprises (either located in the country or in their mother country) can exert, either as customers, main contractors or shareholders, on the environmental behaviour of SME producers of consumption goods, or sub-contractors. However, case studies of the more proactive enterprises revealed responses to supply-chain pressures in a few sectors (e.g. the automotive production chain)². Although these supply-chain pressures might form a motivating factor for SMEs to look at their own environmental impacts and performance, it also may form a threat to their continuity as markets might be lost, followed by job losses. Making public-procurement activities responsive to environmentally friendly conditions also exerts pressure. For example, in Germany, the Netherlands and the United Kingdom, many authorities have developed environmental requirements for the procurement of specific items, such as paper, tropical hardwood, CFCs, etc.

The financial sector also plays a vital role, as SMEs are dependent on financing to expand their business and for innovation activities. This places the financial sector in a position to have an indirect influence on the environmental performance of SMEs.

- 1 EIM, *Monitor Administratieve Lasten Bedrijven: 1993-1998* (Monitor Administrative Burdens: 1993-1998), Zoetermeer, 1999.
- 2 Petts, J., and A. Herd, 'Environmental compliance within SMEs', in: *Business Strategy and the Environment*, vol. 8, no. 1, 1999.

4.2.5 SMEs and environmental protection

When pointing out the relative importance of SMEs in relation to environmental burdens the question rises how many SMEs are active in the field of environmental protection. The general opinion is that LSEs have already taken more action towards the prevention of environmental damage than SMEs, especially those LSEs that are exposed to international competition.

The results of the ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 indicate that the share of enterprises that, in the last five years, modified their products or processes as a direct result of environmental regulations depended on the sector of activity to which the enterprises belong (Table 4.4). Not surprisingly, the survey reveals that environmental regulations had the greatest impact on manufacturing and construction. Besides, the data clearly indicate that the impact of environmental regulations increases with the size of the enterprise.

Table 4.4 Percentage of enterprises stating that environmental legislation resulted in modifications of their products or processes in the 5 last years, Europe-19 and the Netherlands, distribution by sector of activity and size class

	Number of workers					
	0-9		10-49		50-249	
	EU	NL	EU	NL	EU	NL
Manufacturing & construction	40	39	55	57	57	59
Trades	31	34	39	43	50	55
Services	26	27	36	30	33	37

Source: ENSR Enterprise Survey 1997 + NL Enterprise Survey 1997 (enterprises <250 employees).

A more thorough look at Table 4.4 reveals that a relatively larger percentage of Dutch enterprises have modified their production processes as a result of environmental legislation in comparison to their European counterparts. This could be partly explained by the fact that environmental legislation has become rather strict in the Netherlands during the last ten years.

The survey also indicated that size effects are noticeable in the field of environmental management, which can be attributed to the fact that implementing these systems (e.g. by certification and/or employ-

ing an environmental officer) pays off only when the company has reached a certain size. A study of the implementation of environmental-care systems within Dutch enterprises shows the same trend: i.e. the larger the enterprise the more advanced it is in implementing such a system, although small firms are becoming more and more active in this field (Table 4.5)¹.

Table 4.5 Share of Dutch enterprises active in implementing environmental-care systems, by size class, 1991-1996 (%)

Size class		January 1991	September 1992	August 1996
20-99	Inactive	23	12	7
	Starters	40	35	25
	Advanced	36	54	68
100-499	Inactive	9	3	1
	Starters	25	17	9
	Advanced	66	80	90
500+	Inactive	1	1	0
	Starters	12	5	0
	Advanced	87	94	100

Source: KPMG Milieu/IVA, *Evaluatie Bedrijfsmilieuzorgsystemen* (Evaluation of environmental-care systems in enterprises), Den Haag/Tilburg, October 1996.

Table 4.5 shows that the penetration rate of environmental-management systems has increased rapidly since 1991; 68% of smaller enterprises (< 100 employees) were at an advanced stage of implementing environmental management systems in 1996, compared to 36% in 1991. For medium-sized and large enterprises these figures are 66-90% and 87-100%, respectively. Research by EIM over the period 1995-1997 also indicates a rising penetration rate of environmental management. In contrast, the same research concludes that the penetration rate of measures in the fields of energy saving and prevention weakened over the same period.

A possible reason for this is a general underestimation by SMEs of their contribution to the environmental problems. Research by EIM showed that, although entrepreneurs were generally aware of environmental regulations, in practice they showed too optimistic a view of the way prevention was dealt with, compared with the activities that were actually undertaken to prevent environmental damage².

1 Source: KPMG Milieu/IVA, *Evaluatie Bedrijfsmilieuzorgsystemen* (Evaluation of environmental-care systems in enterprises), Den Haag/Tilburg, October 1996.

2 EIM, *Het milieuprofiel van het MKB* (Environmental profile of SMEs), Zoetermeer, 1998.

Compared to LSEs, only in the field of environmental-management systems did SMEs make greater progress than LSEs. Although the gap between SMEs and LSEs has also lessened in the field of prevention, this is because SMEs have performed less badly than LSEs. The gap in the area of energy saving has remained stable. The lower penetration rate in SMEs is partly explained by entrepreneurs having a less positive attitude towards energy saving.

4.3 SMEs in eco-industries

4.3.1 Definition of eco-industries

The definition and measurement of eco-industries (also called 'environment industries') is not an easy task. Traditionally, the core set of environment industries was limited to activities to abate or control pollution, but the importance of activities which actually prevent pollution from occurring is growing. The most important difference between definitions used in the various studies is whether or not they include clean technologies and eco-products. Clean technologies and eco-products are defined as technologies and goods which themselves are less harmful to the environment in the production process, use or disposal.

The core size of the eco-industries is hard to measure, because:

- The core set of eco-industries tends to be concentrated in a rather narrow range of industries; clean technologies and eco-products can be generated by any sector of activity.
- Overlaps can exist between the two classes of industries.
- Environmental industries cover a large range of activities: control equipment, measurement equipment, intermediary goods, end products, R&D and development of technologies, advisory services, engineering, and so on.
- Many enterprises develop environmental goods or services only as a secondary activity and there is an overlap between eco-producers and enterprises adapting to environmental constraints.
- Environmental goods and services are not, with some small exceptions, isolated in specific activity codes, so that most, if not all, data presented are estimates.

Table 4.6 Estimates of the turnover of eco-industries in the European Union in 1994. Environmental expenditure by sector of eco-industry and country (MECU and %)

Country	Total Env. Exp. (MECU)	Env. Exp. as a % of Total GDP	Env. Exp. as a % of EU total	Percent distribution of Env. Exp. per sector of eco-industry			
				APC	WWT	WM	Others
Austria	3,420	2.3	4	20	46	24	10
Belgium	1,320	0.8	2	24	34	42	-
Denmark	1,380	1.1	2	19	50	20	11
Finland	1,070	1.1	1	14	57	26	3
France	17,120	1.5	19	8	47	32	13
Germany	31,870	2.0	35	31	45	22	2
Greece	230	0.3	0	22	35	9	35
Ireland	610	1.1	1	11	57	23	9
Italy	8,870	1.0	10	16	30	45	9
Luxembourg	120	0.9	0	25	67	17	-
Netherlands	6,880	2.3	8	17	29	30	24
Portugal	600	1.0	1	10	50	30	10
Spain	2,680	0.7	3	13	24	48	15
Sweden	2,940	1.5	3	8	32	19	42
United Kingdom	10,700	1.0	12	12	44	31	14
Total EU	89,830	1.4	100	19	42	29	10

APC= Air pollution control, WWT= Waste-water treatment, WM= Waste management. Others include: contaminated-land remediation, noise and vibration control, R&D and environmental monitoring and services.

Source: Compiled by Aprodí, on the basis of: EC DG XI/Eurostat, *An estimate of Eco-Industries in the European Union 1994*, OPOCE, Luxembourg, 1997.

From Table 4.6 it can be derived that the eco-industry is particularly important in Austria, Germany and the Netherlands, whereas Belgium, Ireland, Luxembourg and the Southern Countries are at the bottom of the list. The situation seems to be a reflection of the maturity of domestic environmental markets and the levels of national demand related to environmental policies and regulations.

4.3.2 SMEs in eco-industries, distribution over environmental sectors

The role that SMEs play in the European eco-industry varies significantly across sectors and countries. Waste- and water treatment activities are generally dominated by LSEs whereas the role of SMEs is particularly important in the air pollution control and environmental-monitoring sectors as well as other, more general niche markets. LSEs are particularly well-represented in France, Germany and the Netherlands, whereas SMEs dominate the eco-industrial sector in Austria, Scandinavian countries, Liechtenstein and Switzerland. Meanwhile, the Southern Mediterranean countries' market structures are dominated by large foreign enterprises.

When looking at the different environmental sectors given in Table 4.7 it becomes clear that waste-water treatment is the largest domain of EU eco-industries, followed by waste management and air pollution control. On the contrary, contaminated-land remediation, noise and vibration control, environmental R&D and environmental monitoring and services together would account for 10% of the European eco-industries. Table 4.7 contains information about the dynamics in total turnover in five generally distinguished environmental sectors in the Netherlands.

Table 4.7 Turnover per environmental sector in the Netherlands (in NLG billion and growth percentages)

	1996	1997	%	1998 (expected)	%
Waste-water treatment	250	284	13	315	11
Air pollution control	74	85	14	100	17
Contaminated-land remediation	159	154	-3	169	9
Waste management	132	146	10	153	5
Other	77	80	3	89	11
Total turnover	695	752	8	828	10

Source: Vereniging van Leveranciers van Milieuapparatuur en -technieken (Branch organisation of environmental-equipment suppliers), *De Nederlandse Milieu Productie Sector, 1996-1998*¹ (The Dutch Environmental-Production Sector, 1996-1998), Zoetermeer, 1999.

As the figures in Tables 4.7 and 4.8 indicate, the Dutch environmental industries are particularly strong in the category waste-water treatment and contaminated-land remediation (category 'others' in Table 4.7). After waste-water treatment, which is also the largest industrial sector in Europe, Dutch enterprises also hold a strong position in the land remediation sector. At the same time it is also clear that the sector showed negative growth during 1996 and 1997. However, the prognoses are that the sector should have started to grow again in 1998 (9%). The largest growing sectors are still air pollution control and waste-water treatment. The sector waste management is expected to lag somewhat behind in growth.

Table 4.8 provides some insight in the kind of products or services that are supplied by enterprises which operate within the different eco-industrial sectors.

¹ The data should be carefully interpreted as the information is based on a relatively low number of enterprises (N= 108, for this table N= 79). Most enterprises (>75%) can be categorised as SMEs

Table 4.8 Turnover per sector in the Dutch eco-industries (% of total turnover)

	Manufacturing	Trade	Services	Total
Waste-water treatment	61	3	36	100
Air pollution control	27	20	53	100
Contaminated-land remediation	2	3	95	100
Waste management	39	—	61	100
Other	4	13	83	100
Total turnover	34	6	60	100

Source: Vereniging van Leveranciers van Milieuapparatuur en -technieken (Branch organisation of environmental-equipment suppliers), *De Nederlandse Milieu Productie Sector, 1996-1998*¹ (The Dutch Environmental-Production Sector, 1996-1998), Zoetermeer, 1999.

From Table 4.8 it can be concluded that services account for more than half of the total supplied by the eco-industries. Strong positions are held within the sector of contaminated-land remediation (95% of total turnover), and waste management (61%).

4.3.3 Eco-industries and exports

Evidence suggests that German enterprises are European leaders in this field and have strong positions in virtually all environmental sectors. Supported by an important domestic market, the German environment industry achieves an export rate of 40% of sales. The French environment industry, which has developed more recently, has begun to create strong competitive positions in the field of water and waste-water treatments and these developments mainly account for its global export rate of 30% of sales. The UK also has progressed in the area of water and waste-water treatment. In Austria, the Netherlands, Scandinavian countries and Switzerland, advanced environmental regulations have favoured the development of a rather important industry that is strongly competitive in several sectors. Austrian, Dutch, Norwegian and Swiss industries have an export rate of 50%, 25%, 50% and 22%, respectively.

The domestic market is the most important for Dutch eco-industries, as almost 80% of total turnover is realised there (Table 4.9). Export is still concentrated within a limited number of enterprises. It should be mentioned that the Dutch waste-water treatment industry experiences a lot of competitive pressures from large enterprises in France and the United Kingdom. However, according to industrial growth

1 The data should be carefully interpreted as the information is based on a relatively low number of enterprises (N= 108, for this table N= 79). Most enterprises (>75%) can be categorised as SMEs.

levels, the rate of exports almost doubles the growth rate in the domestic market (16.3% versus 8.4%), which means that an increasing number of enterprises might consider the step abroad.

Table 4.9 shows the same data but for each separate economic sector. The figures indicate that the majority of export growth is booked in the manufacturing sector. Almost 45% of the total turnover in this sector is accounted for by exports, compared to 10% both for the trade (import only) and service sector.

Table 4.9 Turnover per eco-industry, and exports per sector in the Netherlands (in NLG billion and growth percentages)

	1996	1997	%	1998 (expected)	%
<i>Manufacturing</i>					
Eco-turnover	236	260	10	306	17.6
Of which exports	111	118	6	139	18.5
% Exported	47	45		45	
<i>Trade (imports)</i>					
Eco-turnover	40	43	7.5	51	18.6
Of which exports	5	4	-3	5	9.5
% Exported	12	11		10	
<i>Services</i>					
Eco-turnover	419	449	7.2	471	4.9
Of which exports	34	44	29.3	47	7.7
% Exported	8	9.8		10	
<i>Total</i>					
Eco-turnover	695	752	8.2	828	10.1
Of which exports	150	166	10.7	193	16.3
% Exported	21	22		23	

Source: Vereniging van Leveranciers van Milieuapparatuur en -technieken (Branch organisation of environmental-equipment suppliers), *De Nederlandse Milieu Productie Sector, 1996-1998*¹ (The Dutch Environmental-Production Sector, 1996-1998), Zoetermeer, 1999.

Finance

Like any innovative sector, eco-industries require adequate finance, technical and economic information. SMEs involved in eco-businesses face serious barriers since their access to finance and information resources is underdeveloped. It was identified that one of the major obstacles to attracting investment capital and achieving successful commercialisation is the lack of experienced management among

¹ The data should be carefully interpreted as the information is based on a relatively low number of enterprises (N= 108, for this table N= 79). Most enterprises (>75%) can be categorised as SMEs.

SMEs in the environmental industry. Sustainable competitive advantage for environmental SMEs would not be possible if left to the private sector alone. For that reason SME mentoring and assistance programmes have already been launched, these focus on bridging the gap between research and development and successful market launch.

The goal is to assist the entrepreneur in developing the company to a point where the project is considered financially viable, and then to introduce the entrepreneur to potential investors, who will choose those ventures considered worthy of investment.

4.4 Environment and job creation

Traditionally the environmental discussion has evolved sketching a doom scenario on the effects drastic policy changes might have for the employed labour force. Although the tightening of environmental standards may have a negative impact on employment in the short term, neglect thereof could lead to environmental degradation in the long term. As such, it is not a question of choosing between jobs and environmental protection anymore. But the only viable strategy should address both topics at the same time. The European Commission¹ sees the environment as one of the possible tools for unemployment reduction in Europe. Some countries have even set objectives for the generation of 'green jobs'².

Table 4.10 presents estimates of the number of jobs in the environmental sector. Although direct environmental employment (i.e. employment supported by the operation of environmental services and by investment in environmental goods and services) still represents a rather low percentage of the total employment in most countries, it is interesting to see that the environmental sector generates a relatively high level of indirect employment (i.e. jobs generated in other sectors through environmental industries' purchases from these sectors). This is the case for construction, services and intermediate goods.

1 See e.g. the Delors *White Paper on Growth, Competitiveness, Employment* on the proposals on Carbon-energy tax proposal (COM(92)226) & Energy products tax proposal (COM(97)30).

2 It is worth noting that not all such jobs are expected to be created by private enterprises. The public or non-market sectors are also expected to play a major part as direct generators of jobs.

Table 4.10 Estimates of environmental employment in Europe, Japan and the United States

	Direct environmental employment	Indirect environmental employment	Total environmental employment	Total environmental employment	Direct environmental employment
	x 1,000	x 1,000	x 1,000	% of EU total	% of total employment
Austria	41.5	10.9	52.3	3	1.2
Belgium	15.5	10.6	26.1	2	0.4
Denmark	15.9	6.4	22.3	1	0.7
Finland	13.6	7.6	21.2	1	0.7
France	200.9	121.8	322.6	21	0.9
Germany	316.5	131.4	447.8	29	0.9
Greece	5.1	2.9	8.0	1	0.1
Ireland	8.7	3.8	12.5	1	0.7
Italy	100.6	65.0	165.6	11	0.5
Luxembourg	1.6	0.1	1.8	0	0.8
Netherlands	88.7	18.6	107.4	7	1.3
Portugal	17.1	7.7	24.8	2	0.4
Spain	37.6	15.3	52.8	3	0.3
Sweden	40.7	32.0	72.6	5	1.0
UK	140.3	22.1	195.5	13	0.6
Total EU	1,044.3	489.2	1,533.4	100	0.7
Norway	4.2				0.2
Switzerland	15.6				0.45
Japan	580.0				1.3
United States	1,070.0				1.2

Source: Compiled by Aprodi; based on data from the following. For EU countries: EC DG XI/Eurostat, *An estimate of Eco-Industries in the European Union 1994*, OPOCE, Luxembourg, 1997. (Data refers to 1994.). Other countries: OECD, *The Global environmental goods & services industry*, Paris, 1996, p. 30. (Data refers to 1992.)

In most European countries, (private) eco-business has continued to create jobs during recent years in spite of a deepening of the recession. It can be concluded that the direct environmental employment – as a percentage of total employment – in the Netherlands is almost twice that of the European average. A research project on the Dutch environmental production sector estimated direct environmental employment would increase by 5.6% over 1998, which is almost two percentage points less than the overall employment increase¹. A more detailed look into the data reveals that the employment increase in environmental employment in the manufacturing and import sector is higher than that for other jobs in these sectors. In contrast, direct environmental employment creation in the service sector lags behind. Furthermore, data suggest that direct environmental employment creation is higher in smaller enterprises (< 50 employees) compared to larger ones.

1 Vereniging van Leveranciers van Milieapparatuur en -technieken (Branch organisation of environmental-equipment suppliers), *De Nederlandse Milieu Productie Sector, 1996-1998* (The Dutch Environmental-Production Sector, 1996-1998), Zoetermeer, 1999.

Research findings tend to dissent on the consequences of the involvement of environmental protection and constraints on job generation. In terms of employment, new environmental or 'green' jobs are currently expected to compensate for the small losses that resulted from environmental constraints in other sectors. At a macro level, several studies¹ have shown that a small positive impact on employment is to be expected from enterprises complying with environmental regulations, investing in environment protection and developing environmental management. If these results are correct, environmental improvement is no longer to be viewed as a job destroyer, even though it cannot be seen as the solution to unemployment. But from a qualitative point of view, new skills will be increasingly required from employees to cope with the environmental changes needed.

Additionally, environmental policies may also have a distinctive impact on employment, in terms of eco-taxes being used to decrease labour charges and boost overall employment. The European Commission has already put a shift in taxation from labour to environmental polluting/natural resources forward after some experience in several Member States.

1 In particular, see studies conducted under the aegis of OECD.

5 Summary

Introduction

SMEs play a role of importance in national economic development. In the State of Small Business in the Netherlands, the position of Dutch SMEs is placed in comparative European perspective, which is not restrained to the characteristics and structure of Dutch SMEs, but also relates to economic sector developments. These developments are seen in the perspective of the progressing European integration, which has made an end to relatively surveyable (national) market structures. Nowadays, companies face complex structures within which they have to find themselves a proper way of functioning. The thematic set-up of this publication highlights the role of SMEs in the fields of transnational co-operation, the use of external advice as well as sustainable growth, i.e. the delicate balance between economic development and environmental protection.

Characteristics

Similar to all European Member States, Dutch SMEs dominate the national business sector, both in total numbers, as in share of total employment. Only in Ireland is the share of total employment substantially lower, whereas Austria, Sweden, Finland, Germany and the United Kingdom correspond to the Dutch average.

The average Dutch enterprise size is almost twice that of the European counterpart, both in number of people employed (11 versus 6, totalling 4.8% of European employment), as in turnover (Euro 2 mln. versus Euro 1 mln.). The share of labour costs in value added is higher in Dutch SMEs as compared to the European average, though Dutch SMEs are performing better than LSEs in a European comparative perspective.

The Dutch economy experienced a strong recovery in 1994, and after a short period of economic downturn (late 1995 and 1996), this pace has been taken up again since 1997. The growing size of the German economy, the major trading partner of the Netherlands, has boosted the development of the Dutch economy. Exports have increased significantly, and the national market improved, mainly due to increasing investments. Also private consumption has increased considerably as a result of improved purchasing power, as well as a strong employment effect that has been the result of economic growth.

Although at Europe-19 level employment growth in micro enterprises remained stable over time, in the Netherlands employment growth was the highest in this sector class. The increase in employment was the highest in the service and trade sector.

The average annual change of turnover growth in Dutch SMEs and LSEs lies below the Europe-19 average, while that of real value added slightly exceeds that of the average European enterprise. This may be attributed to a difference in sector structure, as the relative importance of the industrial sector is small compared to the service sector.

Transnational co-operation

Although SMEs are traditionally focused on the domestic market, the propensity to export can partly be explained by the relatively small size of the domestic market. Whereas on average 41% of the European SMEs are involved in transnational co-operation, only 13% of Dutch SMEs indicate doing so. For obvious reasons wholesale trade is the strongest internationalised sector. Remarkably, the propensity of Dutch entrepreneurs in the service and construction sector to collaborate with international partners remains seriously below that of their European counterparts. Dutch entrepreneurs experience fewer threats from enhanced competition within the Internal Market than the average counterpart. Also, a larger percentage of Dutch entrepreneurs, working with a foreign partner, react positively to perceived opportunities, while those that are not co-operating with a foreign partner react more vehemently against the idea of perceived opportunities than the average European fellow-entrepreneur.

Dutch SMEs are relatively more involved in more non-commercial, more sophisticated modes of collaboration, for example in the fields of technical and financial co-operation. As far as foreign direct investments are concerned, Dutch SMEs are like all other SMEs predominantly active in the Western European market, but attain a high share in extra-European investments.

The use of external advice

SME entrepreneurs mostly consider hiring a personal consultant as a personal failure. The search for advice is often just a reaction to acute problems, and predominantly related to the phase of the company's life cycle; i.e. start-up, growth and maturity. Also, the degree in which a company is internationalised has a positive effect on the use of external advice. On average, entrepreneurs in Scandinavia and Britain make most use of external advice, closely followed by the core group (Benelux, Germany, France, Italy, Austria). Southern European coun-

tries are less inclined to use external advice. Dutch enterprises are more focused on product, health and safety, and environmental regulations than their European fellow-entrepreneurs are. This reflects in more intensive external counselling in these areas.

Entrepreneurs in the service sector require on average more legal advice, while the manufacturing sector depends more on advice in fields that are closely related to the production process, such as product development, data processing and environmental issues. Also for this reason, enterprises in the manufacturing sector seem to be more affected by content-related barriers of external advice.

Environment

Traditionally, attention on environmental policy has been focused on larger enterprises operating in sectors with high environmental impact. However, irrespective of the relatively small environmental impact of individual SMEs, the cumulative effect of SMEs due to the total number may have a significant effect in terms of environmental pollution. However, the relative impact of individual SMEs is smaller than that of large-scale enterprises. Many SME managers pay low attention to environmental protection, partly because it is believed that environmental investments have a negative effect on the profitability, and as entrepreneurs are unaware of the long-term economic benefits.

The environmental effects of SMEs are particularly severe in the areas of water use, the use and storage of chemicals, emissions to water, and solid waste management. In the areas of energy saving, preventive measures and environmental management Dutch SMEs perform worse than LSEs. Although Dutch SMEs have been catching up rapidly in environmental management in recent years, the difference in penetration grade is still the largest in this area compared with LSEs. The role that SMEs play in the European eco-industry varies significantly across sectors and countries. Waste and water management are traditionally dominated by LSEs, whereas SMEs are of importance in air pollution control and environmental monitoring. The eco-industry is of particular importance in Austria, Germany and the Netherlands. The Dutch environmental industry has more comparative advantages in the area of contaminated-land remediation, waste management, R&D and environmental monitoring, and services. The service sector accounts for more than half of the supplies of the Dutch eco-industry. The rate of export growth is higher than that of the total eco-industry, showing that the domestic market growth, in comparison, is lagging behind. However, the domestic market

remains the most important market. Half of the total eco-industries' turnover in Austria and Norway is gained through exports, whereas the comparative size for the Netherlands and Switzerland is about 25%. The manufacturing sector books the largest growth in exports.

Research findings tend to dissent on the consequences of the involvement of environmental protection and constraints on job generation. In terms of employment, new environmental or 'green' jobs are currently expected to compensate for the small losses that result from environmental constraints in other sectors. Direct environmental employment in the Netherlands, as a percentage of total employment, is almost twice as high as the Europe-19 average.